33

DECEMBER 1949 STEEL PRICE INCREASES

HEARINGS

BEFORE THE

JOINT COMMITTEE ON THE ECONOMIC REPORT
CONGRESS OF THE UNITED STATES

EIGHTY-FIRST CONGRESS

SECOND SESSION

PURSUANT TO

SEC. 5 (a) OF PUBLIC LAW 304

79TH CONGRESS

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DECEMBER 1949 STEEL PRICE INCREASES

TUESDAY, JANUARY 24, 1950

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

The joint committee met, pursuant to call, at 10:10 a. m. in the caucus room, Senate Office Building, Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney (chairman), Myers, Sparkman, Douglas, Taft, Flanders, Watkins; Representatives Patman, Huber, Buchanan, and Wolcott.

Also present: Senator Charles W. Tobey and Senator Russell B. Long; Representative Chase Going Woodhouse and Representative Carroll D. Kearns; Theodore J. Kreps, staff director; Grover W. Ensley, associate staff director; and Fred E. Berquist, of the joint committee staff.

The CHAIRMAN. The committee will please come to order.

The Chair notes with interest the presence of several Members of the House. Congressman Wright Patman, would you be good enough to introduce the House Members who are joining us today?

Mr. PATMAN. Mr. Huber, of Ohio.

The CHAIRMAN. He is a member of our committee.

Mr. PATMAN. Mrs. Woodhouse, of Connecticut; Mr. Buchanan, of Pennsylvania; and Mr. Kearns, of Pennsylvania.

The CHAIRMAN. In welcoming the representatives of the steel industry and others who have responded to our invitation to testify publicly this morning with respect to the price changes which were announced on December 16, 1949, by United States Steel, and later followed by all the other major steel-producing companies, I first want to assure you that the only purpose of the committee is to obtain the facts.

We are dealing, to be sure, with one of the most important problems in the modern world, namely, the manner in which large industrial corporations exercise the vast powers which have been accumulated by them under modern industrial organization. We have here questions of price leadership, of administered prices, of the burden which all industry must bear when prices and costs are increased, and of the character of the authority which is exercised to alter these prices.

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.

This is particularly true of the steel industry which is not only the largest manufacturing industry in the country, but in which eight companies produce 77 percent of all the steel which the people of the United States use. The fact is, and we cannot escape it, that United States Steel, according to the latest authoritative information available to us, now owns 32.5 percent of the total ingot capacity of the whole United States. Bethlehem Steel ranks second with 13.5 percent of this capacity. Republic Steel Corp. is third with 8.9 percent, while the next five companies—Jones & Laughlin Steel Corp., National Steel Corp., Inland Steel Corp., and American Rolling Mill—range downward from 5 to 3.5 percent, making a total of 77 percent. The net capital assets of these eight companies amount to 69.3 percent of the total net capital assets of the whole American steel industry.

Accordingly, it is of great importance to the whole country when, following the leadership of United States Steel, each of these companies announced what amounts to a uniform change of price.

This is not only a question for business, industry, and industrial workers; it is also a question for agriculture. The country is deeply concerned at this moment, for example, with respect to the cost of the program by which the Treasury of the United States is called upon to support prices of agricultural commodities. The agricultural program is governed by the so-called parity ratio, that is to say, the relationship between the prices which farmers receive for their crops and the prices they must pay for the commodities which they buy. Agricultural supports are figured upon a percentage of parity. The result is that whenever a great industry raises the price farmers must pay for industrial products, that industry holds up the parity level and thereby increases the cost to the Government of maintaining agriculture in the same relative position with respect to organized industry which it occupied in the period from 1909 to 1914 before World War I, a period in which, it should be said, agriculture was not particularly prosperous.

The relationship between agriculture and industry emphasizes the nature of the problem which must be solved by modern leadership in Government and in business—for agriculture is still a calling which is carried on almost exclusively by individuals with their own capital and their own labor, whereas modern industrial organization and the industrial operation is carried on by collective groups.

Modern technology has created a new era. We are living in that era, but as yet we have not provided the rule of order by which both economic and political freedom for individuals can surely and certainly be maintained. This is the explanation of the turbulence in which the people of the world have been living since modern technology destroyed local boundaries and made continents rather than counties the field in which industry operates.

The advance of science, with inventions almost impossible to catalog or describe, has created modern industrial collectivism under which the means of industrial production on which our society depends are owned by a small segment of society and managed by a very much smaller segment.

We talk of free enterprise and the maintenance of competition. If we really want free enterprise, we must preserve opportunity for the individual to enter that enterprise, and we must preserve it also from regimentation, whether regimentation is exercised by the authority of public managers or private managers.

If we desire to maintain competition, it is essential to recognize the difference between the business which is managed by its owners and the business which is owned by one group and managed by another. The latter, because it uses the collective capital of hundreds of thousands and the collective labor of other hundreds of thousands, is a collectivist enterprise, altogether different from the small enterprises which are managed by their owners.

The chief trouble in the modern world has been the failure of people to perceive the fundamental fact that we cannot have free government if we do not have a free economy and that, in our time, the people did not lose the power actually to direct their own government until after they had lost the power to direct their own economy.

I am speaking, of course, of the conditions which developed in Europe and brought about the establishment of the totalitarian state and the drift to socialism.

The drift in the United States toward big government did not begin until business had outgrown the jurisdiction of State and local government.

The collectivist corporation in our time has become the most significant aspect of our whole economic structure. With hundreds of thousands of employees and hundreds of thousands of stockholders who exercise little or no control over either the policies or properties of the corporation, these organizations are dominating a steadily increasing segment of the industrial and commercial activities of the whole Nation. They affect the lives not of the people of one city or one State, but of the people of the entire United States. Their managers may and do determine by their private decisions how much of a given commodity 144,000,000 people may have, and the price they must pay for it.

This failure to perceive that the economy in which most men use their own capital and manage their own businesses in their own localities is utterly and completely different from the economy in which huge industrial empires are operated throughout the country and throughout the world by managers who are not owners, but employees, is the chief pitfall for democracy.

What then are we going to do about it? Our objective should not be to atomize big business any more than it should be to weaken the people's Government at Washington. Rather it should be to make them both more responsive to the will of the people. If we would preserve democracy in Government, we have no choice but to preserve industrial democracy. If we would escape regimentation by Government—and we certainly should—we must first be sure that we escape regimentation by central business management. If private capitalism would save itself, then it must first help to save democracy.

It will not do merely to preserve the forms of political democracy. The remedy must go far deeper. It must reach the roots of economic and political freedom. It must protect the individual.

To save capitalism and the free-enterprise system, it is necessary to make certain that we shall not permit the creation of a dominant proletariat in the United States.

If we are to preserve free enterprise, we must keep opportunity free.

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 requires public management. The necessary objective of public policy, it seems to me, 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 themselves. 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 which affect the whole economy.

So, we assemble here today for a factual presentation with respect to the steel industry.

I want to express my appreciation for the fact that the leaders of United States Steel Corp. and the leaders of other corporations in the steel industry have responded most promptly to the invitation of the committee to come here and in public session to tell the story of the price increase as they see it.

The presentation which is being made on behalf of the steel industry, of course, was prepared by them.

They have been all good enough to submit in advance copies of their statements to the members of the committee, and we shall do our best, Mr. Fairless, and all the rest of you, to help expedite the presentation of your story.

Mr. Fairless, the floor is yours.

Senator FLANDERS. May I make an observation, Mr. Chairman, before Mr. Fairless begins?

The CHAIRMAN. Yes, indeed.

Senator FLANDERS. An observation I wish particularly to make is that when I was young, and when our chairman was younger, private business was private business, and there was no doubt about it in anybody's mind. I think perhaps the first intimation that private business was to become public business was when the laws were passed setting up the Interstate Commerce Commission regulating railroads.

It would be nice if private business could still continue to be private business. It is my conviction, however, Mr. Fairless, which I think

I have expressed before, that a company of the size and manufacturing the products and occupying the position that the steel company does cannot make its decisions without thinking of the public interest in it.

I wanted to express that personal position before you spoke. I also want to say one other thing, and that is: It is clearly in my mind that, so far as this rise in steel prices shows danger of being a further advance in the inflationary spiral, I think that this committee, Mr. Chairman, should recognize that that is a joint responsibility of organized labor and industry. And I was rather sorry to see that on the list of the witnesses from the steelworkers, the only one invited was not from the policy level but from the level which deals with statistics and analysis. So that it would appear on the face of it that the presence of the steelworkers' union here was only to assist in analyzing the steel manufacturers' testimony.

The CHAIRMAN. Senator Flanders, I am sorry that I did not have the opportunity to tell you sooner that the invitations went to the highest policy level. Mr. Philip Murray, the head of the CIO, the head of the steelworkers' union, was invited. The committee has not issued any subpenas to any individual.

Senator FLANDERS. The results would indicate, then, that the heads of the steel industry felt better prepared to support their part of the responsibility for any inflationary spiral than did the heads of the steelworkers' union. That is the inference that I draw.

The CHAIRMAN. I would say that is a challenging statement.

Senator FLANDERS. And intended to be.

The CHAIRMAN. Which can be taken by Philip Murray. The committee itself, of course, has no responsibility.

Senator FLANDERS. Yes; I understand this is not a subpena investigation, but I hope that Mr. Murray will be willing to appear in view of the fact that Mr. Fairless has welcomed the opportunity to appear.

That is all I wanted to say.

Senator WATKINS. Mr. Chairman?

The CHAIRMAN. Senator Watkins.

Senator WATKINS. Since two distinguished members of the committee have made their statements, I reserve the right to file a statement of my view of what we are doing here today.

The CHAIRMAN. That, of course, is quite proper.

Are there any other preliminary statements?

Mr. Fairless.

STATEMENT OF BENJAMIN F. FAIRLESS, PRESIDENT, UNITED STATES STEEL CORP.

Mr. FAIRLESS. Thank you very much. At least I am not convicted before the trial, is that right?

The CHAIRMAN. Absolutely, sir. It may be the verdict is ready, I do not know.

Mr. FAIRLESS. Mr. Chairman and gentlemen of the committee, we are here today at your invitation to discuss the price revision we made 6 weeks ago. A number of my associates familiar with the matters which engage your attention are with me, as you see. They are here because we hope to have the opportunity to give you a full account

not only of our pricing policies but of other serious problems we face which bear on our policies.

There is no mystery about our price increases. They were modest in character, amounting on the average to approximately $3.82 a ton, or about 4 percent.

We announced at the time of the price changes that they were made necessary by heavy increases in our costs. This is the simple truth.

The increased cost of our new insurance and pension programs alone is estimated at 67.5 million dollars a year—54.5 million dollars annually for pensions and 13 million dollars annually for insurance. The increased social-security tax, effective on January 1 of this year, adds another 3.4 million dollars. These costs alone are $3.88 per ton and more than offset the $3.82 per ton which we hope to obtain from our price increases.

Our cost figures are not picked out of the air. They come from a thorough study made by our consulting actuary and our people over many months.

These, however, are not the only cost increases we incurred in the closing months of last year. Our coal costs are up at the annual rate of nearly $20,000,000. Freight and fuel oil were also up by nearly $13,000,000. On the other hand, pig tin was down, and you will recall we reduced the price of tin plate when we made the price changes in December.

Others will explain in more detail our cost problems; but, before I leave the matter, there are several things I would like to say on the subject of pensions and insurance.

We favor pension and insurance benefits for our employees. Our earnings, however, are not sufficient to permit us to absorb the large cost involved. That is the reason we raised prices.

We did not believe in December, nor do we believe now, that there is any good reason why we should sacrifice the income of stockholders and the interests of the business as a whole in order to provide additional benefits for our employees. United States Steel is directly owned by 240,000 stockholders and indirectly by thousands more through their equity in insurance and other companies which have invested in our stock. Stockholders, as well as employees, are entitled to consideration when determinations are made as to how the enterprise is to be operated.

I wonder if I would be here today if we had raised prices to cover a direct wage increase costing this same amount of 67.5 million dollars a year. To us, an increase in cost due to pensions has an even more serious financial effect than an increase in wages of the same amount. For pension costs, unlike many of our other costs, are by their very nature continuing charges which do not decrease to any appreciable extent with our operating rate.

We have asked our consulting actuary, Mr. George Buck, to be present in order that you may learn at first hand more about the basis used in computing our pension costs.

Granting that our cost increases more than equal our price change, some still suggest we could absorb these increases because of our earnings in early 1949 compared with the corresponding period in 1948.

I cannot agree with speculating about profits in our corporation or in the steel industry based on one-quarter or one-half year earnings

at an extraordinary high rate of production. Nor can I agree with those who think we should borrow long-term money to replace—I did not say expand, I said replace—existing facilities. If there is any certain way to ruin or liquidate a business, that is it.

It may be that a company is justified in borrowing money to expand its existing facilities or undertake major new developments. But it must certainly be obvious that replacement of productive plant capacity at current prices must come out of current sales dollars. Any other procedure, in a short time, will result in liquidation of a company's physical assets and confiscation of the stockholders' investment in those assets.

When you are earning 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.

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. It has paid constantly increasing wages to its employees and supplied constantly improved products to its customers. But its stockholders, whose savings provide the facilities with which wages can be earned and goods can be produced, have received very inadequate returns on their investments.

I agree with a statement made by the Secretary of Commerce last month, when he said:

> We have passed the time when intelligent Americans use the word "profit" as a curse. I believe all of us can agree on the fundamental principle that profit is good when it is reasonable and when it is used to produce more of the things we need.

The question has been raised as to the possibility of a harmful effect on the demand for steel or on the price levels in other industries. Personally, I do not foresee any harmful effect whatsoever. There have been or will, of course, be some price changes in steel-consuming industries, some up and some down. Where the change is up, I believe it will be due more to increased labor, transportation, and other costs than to any change in the price of steel.

The decreases in automobile prices—which were announced after our price increase—is a case in point.

The impression seems to be that, as a result of our recent reduction in the prices of steel for export, we are selling steel in the world markets at a figure below that which we are charging domestic consumers. This is not the case. Our export prices on the average are nearly $2 a ton in excess of our domestic prices, and in no instance is our export price for any product less than our domestic price for the same product. The changes in our export prices which became effective in December were largely occasioned by the devaluation of foreign currencies which automatically reduced the prices in terms of foreign currencies of our competitors in foreign markets. Also, the supply of steel throughout the world had largely caught up with demand.

When I conclude, we will present Mr. Buck, our consulting actuary. He will be followed by E. M. Voorhees, chairman of our finance committee who will explain a concept of total costs in a way which I am sure will greatly aid this committee in its deliberations. Mr. Voorhees will be followed by M. W. Reed, our vice president in charge of engineering, who will discuss plant investment and facility improve-

ment. David Austin, vice president in charge of sales, will follow Mr. Reed. Conrad Cooper, our vice president in charge of industrial engineering has prepared statements on productivity which have been supplied to the committee for inclusion as a part of today's record. Mr. Cooper is here to answer any questions on the subject of productivity.

As the concluding part of our presentation, John Munson, vice president in charge of raw materials, will give you an illustrated story about iron ore—where it is located in this country and abroad, the extent of present domestic reserves, and the manner in which taconite or low-grade ores, which are abundant in Minnesota, can be utilized.

Mr. Munson will also tell this committee about an important new discovery of iron ore in Venezuela. I believe I am justified in characterizing this discovery as very important so far as the future of the American steel industry and our security as a Nation are concerned. To me as a production man, it is as fascinating a story as any which has occurred during my time in the steel industry. I hope you will find it as interesting as I do.

Now, Mr. Chairman, at this point I should like to introduce Mr. Voorhees, who in turn will present Mr. Buck to make the presentation on how our costs having to do with pensions and insurance were developed.

Senator FLANDERS. May I ask a question, Mr. Chairman?

The CHAIRMAN. You may if you wish to. I was going to ask Mr. Fairless if he would postpone the introduction of Mr. Voorhees until members of the committee had had an opportunity to question him, if they so desire, about the presentation.

Mr. FAIRLESS. That is all right.

The CHAIRMAN. Senator Flanders.

Senator FLANDERS. I had one point here, Mr. Fairless. Near the bottom of page 5, which I think will not be taken up by any of the men you mention, you say, "The changes in our export prices, which became effective in December, were largely occasioned by the devaluation of foreign currencies which automatically reduced the prices in terms of foreign currencies of our competitors in foreign markets."

I was in Norway in October, and a complaint there was to the effect that the British steel companies had raised their prices exactly in proportion to the depreciation of the pound. How generally is that the case with European steel producers?

Mr. FAIRLESS. Senator Flanders, if I may: Certainly, I am not in any way attempting to reduce or minimize the question. I do believe, however, that many of your questions may be answered as we develop our presentation. But I, of course, will at any time attempt to answer them.

Senator FLANDERS. I did not know whether this would be covered.

Mr. FAIRLESS. In respect to your question, we have with us here today the president of our export company, who is familiar with the problems created by the devaluation, country by country. He is Mr. George Wolf. May I present him, Mr. Chairman.

Senator FLANDERS. If that will come up later, I am content it should rest until that time.

Mr. PATMAN. Mr. Chairman, may I suggest we permit Mr. Fairless to present his views from his people first, and then the committee members interrogate after that.

The CHAIRMAN. It may be that at some point in Mr. Fairless' testimony some members of the committee might like to ask a direct question. I know that I have one or two questions myself. If there is no objection, I shall continue to invite the members of our committee to ask Mr. Fairless direct questions with respect to what he presented. Questions relating to other matters to be presented by other representatives of United States Steel may well be postponed until those witnesses are called, if that is agreeable.

Mr. PATMAN. That is fine.

Mr. HUBER. Then, Mr. Chairman, if there is some question Mr. Fairless would rather refer to one of those other gentlemen that might be more familiar with the subject, he can do that.

The CHAIRMAN. Certainly.

Congressman Buchanan, have you any questions?

Mr. BUCHANAN. Yes.

On page 4 of Mr. Fairless' statement, he expresses the opinion that the United States Steel has not made a fair return either on its sales or investment at any time during the last 20 years.

Just what do you consider to be a fair return, Mr. Fairless?

Mr. FAIRLESS. Well, that is a very long and involved question, Mr. Congressman. It varies with different periods. In other words, I do not believe that there is any exact formula that you could apply to develop what earnings should be. In other words, earnings in 1948 as compared with 1939 involve comparisons of the dollar value. So it becomes a very involved question.

I personally believe that when Mr. Voorhees makes his presentation, which will show just what happens to every dollar we take in, or have taken in, and where it goes—in other words, our cash flow in and out and through the corporation—I think it will completely answer your question.

Mr. BUCHANAN. Since you expressed that as your own opinion, I felt possibly you had arrived at some percentage figure.

Mr. FAIRLESS. It is a variable figure.

Mr. BUCHANAN. It is flexible?

Mr. FAIRLESS. It is a flexible figure. It must fluctuate with various rates of operation. It must fluctuate as conditions change in our economy as a whole. So, therefore, I do not believe I could safely state a definite percentage of earnings that should be arrived at at all times.

The CHAIRMAN. In that connection, I desire to call the attention of the witness and of Mr. Voorhees to the pamphlet Basic Data Relating to Steel Prices which the committee compiled with the assistance of the Legislative Reference Service of the Library of Congress.

On page 19 of this pamphlet, which purports to show the rates of return on total investment, invested and borrowed capital, for each of the principal steel companies from 1917 to 1948, inclusive, before taxes. The column showing the profits of United States Steel for this period showed 15.3 percent in 1948 as compared with 14.77 percent in 1947; 7.91 percent in 1946; 5.74 percent in 1945; an average for the entire period of 1917 to 1948, inclusive, of 8.22 percent. That was before taxes.

The next table on page 20, table 12, gives the rates of return on total investment for each of the companies after taxes. There the figure for 1948 on United States Steel was 10.20; 9.68 for 1947; 6.01

for 1946; and on backward—1917 showed a percentage of return of 17.86 percent. The total average for that entire period was 5.76 percent.

And then on page 21, table 13 shows the rates of return on stockholders' investment for each of the principal steel companies before provision for Federal and other income taxes. This is the rate of return on the stockholders' investment.

There we have for 1948, 15.78; and for 1947, 15.34; for 1946, 8.01; an average of 8.92.

On page 22, table 14, we find the figures showing the rate of return on the stockholders' investment after taxes.

United States Steel for 1948 had 10.5; for 1947, 10.02; for 1946, 6.01. Back it goes all through the years. In 1917 the return was 27.45 percent. The total for the entire period which, of course, includes the depression, of 5.95 percent.

I wonder, Mr. Fairless, if those figures which come to us from the very best of authority, which were presented to us as being entirely objective, are challenged by United States Steel.

Mr. FAIRLESS. They are, definitely.

The CHAIRMAN. Then you will show in what respects they are incorrect; will you?

Mr. FAIRLESS. So far as the United States Steel is concerned.

The CHAIRMAN. Certainly.

Mr. FAIRLESS. I am not challenging the industry figures.

The CHAIRMAN. Well, that will give us an opportunity to check on the source of the figures.

Are there any other questions?

Mr. HUBER. I have a question, Mr. Chairman.

The CHAIRMAN. Mr. Huber.

Mr. HUBER. I have just purchased a new Ford at $2,000, and I notice you say there has been a decline in automobile prices. I wondered which cars have come down.

Mr. FAIRLESS. They were announced recently. The Buick and the Cadillac cars were reduced, I notice.

Mr. HUBER. They tell me most of these were a model "whatsis" back in a certain line. I was unable to find a general reduction in any of the cars.

The 240,000 stockholders; are you able to break that down?

I understand while there are 240,000 stockholders, a great percentage of the stock is owned by just a few individuals.

Mr. FAIRLESS. We will give you the full statistics.

Mr. HUBER. I would like to have that in the record at this point.

Mr. FAIRLESS. I am very happy to have you bring that up, sir. That is not a true statement. There is not any stockholder in the United States Steel Corp. that owns more than 1 percent of the stock.

Mr. HUBER. Is that right?

Mr. FAIRLESS. That is true.

The CHAIRMAN. Of the 240,000 stockholders whom you mentioned, can you tell us what the average stockholding is of the entire number?

Mr. FAIRLESS. Between 140 and 150 shares is the average for common stockholders. This is after the split of the stock we are talking about now. Prior to that it was about 50 shares.

The CHAIRMAN. Fifty shares was the average before the stock split?

Mr. FAIRLESS. That is right.

The CHAIRMAN. Now it is between 140 and 150?

Mr. FAIRLESS. Well, it is three times what it was.

The CHAIRMAN. How about the so-called median stock ownership?

I asked that question because several years ago I received from the Securities and Exchange Commission, before the split up, of course, the statement that one-half of the stockholders of United States Steel at that time owned considerably less than 10 shares each.

Mr. FAIRLESS. I think that is a fair statement. I would say that would be a fair statement.

The CHAIRMAN. So that the picture which you present is that of the ownership of a very large corporation with capital assets amounting to, let us say—how much?

Mr. VOORHEES. The corporation?

The CHAIRMAN. Yes.

Mr. VOORHEES. Capital assets come pretty close to $2,000,000,000.

The CHAIRMAN. With capital assets of $2,000,000,000 owned in very small proportions by 240,000 people. That is what I had in mind when I referred to the United States Steel Corp. as a collectivist group, because it is the collective capital of 240,000 people.

Mr. FAIRLESS. That is right. And it might interest you, Mr. Chairman, and your committee to know that since the split up of our stock, which was made primarily so that there would be wider distribution, we have increased our stockholders by approximately 13,000.

The CHAIRMAN. So that the stock ownership now is about 255,000?

Mr. FAIRLESS. It is 240,000. This is the final figure.

Incidentally, any of these questions that you ask where we have to verify the figures, if there are any corrections we, of course, will make them.

The CHAIRMAN. Certainly; you will be at liberty to do so.

Mr. FAIRLESS. As for stockholdings, for example, we will give you the exact figure.

The CHAIRMAN. Certainly.

Mr. HUBER. Mr. Chairman, may I go back to one other question to carry that out a step farther?

The CHAIRMAN. Very well, Mr. Huber.

Mr. HUBER. Mr. Fairless mentioned 1 percent of the stock. According to my figures here, 1 percent of the stock would be 260,000 shares, and 1 percent of the total assets would be $25,000,000.

Mr. FAIRLESS. You must realize that a great many institutions hold steel stock, and insurance companies and so forth. So when we refer to a stockholder, an individual stockholder, it might be an insurance company.

Now what we would be very happy to do, and rather than make any statements that are not correct, we would be very happy to furnish this committee with any break-down that you care to have in respect to our stockholders, as to numbers, as to sex, and as to holdings.

Mr. HUBER. I think that would be helpful, I think, to follow that figure. If 1 percent is 260,000, we should develop it further.

Mr. FAIRLESS. There are a great many female stockholders and a great many widows.

Mr. HUBER. I think the women own most of the wealth.

Mr. FAIRLESS. Many of them are entirely dependent on dividends they receive from the Steel Corp., according to their letters.

The CHAIRMAN. Then do you want the committee to understand that these stockholders who own scarcely 10 to 40 shares of stock receive dividends of such size from United States Steel that they can live on those dividends?

Mr. FAIRLESS. No; I do not make that statement. But I have received letters, I stated, and I do, from widows who say, who have said to me, that their only income was from United States Steel Corp. Whether they live from that income, or whether they help themselves in other ways, is for them to answer, not me.

The CHAIRMAN. I had an interesting letter. I think I read it to you, Mr. Fairless, in my office. It was a letter from a woman stockholder in United States Steel who showed that she had a larger income from social security than she did on her stock in United States Steel.

Mr. FAIRLESS. And we agree with her. We think her income is too little.

Mr. PATMAN. Mr. Chairman, I would like to ask Mr. Fairless some questions.

The CHAIRMAN. Mr. Patman.

Mr. PATMAN. I understand, Mr. Fairless, you sell steel on the basis of a base price, plus published card extras and differentials; is that correct?

Mr. FAIRLESS. That is right.

Mr. PATMAN. Can you give the committee a statement of your base price changes since 1925 showing both the rise and fall of these prices since 1925 and through 1949?

Mr. FAIRLESS. Congressman, I do not know that we have it for those years. But Mr. Austin——

Mr. PATMAN. How far back would you have it?

Mr. FAIRLESS. We are going to make presentation on this very subject.

Mr. PATMAN. You are?

Mr. FAIRLESS. Yes.

Mr. PATMAN. Will you cover the particular point I have brought up and answer the particular question?

Mr. FAIRLESS. Yes.

Mr. PATMAN. Can you supply this material in tabular form?

Mr. FAIRLESS. What do you mean by that?

Mr. PATMAN. By years?

Mr. FAIRLESS. You mean what our extras are?

Mr. PATMAN. Yes, sir.

Mr. FAIRLESS. We will furnish you a copy of our extra book.

Mr. PATMAN. All right.

Now I want to ask a question or two on freight absorption. The press indicates the steel industry made its recent December price increase in anticipation of the resumption of freight-absorption practices. Were the conclusions of these gentlemen correct or not?

Mr. FAIRLESS. Not correct.

Mr. PATMAN. Not correct. You did not have that in mind?

Mr. FAIRLESS. Freight absorption was no consideration at all.

Mr. PATMAN. No consideration at all?

Mr. FAIRLESS. Right.

Mr. PATMAN. When did you discontinue freight absorption under the basing point, Mr. Fairless?

Mr. FAIRLESS. Immediately following the Supreme Court's decision in cement.

Mr. PATMAN. April 26, 1948?

Mr. FAIRLESS. In July of 1948.

Mr. PATMAN. You have your records then for 1947, the last year that you operated under the absorption-of-freight policy?

Mr. FAIRLESS. That is right.

Mr. PATMAN. Do you have figures to indicate how you came out on the freight absorption? Did you collect as much in freight as the freight cost you, or did the purchaser get the advantage or the steel company get an advantage?

Mr. FAIRLESS. Steel company disadvantage, of course.

Mr. PATMAN. At a disadvantage?

Mr. FAIRLESS. Disadvantage.

Mr. PATMAN. How much in dollars?

Mr. FAIRLESS. Well, it averaged over our total shipments about 80 cents a ton.

Mr. PATMAN. About 80 cents a ton. You lost that much money?

Mr. FAIRLESS. That is right.

Mr. PATMAN. How much would that be in dollars, 80 cents a ton?

Mr. FAIRLESS. Multiply it by 18,000,000 tons.

Mr. PATMAN. Eighteen million tons, about $15,000,000.

Mr. FAIRLESS. That is right. That is our shipments. When I say 18,000,000 tons——

Mr. PATMAN. About $15,000,000 you lost on freight absorption?

Mr. FAIRLESS. We did not lose. What do you mean, "lose"?

Mr. PATMAN. You paid out more in freight than you collected back from the consumer.

Mr. FAIRLESS. That is right.

Mr. PATMAN. About $15,000,000 or 80 cents per ton.

Mr. FAIRLESS. At that time.

Mr. PATMAN. Why did you desire to continue losing 80 cents a ton on steel, Mr. Fairless?

Mr. FAIRLESS. Well, it would not be 80 cents today. It would be more than $1 today.

Mr. PATMAN. It would be more than $1. Well, why are you anxious to resume freight absorption when it would cost you money?

Mr. FAIRLESS. I will be very happy to answer that question. We believe that we should have the right to legally compete in any markets of our great country.

Mr. PATMAN. Anywhere?

Mr. FAIRLESS. Anywhere.

Mr. PATMAN. At a loss?

Mr. FAIRLESS. I did not say at a loss.

Mr. PATMAN. You are losing over $1 a ton. You would if you resume freight absorption.

Mr. FAIRLESS. Our revenue is decreased by that amount. That is quite different from losing $1 a ton.

Mr. PATMAN. Regardless of your connection with the steel company, and putting aside your interest for the present and looking at it as just an American citizen from the outside, which is in the interest of decentralization of industry in this country, the basing-point sys-

tem or the non-basing-point system? Which would cause industry to decentralize, the basing-point system or the non-basing-point system?

Mr. FAIRLESS. Well, I do not know that I am in favor of decentralization of industry. Now I qualify that, however.

Mr. PATMAN. In other words, then, freight absorption means——

Mr. FAIRLESS. May I answer the question?

Mr. PATMAN. Go right ahead, sir.

Mr. FAIRLESS. I speak, of course, only for the steel industry because it is the only industry that I am familiar with really in detail, but steel plants are located because, No. 1, of the availability of raw materials and, No. 2, the availability of markets. Steel is not a commodity that you can just build a plant anywhere. You can; you can build a plant anywhere, of course, but not economically; so therefore it becomes essential that steel be made in the locations where it can be made at the lowest possible cost, and then distributed.

There are a great many locations where steel can be made where there is the availability of raw materials and likewise a consuming market. Therefore my position is in respect to the so-called absorption of freight, I do not regard it as such. I regard it as simply meeting competition.

I believe that any steel company should be permitted to legally meet competition in any market any place.

Mr. PATMAN. I assume from your answer that you do not favor decentralization of the steel industry.

Mr. FAIRLESS. Well, favoring it, I say that it is not a question of likes and dislikes. It is a question of fundamentals.

Mr. PATMAN. Well, according to the fundamentals you mentioned, it is your honest belief, then, that we should not have decentralization in the steel industry.

Mr. FAIRLESS. It is not so much wanting it as it is the advisability.

Mr. PATMAN. Well, are you for it or against it?

Mr. FAIRLESS. I cannot move the coal reserves.

Mr. PATMAN. I know, but are you for it or against it? Are you for decentralization of the industry in steel or are you against it?

Mr. FAIRLESS. I am for a free competitive enterprise on a legal basis in steel.

Mr. PATMAN. I know, but I do not consider that an answer, Mr. Fairless. I think you should state whether or not you favor decentralization of the steel industry or you favor it like it is, concentrated. I think a "yes" or "no" answer should be——

Mr. FAIRLESS. I have answered it to the best of my ability.

Mr. PATMAN. Well, would you say "Yes" or "No"?

Mr. FAIRLESS. It is not a "yes" or "no" question.

Mr. PATMAN. Now, you have acquired about 3,000 acres of land over near Philadelphia for a steel plant, have you not?

Mr. FAIRLESS. We have bought it, and we hope and believe someday we may build a steel plant there.

Mr. PATMAN. Well, suppose this bill to legalize freight absorption passes and you can go back to the old basing-point system. Will you build that plant or not?

Mr. FAIRLESS. We may still build it. That does not minimize the cost of transportation.

Mr. PATMAN. You would be less likely to build?

Mr. FAIRLESS. One is cost factor and the other is the right to compete. They are entirely two separate questions.

In other words, Mr. Patman, the freight rates have gone up, and have gone up for the same reason that steel prices have gone up, because of increased costs. Therefore, the right to absorb the freight as against the financial results in absorbing is something which we have to decide. Therefore, whether we build a plant on the eastern seaboard, we will consider when that decision is made—it has not been made yet—all the factors as they exist at that time.

Mr. PATMAN. I notice you mentioned Venezuelan ore here. There was a statement in the press recently that you contemplated building a plant at Houston, Tex., to use that ore. Is that a correct statement or not?

Mr. FAIRLESS. No; I think there is confusion there. What we did announce in Houston was the building of a pipe mill.

Mr. PATMAN. A pipe mill in connection with Sheffield?

Mr. FAIRLESS. We were proposing to buy some steel from Sheffield and also to ship some steel from Pittsburgh.

Mr. PATMAN. Cast-iron pressure pipe?

Mr. FAIRLESS. Oh, no; expansion steel pipe.

Mr. PATMAN. Gas?

Mr. FAIRLESS. Largely gas. We are building that plant, by the way, at Orange.

Mr. PATMAN. I will not ask any further questions now, Mr. Chairman.

The CHAIRMAN. Senator Myers?

Senator MYERS. Mr. Fairless, it is not my intention to engage in a discussion of basing point in these particular hearings, but it seems to me that, although United States Steel can purchase thousands of acres near Philadelphia to build a new plant, there are many small industries, small steel companies, small fabricators, that could not afford to do that; and, if they cannot absorb freight, they have no recourse; they cannot move to another area; is that not so?

Mr. FAIRLESS. That is right, Senator. I think the United States Steel Corp., I hope, can take care of itself under any reasonable competitive condition that is provided.

Senator MYERS. And if the law should refuse you the right to absorb freight, it undoubtedly would affect you, but you could get along.

Mr. FAIRLESS. Hopefully.

Senator MYERS. Because of the nature and type of your corporation, but there are many small companies, small businesses, that I understand are in a very bad way at the present time because they are confused at to whether or not they can legally absorb freight.

Mr. FAIRLESS. That is right, and the problem certainly needs some clarification.

Senator MYERS. Getting back to your original statement, Mr. Fairless, you have indicated to us that the increased pensions amount to so much, and increased fuel and increased freight charges have amounted to so much. Could you give the committee at that point the total in dollars of the last price increased by United States Steel?

Mr. FAIRLESS. Total dollars?

Senator MYERS. Total in dollars of the last price increase.

Mr. FAIRLESS. Well, Mr. Voorhees has that.

Senator MYERS. I think, since you have mentioned the increased costs, you might in that statement also incorporate the increased total dollars occasioned or caused by the last price increase.

Mr. FAIRLESS. I have reduced it, Senator, on a per-ton basis. The shipments are about 18,250,000 tons. The price increase will develop 69.7 million if we ship the 18,250,000 tons.

Senator MYERS. Which, according to your own testimony is not sufficient to take care of all these cost increases mentioned in your statement.

Mr. FAIRLESS. That is right.

Senator MYERS. Now on the top of page 2 you refer to other increased costs. Those increased costs are over what period, Mr. Fairless, just in the last year?

Mr. FAIRLESS. They are on an annual basis.

Senator MYERS. You refer to coal costs, freight, and fuel oil.

Mr. FAIRLESS. That is right.

Senator MYERS. Is that just for the year 1949?

Mr. FAIRLESS. Well, they are projected on the basis of the third quarter, I believe, of 1948; is that not right?

Mr. VOORHEES. From September to the time of the price increase.

Mr. FAIRLESS. Beginning in September.

Senator MYERS. That is a total, a projected total for a year?

Mr. FAIRLESS. It is the experience, the actual experience, Senator, from September to the effective date of the price increase, December 16 projected on an annual basis.

Senator MYERS. Well, then, is that projection for the year 1950?

Mr. FAIRLESS. That is right.

Senator MYERS. They will be the increased costs for those particular items for the year 1950?

Mr. FAIRLESS. On the basis of our actual experience for the period.

Senator MYERS. For one quarter?

Mr. FAIRLESS. That is right.

Senator MYERS. On the top of page 3 you refer, Mr. Fairless, or you say, "I wonder if I would be here today if we had raised prices to cover a direct wage increase costing this sum."

Well, in the Eightieth Congress I think that is the reason you were here, is it not, just a wage increase, and this same committee asked you to come down and testify. It was not a question of pensions. It was just a question of an increased price of steel due, as you said, to an increase in wages.

Mr. FAIRLESS. No.

Senator MYERS. Was it not?

Mr. FAIRLESS. No.

Senator MYERS. Why were you here before this committee in the Eightieth Congress?

Mr. FAIRLESS. We were here, if you recall, Senator, because we had increased the price of semifinished steel. There was not a general price increase in steel.

Senator MYERS. I understood your reason for that price increase was because of a wage increase that came about at that time.

Mr. FAIRLESS. No, our reason as given—and it is a matter of record—was that we were selling semifinished steel at below cost.

Senator MYERS. Let me ask you this question. I think that is about all I have, Mr. Fairless.

What does your contract with your employees provide as to the old-age benefits that they may receive under social security? Are you given credit for such sum as against $100 pensions?

Mr. FAIRLESS. Oh, yes; oh, definitely. This does not represent our total costs. It represents our total increased costs.

Senator MYERS. And if amendments are enacted this year and there is a change in our Social Security Act whereby benefits are increased under social security, would you therefore as a result of that be given further credit as against the $100 pension?

Mr. FAIRLESS. Yes, our contract provides for credits if——

Senator MYERS. So if old-age benefits were increased under social security, say from $40-something to $70, you thereby would be given credit for that additional $30?

Mr. FAIRLESS. Well, less—of course less our own contribution to that.

Senator MYERS. What was your contribution before this last contract whereby you agreed to pay a pension of $100 a month? Did you have any pension plan at all with your employees?

Mr. FAIRLESS. Yes, we have two pension plans.

Senator MYERS. And what was the average payment under those plans?

Mr. FAIRLESS. The average cost to United States Steel, Senator, for both plans was about $10,000,000 per year, and it is included of course in the——

Senator MYERS. That was not employee contribution. That was entirely employer contribution.

Mr. FAIRLESS. Yes.

Senator MYERS. But the employee also contributed to that?

Mr. FAIRLESS. The employees did not contribute to one of the plans. You see, Senator, the United States Steel Corp. has had a pension plan in effect since 1902 or 1903.

Mr. VOORHEES. 1911.

Mr. FAIRLESS. 1911, which was a noncontributory plan, and when social security came in, we decided, and because of the depression and the financial condition of the corporation, really to liquidate all but the disability and certain other features of that plan. We have 15,000 pensioners now on our rolls at this time.

Then we brought into being a contributory pension plan which began where social service ends, $3,000 and above, so that plan was made effective in 1940, and it continues in effect at the present time.

Senator MYERS. Well, then if the social security amendments are passed at this session, those amendments will reduce the contribution which the employer must make to this pension fund by "X" dollars, will it not?

Mr. FAIRLESS. Well, yes, the contract provides for it, but I want to see what the legislation is and what the price is before I——

Senator MYERS. Oh, of course, quite naturally, but if the act as passed would increase old-age benefits from forty-some dollars a month to seventy-some dollars a month, that thereby would lessen your contribution to the pension fund, would it not?

Mr. FAIRLESS. Not necessarily in that amount.

Senator MYERS. No, not necessarily in that amount.

Mr. FAIRLESS. That is right.

Senator MYERS. And if it did, would you at that time then consider a reduction in prices because your costs are reduced by that amount?

Mr. FAIRLESS. Unless other costs might be increased to offset it. In other words, certainly we would take a look at our entire cost picture at that time.

Senator MYERS. That is all.

Senator FLANDERS. I would like to make one more inquiry of Mr. Fairless and see if I can straighten out in my own mind an answer to the yes-or-no question which Mr. Patman tried to get from you.

Would this be a fair statement of what you had in mind, that you would be against any decentralization of steel production into a location which involved uneconomical manufacture? That is the way I interpreted what you were saying.

Mr. FAIRLESS. Senator, I just cannot confuse—I think they are just two separate questions. Congressman Patman asked me if I was for or against decentralization. Well, that is pretty broad.

Senator FLANDERS. Well, would you be against decentralization by moving steel production into a place where it was uneconomical to produce steel?

Senator MYERS. If he moves it from Pennsylvania, I hope your answer is yes, Mr. Fairless.

Mr. FAIRLESS. I certainly would be opposed to removing one of our plants or relocating one of our plants in some uneconomical location.

Senator FLANDERS. I tried to translate what you were saying into the simplest terms I could, and that seemed to be it.

Mr. FAIRLESS. Well, I thank you for helping me.

The CHAIRMAN. Congressman Wolcott? Senator Watkins?

Senator WATKINS. I understood you to say that steel plants were usually built where the raw materials were available.

Mr. FAIRLESS. One of the factors, Senator.

Senator WATKINS. One of the factors. There are plants in the United States that are not built that way on that sort of a program, is not that true?

Mr. FAIRLESS. That is right, and there are plants in the country that are uneconomic, too.

Senator WATKINS. I had in mind the Kaiser plant at Fontana, Calif. Are there raw materials there, iron ore and coal?

Mr. FAIRLESS. No. Iron ore is available there.

Senator WATKINS. I understood they were getting much of their iron ore in Utah and their coal in Utah. That is quite a way from California.

Mr. FAIRLESS. Well, there is a balance between raw materials on the one hand and the consuming market on the other. Now Mr. Kaiser decided to go nearer the market and bring his raw materials to his point of production.

We on the other hand in Utah decided to make our steel near the source of raw materials and transport the steel to the market, which is 800 miles away.

Senator WATKINS. The nearest market would be a very important factor in determining the location of the plant in any program of decentralization.

Mr. FAIRLESS. That is right.

The CHAIRMAN. Senator Taft?

Senator TAFT. No questions.

The CHAIRMAN. Mr. Fairless, in response to the question that Senator Myers asked of you, you said, if I remember correctly, that the United States Steel Corp. could take care of itself.

Mr. FAIRLESS. I said hopefully take care of itself.

The CHAIRMAN. But that the little competitors might and probably would suffer if they could not absorb freight to compete.

Mr. FAIRLESS. Senator, I said, or at least meant to say—and I repeat that it is not a question with us of absorbing or nonabsorbing of freight. The big issue is the ability to be competitive.

The CHAIRMAN. Yes.

Mr. FAIRLESS. We think as long as we do that honestly and legally, that we should have that right. Now so far as its effect, the effect not to be able to compete, I certainly agree that it results in a greater injury to the small fabricator, and the small producer, than it does the large.

The CHAIRMAN. I was not pursuing the issue of freight absorption or freight equalization. Congressman Patman and I do not see quite eye-to-eye on that subject. I have sought merely to declare by statute what I consider to be the law, what the Department of Justice has said the law is and what the Federal Trade Commission has said the law is, namely, that absorbing freight without any agreement direct or implied to use it as a device for fixing prices, is not prohibited by the antitrust laws, but that is not the question here.

What interested me was your statement that the United States Steel Corp. could take care of itself, and that seemed to me to indicate that your profits are really of such character that while the little fellows could not meet these problems, United States Steel could, or is United States Steel on the brink of great disaster?

Mr. FAIRLESS. Well, Senator, of course you are permitted to interpret my remarks in any way you see fit.

The CHAIRMAN. I am asking you to interpret them, sir.

Mr. FAIRLESS. Well, all I said was United States Steel Corp., because of the location of its plants, because it makes steel in Pittsburgh, in Chicago, in Birmingham, in Worcester, Mass., in Pittsburgh, Calif., at Torrence, Calif., obviously if it is forced to sell on a strictly f. o. b. mill basis with the consumer paying all the freight, it certainly must be in a better position to meet that situation than some smaller company who has one plant in one location.

That is the only point I care to make, and when I said that the Steel Corp. could take care of itself, I meant only because of the location of its assets.

The CHAIRMAN. Now one of your staff told me during the last hearings on steel before this committee—in fact he confirmed my own statement—that many years ago Judge Gary, who of course was one of the great and efficient heads of United States Steel, once said that in his opinion United States Steel should never attempt to gain more than 34 or 35 percent of the total steel industry in the United States. That was a fact, was it not, that statement?

Mr. FAIRLESS. I am willing to accept it as that, and we are follow ing through, of course, on that.

The CHAIRMAN. And you have followed that through. Now does that mean that as a matter of policy you are holding your hand and not putting out of business as many small steel companies as you could put out if you did want to expand? [Laughter.]

Mr. FAIRLESS. Our participation in the industry total is not the figure that you presented. It is just a mistake, of course.

The CHAIRMAN. Well, of course these figures came to us from the Federal Trade Commission.

Mr. FAIRLESS. They are not accurate.

The CHAIRMAN. They told us it was a very careful study.

Mr. FAIRLESS. Well, it is not, and I agree with your foreword on your statement that you are not responsible, or the committee, for what is contained in the presentation.

The CHAIRMAN. Well, sometime during the course of the hearing, perhaps afterward, we would appreciate your supplying us your own testimony as to the proportion of the total steel industry which is presently owned and operated by United States Steel.

Mr. FAIRLESS. The figure is 32.4.

The CHAIRMAN. 32.4?

Mr. FAIRLESS. As of January 1, 1950.

The CHAIRMAN. Now what is the maximum above which you do not wish to go?

Mr. FAIRLESS. I do not know that. That all depends on how fast the United States of America grows. We believe in the future growth of America.

The CHAIRMAN. Well, so do I, but I do not want United States Steel to take it all. [Laughter.]

Mr. FAIRLESS. We have no desire, or if we had the desire we would certainly be——

The CHAIRMAN. So my question, Mr. Fairless, was simply this: What proportion of this expanding economy of the United States in the steel industry do you consider to be the ceiling of United States Steel beyond which you will not go?

Mr. FAIRLESS. I do not know that I can express a ceiling any more than I could express a floor.

The CHAIRMAN. Well, Judge Gary did.

Mr. FAIRLESS. Well, that is Judge Gary. I personally think that no concern should get larger than it can be operated efficiently. I think that size——

The CHAIRMAN. And profitably.

Mr. FAIRLESS. Which is covered in my book when I say "efficiently." I believe that efficiency must carry with it a satisfactory profit, and I do not believe that "big" is "big" just because someone calls it "big." I think in the steel industry, for example, that there must be large companies as well as small companies. I am in favor of both. I think they are essential. I do not know how we could build big bridges with a small steel company. I do not know how you could——

The CHAIRMAN. Well, neither do I. I think it is absolutely necessary, of course. Of course, I am all for the building of big bridges, certainly, but I am just trying to define the exact meaning of the policy laid down by Judge Gary which you have just said you are still following, namely that you do not want to exceed that proportion of the total steel industry of the United States which he set as your limit.

You said you are still following it. Now does that mean—this is a question in my own mind—that competition in the steel industry of the United States exists by sufferance of United States Steel? That is the implication.

Mr. FAIRLESS. From what I said?

The CHAIRMAN. Yes; from what Judge Gary said, with your acceptance.

Mr. FAIRLESS. I did not accept what Judge Gary said. I only answered your question. When United States Steel Corp. was formed——

The CHAIRMAN. Mr. Fairless, I understood you to say, and I think the record will show that you did say, that he made a statement of that character and that you are still following that policy.

Mr. FAIRLESS. What I meant to infer is that our performance follows his statement, not because it is a statement of policy.

The CHAIRMAN. If you see any difference between that and what I said——

Mr. FAIRLESS. My dear sir, you must realize that we cannot decide what percentage of the industry we have. We have not any idea what our competitors are going to do next year or the following year.

They may build many plants, so therefore what they do affects our participation in the industry. It is not something that we just decide and control ourselves.

The CHAIRMAN. Well, of course. I do not want to argue the point with you, Mr. Fairless, but the statement of Judge Gary was, "We do not want to expand beyond blank percentage." I understood you to say that you were still following that rule.

Mr. FAIRLESS. I want to correct the record. I did not say we were following that rule because it was laid down by Judge Gary. I only mentioned the fact that our percentage total participation in the capacity of the industry is now 32.4, so it falls within that policy.

The CHAIRMAN. Now you said in your prepared statement that United States Steel has not made a fair return either on sales or investment at any time during the last 20 years.

Mr. FAIRLESS. In my opinion.

The CHAIRMAN. You have been paying dividends all that time.

Mr. FAIRLESS. No.

The CHAIRMAN. During how many years of the 20 have you failed to pay a dividend?

Mr. FAIRLESS. Mr. Voorhees is going to—that is part of his presentation.

The CHAIRMAN. Let me ask you, then, whether in your opinion the entire steel industry has been making too poor a return.

Mr. FAIRLESS. Well, I cannot speak for other companies.

The CHAIRMAN. I understand. I was asking for your opinion. Do you think that United States Steel is worse off than the other steel corporations?

Mr. FAIRLESS. It may be worse off than some individual company or companies. United States Steel Corp. makes all steel products, or practically all. Some steel companies only make selective products. Some steel companies have no iron-ore mines or coal mines.

The CHAIRMAN. Let us not fence, Mr. Fairless. You said in your typewritten statement that during the last 20 years United States Steel has not been making a fair return.

Mr. FAIRLESS. That is right.

The CHAIRMAN. That was your considered statement. Now I merely asked you is it you opinion that the other steel companies are not making a fair return.

Mr. FAIRLESS. It is, it is.

The CHAIRMAN. Now, then, to what do you attribute this poor record by the great steel industry, and what would you consider to be a fair return for your company and for the industry either on investment or on sales?

Mr. FAIRLESS. You mean today or 10 years ago, or when? This is a very——

The CHAIRMAN. Let us have it today and tomorrow and next year. What are you planning, what price increase are you planning next year, for example? I can fence, too, you know, Mr. Fairless.

Mr. FAIRLESS. I am not fencing. We are not planning any price increase next year.

The CHAIRMAN. What do you consider a fair return?

Mr. FAIRLESS. Well certainly something greater than we are now receiving.

The CHAIRMAN. How much greater?

Mr. FAIRLESS. Well, that is a variable. I tried to answer that question a while ago. The profits are not something that you can push a button and say that is it.

The CHAIRMAN. Well, that is what we are fearful of, that some of the big fellows here can push a button and get the profits.

Mr. FAIRLESS. You need have no fears, sir.

The CHAIRMAN. Well, you may present your next witness.

Mr. FAIRLESS. Mr. Chairman and members of the committee, I present Mr. Voorhees, who is chairman of the finance committee of the United States Steel Corp.

The CHAIRMAN. Glad to see you again, Mr. Voorhees.

Mr. VOORHEES. Thank you very much. Mr. Chairman, since 1939 the gentleman who has sat at my elbow preparing actuarial forecasts of pension costs, and not once, not twice, but continually throughout that period, and especially so during the last year, has been Mr. George Buck.

During the last 10 years we have found by experience that his cost estimates, actuarial cost estimates, have been very, very accurate. We have complete confidence in his ability to prepare costs, pension costs, and he is here today to explain to you the basis that he has used for estimating United States Steel costs and how much those costs are.

Mr. Buck.

STATEMENT OF GEORGE B. BUCK, CONSULTING ACTUARY. NEW YORK, N. Y.

Mr. BUCK. Mr. Chairman and members of the committee. I am a consulting actuary with offices at 150 Nassau Street, New York City. I am a member of the Society of Actuaries. I have practiced as a consulting actuary specializing in pension plans for over 35 years. I have assisted in the establishment of many governmental retirement systems. Among these are the systems for the States of Vermont, New Hampshire, New York, New Jersey, North Carolina, South Carolina,

Louisiana, and Alabama; and systems for municipalities including New York City, Baltimore, St. Louis, Cincinnati, Los Angeles, and Honolulu. My experience includes work for many other States and municipal plans. It also includes service rendered in connection with retirement systems for banks, industrials, public utilities, and eleemosynary institutions.

I am the actuary chosen by the railroad unions as their representative on the advisory actuarial board under the Railroad Retirement Act. I mention particularly the governmental plans, not for the purpose of giving special weight to my testimony, but because they use a sound system of financing to which I want to refer later.

I have never requested a hearing by any committee of Congress, and I have not appeared before any committee since the administration of Mr. Woodrow Wilson, when I appeared at the request of the Commissioner of Pensions in connection with the civil-service retirement and disability fund, with which you are familiar, and with which I have been associated since its establishment. Today I am appearing at the request of the United States Steel Corp., because the program which they have adopted in the matter of financing their pension benefits is one for which I have argued very strongly. A number of companies pay my office fees for actuarial advice, but not all of them follow the advice, so that when one of them does follow the advice of my office, it seems to me that I must do whatever is in my power to explain the reasons for the course recommended.

The United States Steel Corp. had a pension plan which operated until the Social Security Act was established. It was then discontinued with respect to service pensions, except that all the pensions that had been promised to employees on account of service prior to that time were to be continued. But disability and certain other benefits which are not provided under the present social-security law were continued. Then the corporation very properly, in my judgment, undertook to fund its plan, thus guaranteeing the payment of the pensions promised under the plan. To cover pension benefits on that part of the compensation of employees which is not covered by the Social Security Act or the Railroad Retirement Act, the corporation created a supplemental plan, the cost of which is paid by joint contributions of employees and the corporation. This contributory plan was established on a fully funded basis in accordance with sound actuarial principles, such as those recognized by the United States Government in financing the civil-service retirement and disability fund for Federal employees.

Within the past year my office prepared many figures for the corporation in contemplation of the establishment of a contributory plan to supplement benefits provided by the social-security law on that part of compensation covered by the act. None of these programs was put into effect before the President of the United States appointed a Steel Industry Board to investigate and inquire into issues in dispute between the United Steeelworkers of America, CIO, and certain steel companies. The Board, as you know, made certain recommendations to the effect that pensions should be granted and that the cost of pensions should be borne entirely by the employer.

There are a number of methods of providing for the cost of pensions other than that proposed by the union. Let me describe certain of the methods commonly used.

Some companies operate pension plans on a cash disbursement basis, where no provision is made for pension costs until an employee retires, and then he is continued on the pay roll on reduced compensation. Under such a method of pensioning, the employer does not usually realize that the number of people being pensioned bears no relation to the current size of the present staff and that the pensioners are the survivors of the much smaller organization which the company may have had 30 or more years ago. If the pay roll of pensioners amounts to only a small fraction of 1 percent of the present active pay roll, they erroneously conclude that such percentage is a proper measure of their expenses under the pension plan. They overlook the fact that if the size of the business had not increased during the last 30 years, the pension pay roll would have been about as large, but the active pay roll today would have been very much less and hence the ratio of the pension roll to the smaller active pay roll would have been very much higher. We have plans operating today where the pension roll represented a small percentage of the active pay roll when the plan was established but now amounts to 15 percent or more of the active pay roll.

If this cash disbursement method of financing pensions were applied to the new plan for the Steel Corp., no attention would be given to the pensions now accruing on account of service being currently rendered by present active employees.

This service would later result in heavy pension payments, and yet no provision would be made to assure that the expected pensions would be paid. Suppose, for example, 100 employees were engaged at age 25. Their wages would be paid during their active service but until members actually retired no provision whatever would be made to take care of the disability and service pensions which would become payable to members of the group in the future.

After the survivors of the group retired, the pension costs each year would be the amounts needed to pay their pensions for the year. If anything should happen to the company, these retired employees might find, after 20 or 30 years of service, that they had no pension benefits whatever. If the company continued in business, the purchasers of its product in the future would find that they were paying retroactively for the pensions of former employees whose product had been sold at prices which failed to take into account the cost of pensions being simultaneously earned.

Because the cash disbursement method of providing for pensions has later resulted in heavy unexpected costs, in many instances where this method of financing has been used pensions have had to be cut, including the pensions of those already retired. This has occurred both in governmental plans and in industrial plans. Generally speaking, the cash disbursement method of providing for pension costs is being discarded as inequitable, unsound and dangerous to the pension security of retired employees.

A second method which might be used, which is better than the cash disbursement method, is to make no provision for the cost of pensions during the active service of employees, but as they retire, to pay into a fund an amount of money which is computed, with inter-

est, to pay the future pensions to which the employees may become entitled. For example, under this method if 100 employees were hired at age 25, no payments on account of their prospective pensions would be made while they are working, but as each employee retired a lump sum would be paid to a reserve fund sufficient to cover the future pension payments to which he was entitled. For example, suppose an employee at age 65 was entitled to a pension for life of $100 per month. This might require a lump sum payment of about $13,000 into a fund. The actual pension payments would then be made from this fund.

Since under this method no provision is made for any employee's pension until he retires, the lump sums to be paid during the early years of the operation of a plan financed on this basis are relatively low, because the employees retiring are the survivors of the smaller staff which was working some 30 or more years ago. During the early years of the plan, the lump sum payments made each year would represent a higher percentage of the current pay roll than the corresponding percentage under the cash disbursement plan. But the percentage would increase as the business grew older and would represent an increasing expense as time went on. The percentage would never rise to as high a point as it would under the cash disbursement method, because the amounts paid into the fund would earn interest, and this interest would cover part of the pension cost.

Under a third method of providing pension costs, recognition is given to the fact that each year an employee works he is concurrently establishing a possible claim to a pension, and that the full cost of his service is therefore currently greater than the amount paid to him as wages. Under this method a contribution is made each year during the active service of employees to accumulate a pension fund from which their pensions may be paid. For example, under this method if 100 employees are hired at age 25, calculations would be made of the probable pensions to be paid later to the surviving members of this group, and then provision would be made to pay into a fund each year sums of money which, accumulated at interest, would provide, as the survivors of the group retired, the amounts needed to pay their pensions. The payments each year on account of this group plus the wages paid them would then represent the actual expense on account of the service of these employees from year to year.

Suppose we take the specific case of a pension plan providing the benefits adopted by the United States Steel Corp., and we compute the amounts needed to be paid into a pension fund each year so that for the group of present employees we will find the cost for future service pensions during their active service. We find that a normal contribution equal to 4.79 percent of the future compensation of employees is computed to be necessary to provide the pensions which will be payable to the survivors of these employees, after making allowance for withdrawals, deaths, and the offsets of governmental benefits.

The figure of 4.79 percent is computed as a level percentage of the pay roll, and if it is paid we need not expect the percentage to increase as time goes on. We may call this the normal cost of the plan. This means that if the corporation paid for each $100 in direct wage compensation $4.79 to the pension fund, it would discharge the entire cost of pensions on account of future service benefits of present employees.

Senator TAFT. When you speak about the offsets of governmental benefits, how do you know what that is going to be? You mean present benefits?

Mr. BUCK. Present benefits I am talking about at this juncture.

Senator TAFT. This $4.79 is in addition to the present social security?

Mr. BUCK. That is right, the existing law.

Senator TAFT. And also in your case, as compared to the Government Social Security Act, upon which we are having hearings in the next room, you make allowance for withdrawals, whereas I suppose the Government social security in effect, with the transfers, has very few withdrawals comparatively.

Mr. BUCK. Relatively so, only when they go under uncovered employment.

Senator TAFT. My recollection is that came up to nearly seven.

Mr. BUCK. Senator, I am not a good person to question on the Social Security Act, because I very consciously have avoided any connection with that for many years.

There are several advantages to this method of financing pension costs. First, it gives a proper accounting basis upon which to figure the expenses of the business. Second, it assures the employees that at the time of their retirement there will be amounts in the pension fund to meet the payment of their pensions on account of service since the plan started; and, third, it shows to the employees, the officers of the company, the stockholders, and the public the actual accruing obligations which are being built up under the pension plan.

The internal revenue law provides that pension payments to a trust or insurance company computed in this manner shall be considered as an expense of the employer. The Federal Communications Commission is taking the position that the cost of pensions currently accruing to telephone employees is a charge that should be considered as an expense to telephone users at the time the service giving rise to the pensions is being rendered.

But I must go one step further in the description of this method. When such a method of financing is applied to the present employees, there are many employees who entered the service years ago and who have service rendered in the past for which they are retroactively entitled to credit. If the plan had been in operation when these employees first entered the service, payments to the fund at a normal rate would have been made in the past and today there would be a substantial fund accumulated, which would be earning interest. Then in order to take care of all pension costs, the corporation would need only to continue its normal contribution. The fund which would have been on hand today would represent the cost of pensions on account of past service, and we may speak of it as the "past service cost." We can compute what this cost amounts to today, because it is obviously the amount needed to cover the cost of pensions to present employees and pensioners less the amount which will be covered by future contributions at the level rate of 4.79 percent of the pay roll. Provision for this past service cost must be made if the pensions are to be paid.

One plan of providing for the past service cost would be to pay the money into the fund in a lump sum and immediately invest it to earn interest. The minimum provisions which would give a level cost to be

met in the future would be to pay each year the interest that this reserve would have earned and leave the financing of the principal to be covered some other way. Of course, under any insurance fund or under a pension plan where funds are accumulated during the life of the policyholders or during the active service of employees, as long as money is coming into the fund, the fund itself does not need to be liquidated, because the money paid out on account of those qualifying for benefits is paid from the new money coming, and the total fund will not need to be used as long as the new money coming in is sufficient to cover the disbursements. In view of this fact, the union proposed before the Steel Board that only interest need be paid on the past service cost. This is the minimum funding basis. Under this minimum basis the amount of past service cost is determined and provision is made to pay only the interest on the past service cost.

A fourth method of providing the cost, and the one which was adopted by the States and cities I have mentioned, is to pay the normal cost, and to determine the past service cost, but then to make provision not only to pay interest on this past service cost but to provide for the gradual liquidation of the principal of this cost. Of course, this is a better method than any of the other methods described, because after the prior service cost is liquidated, the employer is relieved of paying interest on the past service cost and has only the normal cost to pay.

In preparing cost figures for United States Steel Corp., we have used the third method described; that is, the minimum funding basis, which assumes the corporation will pay a level percentage of pay roll to meet the normal cost and interest upon the past service cost. Our calculations indicate that the total annual cost for future service for present employees amounts to $42,600,000. Under the present noncontributory plan of the corporation such annual cost is about $2,000,000 so that the additional annual future service cost is $40,600,000.

The total past service cost for present employees amounts to $560,000,000. At the present time there is held in trust $64,000,000 for present employees under the old plan, which may be used to reduce the $560,000,000 total past service cost, leaving an unprovided past service cost of $496,000,000 for present employees.

Senator TAFT. What is a pension fund of this kind invested in and at what interest rate?

Mr. BUCK. We are figuring 2½-percent rate of interest. The restrictions on the investment of the trust I do not know. The existing trusts are restricted, as I recall, to investments that are legal for life-insurance companies.

Mr. VOORHEES. That is not right. Trustees have free discretion to invest the funds any way they want to.

Senator TAFT. But your calculations are all based on 2½ percent?

Mr. VOORHEES. That is right.

Senator TAFT. Couldn't they get better than that?

Mr. VOORHEES. In the past that has not been our experience. The rate is right now at that rate. Of course, these funds, Senator, have only been established since 1940, and we have not had in that period very high interest rates, and most of the money has been put in during this period; so, consequently, the rate of return has been relatively small.

Senator TAFT. My experience has been you can get between 3 and 3½ percent.

Mr. BUCK. Senator, on the average new retirement systems being set up today 2½ percent is quite generally used. You may know that the insurance companies in selling annuities for this purpose are basing their cost on 2 and 2¼ percent—2¼ percent, I think, is the highest or best return you can presently obtain.

I may say that the actuaries for the union, the CIO, adopted 2½ percent as the interest rate, and if they had in mind that we could earn more than 2½, they would have used it, because it would have shown better benefits for the amount of money put into the fund, greater benefits for the so-called 6- and 4-cent contributions.

The CHAIRMAN. What are the limitations of the trust? That is, beyond this 2½ percent?

Mr. VOORHEES. From what standpoint? We can never take any of the money back in the corporation.

The CHAIRMAN. I meant with respect to investment. In what character of securities are the trustees permitted to invest?

Mr. VOORHEES. They have free discretion with respect to the investments.

The CHAIRMAN. They can invest in common stocks?

Mr. VOORHEES. That is right.

The CHAIRMAN. They can invest in real property?

Mr. VOORHEES. Any investment at all.

The CHAIRMAN. Any investment at all?

Mr. VOORHEES. That is right; full discretion.

The CHAIRMAN. You, of course, have not had any experience except perhaps under the plan already in existence?

Mr. VOORHEES. That is right.

The CHAIRMAN. What is the character of the investments in the present fund?

Mr. VOORHEES. The present fund—we have two funds. One is with the Guaranty Trust and one with J. P. Morgan & Co. The investments include Government bonds, and they also run the gamut of almost every industry in this country with respect to both preferred stocks and bonds.

The CHAIRMAN. And what is the interest rate that you are earning on that fund?

Mr. VOORHEES. It averages somewhere about 2½ to 2¾.

The CHAIRMAN. Who are the trustees?

Mr. VOORHEES. The trustees in one case are J. P. Morgan & Co. and in the other case the Guaranty Trust.

The CHAIRMAN. Have you selected the trustees for the new fund?

Mr. VOORHEES. We have not gotten to that point yet, sir.

The CHAIRMAN. Have you devised the terms and conditions of the trust?

Mr. VOORHEES. We have not had that, so far as the trust agreement, I have not seen it as yet.

Senator SPARKMAN. May I ask in that connection: How are the trustees selected? How are they to be selected?

Mr. VOORHEES. I would recommend the trustees to our finance committee or our board, and they would approve or disapprove and make final selection.

Senator SPARKMAN. Does the United States Steel Corp. select all of the trustees or does the union select some?

Mr. VOORHEES. The union has no responsibility with respect to these trust funds.

Senator SPARKMAN. It is noncontributory?

Mr. VOORHEES. That is right.

Senator SPARKMAN. And the company names all of the trustees?

Mr. VOORHEES. That is right.

Senator SPARKMAN. And how many?

Mr. VOORHEES. We have not reached that point yet, Senator Sparkman.

Senator SPARKMAN. I thought perhaps that was set up in the agreement itself.

Mr. VOORHEES. They have nothing—in other words, we have the full responsibility with respect to the investment of the funds, and they are not concerned with that particular problem. They have left the full responsibility on us. Much different than John Lewis.

Senator TAFT. I want to ask this: Is the coal pension fund, Mr. Buck, the first of these things, a straight cash disbursement fund, the coal pension? Are you familiar with that? Is that your first method?

Mr. BUCK. Senator, I am not sure. I think, from what I know of the coal pension fund, they are now operating it on a cash disbursement basis or were up to the time they discontinued.

Senator TAFT. They pay it out as it comes in, in effect?

Mr. BUCK. There have been several actuarial estimates made of that fund, but I never heard they were running it on a reserve basis.

Mr. VOORHEES. It is a cash basis.

Mr. WOLCOTT. I would like to know whether any trust funds are invested in the securities of the corporation.

Mr. VOORHEES. At the present time there are no funds with either J. P. Morgan & Co., or the Guaranty Trust Co. invested in corporation securities of any kind or description. We have a remnant of the Carnegie pension fund, to which United States Steel Corp. contributed, and that fund is almost entirely in corporation securities, and that fund has paid consistently over 3 percent throughout this period.

Senator SPARKMAN. May I ask Mr. Voorhees another question?

Mr. VOORHEES. Yes, Senator.

Senator SPARKMAN. Even though this is a noncontributory pension plan and is managed entirely by the corporation, it is true, is it not, that the employees have a vested interest in the fund?

Mr. VOORHEES. They have no vested interest in the noncontributory plan, not 1 penny.

Senator SPARKMAN. But I thought it was set up in a trust, I gathered that from Mr. Buck's paper, that it was set up in a trust, and I believe one of you said that none of the funds could come back into the corporation's hands.

Mr. VOORHEES. That is right.

Senator SPARKMAN. So it seems to me that the employees would have a vested right in it.

Mr. VOORHEES. Not a single penny of vested right in that plan for them, except this one point: The tax law makes it necessary for us to use that money for employee benefits, and it cannot come back to

the Steel Corp., but not 1 penny of it can be taken out or touched by any employee or group of employees.

Senator TAFT. However, Mr. Voorhees, if a man continues in his employment, he is entitled legally to the pension from that fund, is he not?

Mr. VOORHEES. That is right, when he gets to be 65 and fulfills the criteria, he is sure to get his pension.

Senator SPARKMAN. I thought I must be misunderstanding you, because that is what I meant. I do regard that as a vested right, not to control. Certainly, if it becomes an irrevocable trust and he knows when he reaches that age, he is going to get that pension, then I consider his having a vested right certainly to that extent in the pension.

Mr. VOORHEES. The word "vested" is a bad one with me, because it connotes something you can put your hands on.

Senator SPARKMAN. I do not go quite that far.

The CHAIRMAN. Mr. Voorhees, your plan has not yet been approved by the stockholders, has it?

Mr. VOORHEES. That is right. The proxy is out, and the committee has copies of our proxy material.

The CHAIRMAN. You were good enough to send me a copy of the material that has been submitted to the stockholders just the other day.

Mr. VOORHEES. Yes, sir.

The CHAIRMAN. I take it, therefore, that you have neither had any experience under this plan nor have any contributions been made to the fund by the company.

Mr. VOORHEES. Senator, nothing has been done with respect to any contributions in the plan up to the present time. Had we been able to get a tax deduction in the year 1949, we would have done so. We would have applied funds for that purpose and awaited stockholder approval, but the Internal Revenue Bureau would not approve the placing of these funds in trust for the year 1949 and give us deductions for it.

The CHAIRMAN. Because I suppose there was no commitment. The plan had not been approved by the stockholders.

Mr. VOORHEES. But, on the other hand, there has been a commitment because United States Steel signed its name to a labor contract.

The CHAIRMAN. But in any event, whatever may have been the discussion between yourselves and the Internal Revenue Bureau, when you sought to set up the basis for a tax reduction, the corporation has in fact set aside no fund as yet because you have not appointed your trustees.

Mr. VOORHEES. That is right. That is very easy to do. If we had gotten it for tax purposes, we would have been able to do that in very short order.

The CHAIRMAN. But it has not been done.

Mr. VOORHEES. That is right.

The CHAIRMAN. But you increased prices of steel.

Mr. VOORHEES. That is exactly right, and let me tell you why. That is very simple. When we signed the contract with this labor union, the minute we signed that contract these pension costs were running, and let me tell you the retroactive part of this was running, too, and selling prices can never be made retroactive, but you had not only the future cost running, but you have got the past cost and, there-

fore, in reality the selling prices should have been increased exactly on November 11 when the contract with the union was signed.

The CHAIRMAN. But even the signing of the contract gave the company no actual experience under this plan. Mr. Buck has described to us four separate types of pension plans. Your plan is very different from that which was adopted by Bethlehem and submitted to the stockholders of Bethlehem and by them approved.

Mr. VOORHEES. Senator O'Mahoney, if we waited to get actual experience and did not use expert advice with respect to the actuarial determination, we would not have raised our selling prices until 20 years from now, but we have confidence in the people we hire to give us expert advice on actuarial determinations. We know on the basis of their past estimates that those estimates are right within a very, very small percentage.

Therefore, having that information, I think it is reasonable to suppose that we are reasonable businessmen to be sure that the cost is recovered in the price.

The CHAIRMAN. What cost of the pension plan accumulated against United States Steel during 1949?

Mr. VOORHEES. Of the 1949? The cost—everything that had to do with the retroactivity, the hundred dollar minimum, the minimum with respect to 15 years service, the reinstatement of various pensions to pensioners who were on the rolls—and in every single day since November 11 the past service liability has been increasing.

The CHAIRMAN. Your point is that on the basis of the signing of the contract, United States Steel Corp. assumed an obligation regardless of the action of the stockholders?

Mr. VOORHEES. Absolutely.

The CHAIRMAN. Well, what is the point of submitting the matter to the stockholders?

Mr. VOORHEES. We did not have to submit it to the stockholders in accordance with advice of our counsel, but we thought the issue was of such magnitude that the stockholders ought to approve it and know what the costs are.

The CHAIRMAN. Do you now know what the costs were that accumulated during 1949?

Mr. VOORHEES. I have given you my best estimate. They are accumulating very much faster than we are getting the cash in.

The CHAIRMAN. You were giving me the types of costs. I was wondering whether or not you or Mr. Buck had a dollar figure.

Mr. BUCK. I have got it later in here, Mr. Chairman.

The CHAIRMAN. Very good. You may proceed.

Mr. BUCK. My last statement was to the effect that on the active service we had a $560,000,000 prior service cost against which there were $64,000,000 of funds in hand due to the funding of the old pensions, leaving us $496,000,000 for present employees.

Since the new pension provisions, except for added features of minimum provisions and reduction in required years of service, are a reinstatement of the corporation's pension plan as it existed prior to certain modifications made in the thirties, and since the union contract required the application of the new provisions to those who have retired since March 1, 1948, the corporation considered it a matter of equity to restore the modifications in benefits to those who retired prior to March 1, 1948. The total past service cost for retired em-

ployees is $117,000,000. At the present time there is held in trust for retired employees $39,000,000, leaving an unprovided past service cost of $78,000,000 for retired employees.

If the additional cost for present employees is added to the additional cost for retired employees, and if the minimum method of funding described above is followed, the total additional annual cost of noncontributory pensions is 55 million dollars—40.6 million dollars in respect of future service and 14.4 million dollars in respect of past service.

With respect to the corporation's contributory pension plan, no past service cost is involved. Using the same actuarial method of determining future service cost which I already have described, the annual cost of contributory pensions is estimated to be 4 million dollars, or one-half million dollars less than at present. Thus the total increase in the corporation's annual pension costs is calculated to be 54.5 million dollars. For your information, I would like to state certain assumptions that have been made in making these actuarial cost estimates:

In the first place, it is to be noted that costs stated with respect to the noncontributory plan do not apply only to those employees who are members of the steel union, but to all employees of United States Steel Corp. except those for whom provisions outside of the corporation plan have already been made.

Next it is to be noted that the calculations have assumed that there will be no depreciation in the buying power of the dollar—that is, no inflationary increases in wage rates and, hence, of the pension benefits.

Finally, it has not been assumed that any legislation with respect to Federal old age benefits will result in a net reduction of the corporation's employment costs. If the United States Government increases the benefits under the Social Security Act so as to increase the offset against the pensions promised under the plan negotiated with the union, and this increase operates to reduce the payments to be made from the corporation plan, corporation payments can be reduced, but to the extent that they are reduced, the United States Steel Corp. and its employees will either have to increase their contributions under the Social Security Act by a corresponding amount, or the social security fund will accumulate a deficit to be financed in some way in the future.

Senator TAFT. Mr. Buck, I suppose there are other figures here showing it, but can you give us roughly the pension which a man receives and upon what basis he receives it, a typical employee, an average employee, we will say, in your company?

Mr. BUCK. Well, Senator, in the proxy statement there are given some examples of the amount proposed in the noncontributory pension plan, which includes the social security benefit. It shows for the $3,000 man retiring after 15 years of service that his total allowance is $720 a year, after 20 years' service it is $960, after 25 years it is $1,200, and it stays at $1,200 for the remaining period of service possible.

For the $4,000 man after 15 years it is $720; 20 years, 960; 25 years, $1,200; 30 years, $1,200; 35 years, $1,400; 40 years, $1,600.

You see, the minimum is $1,200, and not until the 1 percent of salary—the plan is 1 percent of the average salary for the last 10 years

of service multiplied by the number of years of service with a minimum of $1,200 after 25 years of service, and a proportionate minimum for a proportional length of service under 25 years against which the primary social-security benefit is deductible.

The CHAIRMAN. Any other questions? Mr. Wolcott?

Mr. WOLCOTT. No questions.

The CHAIRMAN. Senator Watkins?

Senator WATKINS. No questions.

The CHAIRMAN. Representative Patman?

Mr. PATMAN. No questions.

The CHAIRMAN. Senator Myers?

Senator MYERS. I do not want to delay this, but the last statement made by the witness, the last sentence on page 13, it concerned me that as to the extent the corporation's contributions are reduced the corporation and its employees will either have to increase their contributions under social security by corresponding amounts—something that concerned me—is that an exact statement that it must be by an exact corresponding amount?

Mr. BUCK. I would say it was an exact corresponding amount because, to the extent that you replace these pensions by some other pension, the other pension will cost just as much. It is true that the Social Security Act will probably carry other benefits—that is, severance benefits or transfers to other employment, which may involve more cost under the Social Security Act—but for the pensions against which the Social Security Act will operate as an offset the cost will not be changed.

Senator MYERS. Therefore, it is your considered opinion that, if there is an increase in social-security benefits which will reduce the employer contribution to this fund, that reduction will be offset as far as the employer is concerned by the increased contributions that he must make to the social-security fund?

Mr. BUCK. No. I did not say that. You limited it to the employer. I said, to the extent to which these benefits are decreased by benefits under the social security, they will either have to be paid by the employer and his employees or by some other way. They have to be paid, I did not try to designate any one group.

Senator MYERS. If social-security benefits are increased, the employer's contribution to this fund will be decreased, will it not?

Mr. BUCK. That is true.

Senator MYERS. And will the increase in social-security payments completely offset that decrease to the corporation, or will they gain in the end by the increase in social-security benefits?

Mr. BUCK. I am not prepared to answer that question, because I did not know exactly what the new social-security bill will be. We did do some calculating on what House bill 6000 might produce.

Senator MYERS. Based on House bill 6000?

Mr. BUCK. We figured that if House bill 6000 were to become a law the direct payments to this fund would be decreased about 17 percent if they do not include this disability benefit, and if they do include the disability benefit they go down roughly about 28 percent.

Senator MYERS. Twenty-eight, but 17 percent on the 54.5 million?

Mr. BUCK. That is right.

Senator MYERS. That is all.

Mr. BUCK. That does not affect the other costs that I am not concerned with.

Senator MYERS. I understand.

Mr. BUCK. That is the sickness benefit.

The CHAIRMAN. Representative Huber?

Mr. HUBER. I do not find the table. You mentioned those retiring after 15 years of service.

Mr. VOORHEES. Do you have the proxy statement?

Mr. HUBER. What page is that on?

Mr. BUCK. Page 4 of the proxy statement.

Mr. VOORHEES. We would like to put that in as part of the record because it was sent.

The CHAIRMAN. It may be received.

(The proxy notice referred to above is as follows:)

UNITED STATES STEEL CORP.,
New York 6, N. Y., January 18, 1950.

To the Stockholders of United Steel Corp.:

You are being concurrently notified of a special meeting of the stockholders of the corporation to be held at Hoboken, N. J., on February 27, 1950.

I should like to acquaint the stockholders briefly with the important matters which are to be considered at this special meeting. A reading of this letter, however, should not cause any stockholder to fail to examine carefully the accompanying notice of the meeting, proxy statement, and proposed plans for employee insurance and pension benefits which tell the complete story.

Stockholders will recall that the 42-day strike against the steel-producing and certain other subsidiaries of the corporation came to an end on November 11, 1949, with the signing of settlement agreements between these subsidiaries and the United Steelworkers of America, CIO. These agreements provide, among other things, for certain insurance and noncontributory pension benefits for employees represented by that union. The subsidiaries required that these insurance and pension provisions should be subject to approval by the stockholders of the corporation, and the settlement agreements with the union so provide.

The labor agreements provide that the employing companies are free to take any action deemed advisable with reference to pension provisions after December 31, 1951, and that the agreements shall continue in effect until December 31, 1951, and thereafter so long as the employing companies continue the pension provisions of the agreements without modification or change, but not later than October 31, 1954.

At this special meeting the stockholders of the corporation will be asked, through three separate votes, to approve the plans for employee insurance and pension benefits submitted herewith. This will include approval of the insurance and noncontributory pension provisions recently negotiated by certain subsidiaries of United States Steel Corp. with the United Steelworkers of America, CIO. The board of directors of the corporation strongly recommends that the stockholders approve these proposed plans for employee insurance and pension benefits.

Such settlement agreements with the union provide that if the stockholders do not give this approval by March 1, 1950 (or such later date to which the union may agree), the existing labor contracts between these subsidiaries and the union, including the no-strike provisions thereof, will terminate 30 days thereafter. Another steel strike could be the consequence of a failure by the stockholders to give such approval.

In the opinion of the board of directors of the corporation, a plan for employee insurance or pension benefits should not be restricted to employees who are represented by a particular union, but rather that authority should rest in the board of directors to extend such insurance and pension benefits, or other insurance and pension benefits approved by the board of directors, so as to embrace employees who are not represented by that union or by any union. That is provided for in the proposed plans for employee insurance and pension benefits, as well as the right to modify from time to time such plans and the benefits to be provided thereunder. The board of directors also believes that in connection with a revision of pension benefits it is equitable to restore certain

features of the earlier noncontributory pension provisions of the corporation and that the beneficial effect to the corporation as a result of such action would amply justify the annual cost of restoring the benefits. Accordingly the proposed plan would restore, effective March 1, 1950, certain pension benefits for retired employees who are eligible for noncontributory pensions, through eliminating the reduction in pensions effected in 1933; by restoring credit for service subsequent to December 31, 1939, and prior to date of retirement; and by calculating pensions on the basis of 1 percent of the average monthly pay received during the last 10 years of service prior to retirement date, multiplied by the number of years of creditable service prior to such retirement date. The effect of these amendments would be to restore noncontributory pensions to the level provided by the corporation prior to such change made in 1933, continuing the deduction, however, of the full amounts of public pensions to which the pensioners are entitled.

The proposed plan for employee pension benefits provides in general for continuation of the contributory pension benefits established in 1940, with the exception that participation after February 28, 1950, will be limited to salaried employees not represented by a union who are not by law, contract, or custom entitled to compensation for overtime services.

In accordance with the regulations under the Securities Exchange Act, three proposals submitted by stockholders are set forth in the proxy statement. One such proposal is made by the holder of record of 15 shares of common stock of the corporation, and the other two proposals are made by another stockholder, also the holder of record of 15 shares of common stock. For the reasons stated in the proxy statement, the board of directors of the corporation believes that the adoption of these three proposals would not be in the best interests of the corporation and its stockholders.

Accordingly, the board of directors of the corporation strongly recommends that the stockholders vote against each of the three proposals submitted by these stockholders.

SUMMARY OF PROPOSED INSURANCE PROVISIONS

The plan for employee insurance benefits (revision of 1950) attached to the proxy statement submitted herewith would permit the subsidiaries to carry out the provisions of the recent contracts with the United Steelworkers of America, CIO, providing for a program of insurance benefits for employees represented by that union, such as death, sickness, accident, and hospitalization benefits, the total cost of such a program not to exceed 5 cents for each man-hour worked, one-half of the cost to be borne by the employer and the other half by the participating employees. Such plan would confer authority upon the board of directors of the corporation to implement the plan by adopting or authorizing the adoption of specific benefits; by determining the employees to be covered by specific benefits; by authorizing contracts relating to or providing for such benefits; by authorizing such rules and regulations and revisions thereof as it may determine proper to make such plan effective and to provide for its administration; by revoking or terminating specific benefits or provisions relating thereto; and by making from time to time such amendment or revision in the plan for insurance benefits as it shall deem advisable, subject to applicable provisions of law.

The estimated annual cost to the corporation of the proposed insurance program is set forth in the proxy statement.

SUMMARY OF PROPOSED NONCONTRIBUTORY PENSION PROVISIONS

Benefits under the proposed new noncontributory pension provisions are intended to be applicable to all employees (including officers and such directors as are active in the business in a capacity other than as directors) retiring on or after March 1, 1950, exclusive of employees represented by collective-bargaining representatives who have not entered into collective-bargaining agreements providing for such benefits. Because of the nature of the collective-bargaining process these provisions will not be made applicable to such employees unless and until designated by the board of directors of the corporation.

Employees retiring after attaining age 65 (normal retirement) and having at least 15 years of continuous service, and employees with 15 years or more of continuous service retiring before attaining age 65 because of permanent incapacity, would be eligible to receive noncontributory pensions. The monthly pension, including public pension, would amount to 1 percent of the employees' average

monthly earnings during the last 10 years of service prior to retirement, multiplied by the number of years of continuous service, with a minimum pension (including public pension) of $100 a month for a normal retirement with 25 years of continuous service. For employees with 15 to 25 years of continuous service, minimum pensions (including public pension) are provided in the proportion which years of service bear to 25, being $60 in the case of an employee with 15 years of continuous service. A minimum pension of $50 a month to an employee receiving a disability pension is also provided until attainment of age 65, when the minimum for a normal retirement would apply.

Pensions so determined would be subject to deductions not only for the entire amount of public pensions to which the employees are entitled but other appropriate deductions, including that portion of any other pension (other than a pension under the United States Steel contributory pension plan) attributable to the contributions or payments which have been made, directly or indirectly, by the corporation or any subsidiary.

Any employee who shall have retired because of age or disability during the 24 months next preceding the date upon which such proposed noncontributory pension provisions become effective would be deemed not to have incurred a break in continuous service by reason of such retirement, if covered by a collective-bargaining agreement containing such a provision, or if not represented by a collective bargaining representative, and, if otherwise eligible, would receive such new noncontributory pension benefits. This provision, insofar as it affects employees represented by the union, will permit subsidiaries to comply with a requirement of the settlement agreements with the union.

In 1933, due to the fact that the operations of United States Steel were then on an unprofitable basis, pensions under the corporation's noncontributory pension plan were reduced according to a sliding scale, the maximum reduction being 25 percent, such reductions to continue until otherwise changed. In 1934 a further change provided for the deduction from pensions of an amount equal to the public pension to which the pensioner is entitled. Effective in 1940 the noncontributory pension rules were still further changed so as to give credit for noncontributory pensions for normal retirement only to service performed prior to January 1, 1940, with the proviso that in determining the amount of such pension payable to an employee retiring after December 31, 1939, 1 percent of the average pay received during the last 10 years of service prior to the date of his retirement, or January 1, 1945, whichever is earlier, would be multiplied only by the years of creditable service prior to January 1, 1940, and this amount reduced by such 1933 percentage reductions.

Under the proposed noncontributory pension provisions the 1933 percentage reductions and the limitation of pension credit to service performed prior to January 1, 1940, would be revoked with respect to pensions payable after February 1950, but only to employees retired before March 1, 1950, to whom the new noncontributory pension provisions do not apply, and to such other employees as may be designated from time to time by the board of directors of the corporation, thus restoring these features of the corporation's earlier noncontributory pension plan. These proposed changes would not change the present 25 years continuous service requirement to 15 years and would not provide for any minimum amount of pension payment. If provisions have been or are hereafter made with the collective-bargaining representatives of any group of employees intended to provide pension benefits outside of the corporation plan for employee pension benefits, or if provisions have been made in lieu of pension benefits, employees or retired employees for whom such other provisions are made will not be eligible to receive the benefits of the corporation plan.

As stated in the proxy statement, Benjamin F. Fairless, the president of the corporation, Enders M. Voorhees, the chairman of the finance committee, and Irving S. Olds, the chairman of the board of directors, have each advised the board of directors that he has waived his rights to any benefits under the proposed noncontributory pension provisions, and the board of directors has accepted those waivers. The rights of these three officers to pensions under the contributory pension plan are described in the proxy statement.

The estimated annual cost to the corporation of the proposed noncontributory pensions, both with respect to present and former employees, is set forth in the proxy statement.

SUMMARY OF PROPOSED CONTRIBUTORY PENSION PROVISIONS

The contributory pension provisions, established in 1940, provide retirement benefits for employees electing to participate with respect to their annual compensation in excess of the maximum amounts presently covered by the Federal Social Security Act ($3,000) and the Federal Carriers Taxing Act ($3,600), such excess compensation being the eligible compensation of these employees for the purposes of the contributory pension plan. Participating employees contribute 3 percent of their eligible compensation and the employing companies make such additional payments as are sufficient actuarially to provide the pension benefits, not in excess of 5 percent of the eligible compensation of all employees. The normal contributory pension is an annual amount equal to one-third of the employee's total contributions. The employee or his beneficiary receives at least the amount of his contributions, plus interest in accordance with the provisions of the plan, either by way of pension benefits or return of contributions upon death, or termination of employment before retirement. Special retirement pensions in reduced amounts are permitted in the case of retirement with the consent of the employing company after age 55 and prior to attaining age 65.

It is proposed, in substance, to continue this contributory pension plan, with the same retirement benefits and with the same payments by participating employing companies making the additional payments required to provide the benefits. Future participation in the plan, however, will be limited to salaried employees, not represented by a union, who are not by law, contract or custom entitled to compensation for overtime services. Other employees or groups of employees may from time to time, with the approval of the board of directors of the corporation, be designated as being eligible to participate in these contributory pension provisions. Present participants who would no longer qualify for participation under this limitation would be given the option of withdrawing their contributions or of leaving such contributions in the plan and upon retirement in accordance with the provisions receiving a pension based only upon participation prior to March 1, 1950.

The estimated annual cost to the corporation of the proposed contributory pension is set forth in the proxy statement.

CONCLUSION

The board of directors of the corporation believes that the adoption of the proposed plans for employee insurance and pension benefits is in the best interests of the corporation and its stockholders. These plans among other things will provide a flexibility of operation which is believed to be necessary in order to enable the corporation and its subsidiaries to meet changing conditions from time to time. The board of directors strongly recommends that the stockholders approve the proposed plan for employee insurance benefits (revision of 1950) and the proposed plan for employee pension benefits (revision of 1950), submitted with the proxy statement.

As stated above, the board of directors of the corporation further strongly recommends that stockholders do not vote in favor of any of the three proposals submitted by certain stockholders.

Stockholders are requested to sign and return promptly the enclosed proxy. Such proxy will be voted in the manner directed by the stockholder, but if no direction is indicated, the proxy will be voted in favor of the approval of such insurance and pension plans, and against the adoption of the three proposals submitted by certain stockholders.

The cooperation of the stockholders of the corporation is earnestly requested.

Respectfully submitted.

IRVING S. OLDS,
Chairman, Board of Directors.

P. S.—Stockholders will please note that the special meeting will be held at No. 600 Hudson Street, corner of Sixth and Hudson Streets, Hoboken, N. J. This place of meeting is about six blocks north of the Hudson Trust Company Building, 51 Newark Street, Hoboken, N. J., where prior meetings of stockholders of the corporation have been held.

Special busses for the transportation of stockholders to the place of the meeting will be available at intervals, beginning at 9:30 a. m., near the street exit of the Hoboken (Lackawanna) Station of the Hudson & Manhattan Railroad, which operates the tubes from New York City under the Hudson River.

[Important: Please sign and return your proxy in enclosed post-paid envelope. There are approximately 240,000 registered holders of stock of the corporation. The prompt return of your proxy will be of great help in preparing for the meeting]

UNITED STATES STEEL CORP.—NOTICE OF SPECIAL MEETING OF STOCKHOLDERS ON FEBRUARY 27, 1950

Notice is hereby given that a special meeting of the stockholders of United States Steel Corp., a New Jersey corporation, will be held at No. 600 Hudson Street, corner of Sixth and Hudson Streets, in the city of Hoboken, county of Hudson and State of New Jersey, on Monday, the 27th day of February, 1950, at 10 o'clock in the forenoon, eastern standard time, for the following purposes, namely:

A. To consider and take action upon—

(1) Proposed United States Steel Corp. plan for employee insurance benefits (revision of 1950) and that part of proposed United States Steel Corp. plan for employee pension benefits (revision of 1950) relating to new noncontributory pension benefits for employees,

(2) That part of proposed United States Steel Corp plan for employee pension benefits (revision of 1950) relating to restoration of noncontributory pension benefits for retired and certain other employees,

(3) That part of proposed United States Steel Corp. plan for employee pension benefits (revision of 1950) relating to contributory pension benefits,

the said plans being attached to and described in the proxy statement dated January 18, 1950, copies of which plans and proxy statement are being mailed to all stockholders of United States Steel Corp. with this notice, and, on application to the corporation, Hudson Trust Co. Building, No. 51 Newark Street, Hoboken, N. J., or No. 71 Broadway, New York 6, N. Y., will be delivered or mailed to any stockholder.

B. To transact such other business as may properly come before the special meeting, including the consideration of and taking action upon such one or more of three resolutions, proposed by two stockholders, as may be brought before the meeting. These proposed three resolutions are set forth on pages 9 and 10 of said proxy statement.

Stockholders of record on the books of the corporation at the close of business on January 20, 1950, will be entitled to vote at the meeting.

By order of the board of directors,

WM. AVERELL BROWN, *Secretary.*

Dated, January 18, 1950.

It is important that your stock be represented at the special meeting. If two-thirds in interest of each class of stockholders (preferred and common) present (by proxy or in person) at the meeting and voting shall vote in favor of such proposed plans for employee insurance and pension benefits, such plans shall thereupon become operative. If you do not expect to attend the meeting, please return promptly your signed proxy in the enclosed postpaid envelope.

UNITED STATES STEEL CORP.—PROXY STATEMENT

This statement is furnished in connection with the solicitation of proxies for use at the special meeting of stockholders of United States Steel Corp. (hereinafter called the "corporation") to be held at the time and place and for the purposes set forth in the foregoing notice of special meeting of stockholders.

The solicitation is made by the management of the corporation.

PURPOSE OF THE SPECIAL MEETING

The purpose of the special meeting is to consider and act upon the attached proposed plans for insurance and pension benefits for employees of the corporation and its subsidiaries, and upon the other matters mentioned in the notice of the special meeting.

On November 11, 1949, following a protracted strike, certain subsidiaries of the corporation entered into insurance and pension agreements with the United Steelworkers of America, CIO (hereinafter called the "union").

The insurance and pension benefits provided for in such agreements are subject to the approval of stockholders. If the stockholders do not approve by March 1, 1950, or a later date to which the union may agree, the labor contracts with the union (including the no-strike provisions thereof) terminate 30 days thereafter.

There are, in addition, labor agreements with a number of other unions representing different groups of United States Steel employees. There are also many other employees not represented by any labor organization. These other labor agreements terminate at different times and provisions relating to insurance and pensions contained or to be contained therein may differ.

Accordingly, stockholders' approval of the plans for employee insurance and pension benefits as described and set forth in this proxy statement is desired and requested to enable the corporation and its subsidiaries not only to comply with the requirements of such contracts with United Steelworkers of America, CIO (hereinafter called the "union contract"), but also to permit negotiation and determination by the corporation and its subsidiaries of insurance and pension benefits for employees represented by other unions, as well as to provide equitable insurance and pension arrangements for those employees who are not represented by any union or unions.

Counsel advises that, under the New Jersey law, the board of directors of the corporation has power to amend or revise both the contributory and noncontributory parts of the corporation's pension plan and its insurance plan. Neither proposal numbered (2) in the notice of meeting which concerns restoration of noncontributory pension benefits, nor proposal numbered (3) which concerns contributory pension benefits, is required by the union contract but both are deemed desirable, fair, and equitable by the board of directors of the corporation and in view of the importance of all three proposals, (1), (2), and (3), the board of directors of the corporation deems it proper to submit them to the stockholders.

The board of directors of the corporation strongly recommends the adoption of the proposed plans for employee insurance and pension benefits.

PLAN FOR EMPLOYEE INSURANCE BENEFITS

In 1935, stockholders authorized a group life insurance plan, and specific benefits adopted from time to time by the board of directors of the corporation have been in effect since that time. At present, employees who voluntarily participate and contribute to the cost of such benefits (at least 75 percent of all employees) are entitled during employment to death benefits approximating their individual annual compensation, within the limits provided. It is expected that group life insurance coverage will be continued under the proposed plan for insurance benefits.

The union contract provides for a program of insurance benefits such as death benefits, sickness and accident benefits, and hospitalization benefits for the employees referred to in the contract. The details of the benefits to be provided under this insurance program are now being negotiated with the union. The program, if approved, is expected to become effective as of February 1, 1950, and the benefits may be adjusted from time to time. The union contract provides that the total cost of the program shall not exceed 5 cents for each manhour worked, one-half of the cost to be borne by the subsidiaries and one-half by the employees represented by the union, all of whom are to become participants, with further provision that the cost of any benefits in addition to those which can be provided at this 5-cent cost will be wholly paid for by the employees who desire to purchase them. The insurance program to be provided pursuant to the union contract is intended to be in substitution of other programs of such nature now provided by the corporation.

Insurance benefits are expected to be necessary in the judgment of the board of directors of the corporation for many other employees represented by other unions or not represented by any labor organization, either during the term of the present union contract or thereafter. The plan for insurance benefits submitted to stockholders contemplates that the board of directors of the corporation shall have authority to authorize such insurance benefits for any employees as the board of directors of the corporation, in its discretion, may deem from time to time to be desirable and in the best interests of the corporation and its stockholders.

The cost to the corporation and its subsidiaries of providing insurance benefits for the employees will vary with the rate of operations, hours worked, variations in the benefits provided, and other factors. It is estimated, however, that the annual cost of providing the insurance benefits now contemplated will approximate $14,000,000 at full operations.

PLAN FOR EMPLOYEE PENSION BENEFITS

United States Steel's pension plan was originally made effective in 1911 when the Carnegie Relief Fund, established in 1901 by Andrew Carnegie, was joined with an additional fund provided by the corporation to form the present United States Steel and Carnegie Pension Fund.

A. Present noncontributory pension benefits

From the inception of the pension plan in 1911, noncontributory pensions were provided, based upon 1 percent of average earnings during the last 10 years of service, multiplied by the number of years of service. In 1931 a provision limiting pensions to a maximum of $100 and a minimum of $12 per month was eliminated. In 1933, due to the fact that the operations of United States Steel were then on an unprofitable basis and that all compensatory service allowances to the employees had been materially reduced, pensions were reduced according to a sliding scale, the maximum reduction being 25 percent, such reduced pensions to continue until otherwise changed. In 1934 a further change provided for the deduction of public pensions such as those payable under the Federal Social Security Act and Federal Railroad Retirement Act (herein referred to as public pensions). The last major change in pension benefits occurred in 1940 when the noncontributory pension benefits for retirements after 1939 were further substantially reduced and contributory pensions (subsequently described) were provided.

All employees of the corporation and its subsidiaries, including officers and directors (other than directors who are active in the busines only as directors) can qualify for noncontributory pensions by meeting eligibility requirements.

Present noncontributory pension provisions permit pension benefits for employees having at least 25 years of continuous service at the time of their retirement, who qualify under the rules relating to superannuation, total and permanent incapacity, or permanent shut-down, and also for employees under exceptional conditions. In determining the amount of pension, however, 1 percent of average pay received during the last 10 years of service prior to retirement date or January 1, 1945, whichever is earlier, is multiplied only by the number of years of creditable service prior to January 1, 1940, and this amount is reduced by the 1933 percentage reductions. Such pensions are further reduced by any public pensions to which the employees are entitled.

If any employee retiring after December 31, 1939, is eligible to a pension before attaining age 65, he receives a minimum pension equal to the calculated amount of primary social security benefit to which he would be entitled at age 65, if such calculated amount is more than the amount based on the years of service prior to January 1, 1940, as above described, and his pension continues until he becomes eligible to receive a public pension.

On December 31, 1949, there were approximately 15,000 retired employees receiving pensions under the noncontributory provisions. A number of other retired employees entitled to receive small pensions have been paid lump sums equivalent to the actuarial value of their monthly pension payments.

On December 31, 1949, there were approximately 290,000 employees of the corporation and its subsidiaries. Primarily because of the 1933, 1934, and 1940 reductions in pension benefits a relatively small proportion of such employees upon retirement after age 65 (herein called normal retirement) would be entitled to noncontributory pensions. Others, however, retiring under certain conditions, such as becoming totally incapacitated prior to age 65, would receive pensions at least equal to the amounts of primary social security benefits to which they would be entitled at age 65 and which would continue until public pensions are payable to them.

B. Proposal for new noncontributory pension benefits

It is now proposed, effective March 1, 1950, to adopt a revised plan for noncontributory pension benefits herein described which, in the main, will have the effect of (1) providing noncontributory pensions at the level which would have prevailed except for the changes made effective in 1933 and 1940, continuing the

deduction, however, of public pensions as provided by the change made in 1934, and (2) adding the features of minimum pensions and extending pension benefits to employees with less than 25 but with at least 15 years of continuous service.

Employees retiring after attaining age 65 and having at least 15 years of continuous service and employees with 15 years or more of continuous service retiring before age 65 because of permanent incapacity will be eligible to receive pensions. The monthly pension, including public pension, will amount to 1 percent of the average monthly earnings during the last 120 months (10 years) of service prior to retirement, multiplied by the number of years of continuous service, with a minimum pension (including public pension) of $100 a month for a normal retirement with 25 years of service. For employees with 15 to 25 years of service a minimum pension (including public pension) is provided in the proportion which their years of service bear to 25, being $60 in the case of an employee with 15 years of service. A minimum pension of $50 per month to an employee receiving a disability pension is also provided until attainment of age 65 when the minimum for a normal retirement would apply.

The pensions so determined will be subject to deductions not only for the entire amount of public pension to which the employee is entitled but also on account of that portion of any other pension or similar payment from any source or fund (other than under the United States Steel contributory pension plan) attributable to the contributions or payments which shall have been made, directly or indirectly, by the corporation or any subsidiary. Deductions would also be made under like conditions for any dismissal or severance allowance and for certain disability payments under workmen's compensation and occupational-disease laws and for similar payments.

Continuous service and other matters would be determined in accordance with administrative regulations.

The benefits to be provided under the new noncontributory pension provisions are intended to be applicable to employees (including officers and such directors as are active in the business in a capacity other than as directors) retiring on and after March 1, 1950, exclusive of employees represented by collective-bargaining representatives who have not entered into collective-bargaining agreements providing for such benefits.

Any employee who shall have retired from employment because of age or permanent disability during the 24 calendar months next preceding the date upon which such new noncontributory pension provisions become effective will be deemed not to have incurred a break in continuous service by reason of such retirement, if covered by a collective-bargaining agreement so providing or if not represented by a collective-bargaining representative, and, if otherwise eligible, will receive the new noncontributory pension benefits. The period subsequent to date of retirement is not to be credited, however, for the purpose of determining length of continuous service. This provision, insofar as it affects employees represented by the union, will permit subsidiaries to comply with a requirement of the union contract.

Because of the nature of the collective-bargaining process, the foregoing noncontributory pension provisions will not be made applicable to employees represented by a collective-bargaining representative, other than the union, unless and until designated by the board of directors of the corporation.

The union contract has provisions relative to pensions in addition to the basic provisions relating to the amount of pensions and conditions of eligibility, including rights of employees after retirement, and other provisions. The union contract provides that the employing companies are free to take any action deemed advisable with reference to pension provisions after December 31, 1951, and that the union contract shall continue in effect until December 31, 1951, and thereafter so long as the employing companies continue the pension provisions without modification or change, but not later than October 31, 1954.

The new noncontributory pension provisions will be subject to modification or amendment by the board of directors of the corporation, and no employee prior to his retirement under conditions of eligibility for pension benefits shall have any right or interest in or to any portion of any funds which may be paid into any pension trust or trusts.

The following table shows the pension benefits, including public pensions, under the proposed new noncontributory pension provisions of employees who retire after age 65, having the stated average annual compensation for the 10 years immediately prior to retirement and having the number of years of continuous service stated.

Annual amount of proposed noncontributory pension (including public pension)

Average annual compensation for 10 years prior to retirement	Years of continuous service					
	15	20	25	30	35	40
$3,000	[1] $720	[1] $960	[1] $1,200	[1] $1,200	[1] $1,200	$1,200
$4,000	[1] 720	[1] 960	[1] 1,200	1,200	1,400	1,600
$6,000	900	1,200	1,500	1,800	2,100	2,400
$8,000	1,200	1,600	2,000	2,400	2,800	3,200
$10,000	1,500	2,000	2,500	3,000	3,500	4,000

[1] Indicates minimum pension.

The amounts of the annual pensions payable under the proposed noncontributory provisions to employees with higher salaries can be computed readily from the foregoing table by using multiples of the above figures which are not indicated as minimum. For example, an employee with $12,000 average annual compensation for 10 years prior to retirement would have double the pension (including public pension) of the employee with average annual compensation of $6,000.

From all of the foregoing amounts, there must be deducted the public pensions such as social-security benefits to determine the amounts to be provided by the corporation. As an example, an employee whose average annual compensation for 10 years prior to retirement was $3,000 and who had 40 years of service would receive a pension of $1,200 a year. Assuming the social-security benefit to be $40 per month or $480 per year, the corporation would provide $1,200 minus $480 or $720 a year. If the amount of social-security benefit should be increased, the part of the pension provided by the corporation under the proposal would be reduced.

C. Proposed restoration of noncontributory pension benefits for retired and certain other employees

In order to restore pension benefits for retired employees eligible for pensions, it is proposed to amend existing noncontributory pension provisions, effective with pensions for March 1950, and subsequently by (1) eliminating the 1933 percentage reductions in pensions, (2) restoring credit for service subsequent to December 31, 1939, and prior to date of retirement, and (3) calculating pensions on the basis of 1 percent of the average monthly pay received during the last 10 years of service prior to retirement date, multiplied by the number of years of creditable service prior to such retirement date. These amendments would restore pensions to the level provided prior to the change made in 1933, continuing the deduction, however, of the amounts of public pensions as provided by the change made in 1934. These proposed changes would not change the present 25-year continuous-service requirement to 15 years and would not provide for any minimum amount of pension payment.

These changes relate only to employees presently retired or who will retire before March 1, 1950, and who are eligible for pension under the present noncontributory pension provisions but to whom the new noncontributory pension provisions do not apply, and to such other employees as may be designated from time to time by the board of directors of the corporation. If provisions have been or are hereafter made with the collective-bargaining representatives of any group of employees intended to provide pension benefits outside of the corporation plan for employee pension benefits, or if provisions have been made in lieu of pension benefits, employees or retired employees for whom such other provisions are made shall not be eligible to receive the benefits of the corporation plan.

D. Proposed continuation of contributory pension benefits

The contributory pension provisions, established in 1940, provide retirement benefits for employees electing to participate with respect to their compensation in excess of the maximum taxable limits presently covered by the Federal Social Security Act ($3,000) and the Federal Carriers Taxing Act ($3,600), such excess compensation being defined as eligible compensation. Participating employees contribute 3 percent of their eligible compensation and the employing companies make such additional payments as are determined by actuarial valuation to be sufficient to provide the intended or normal retirement contributory pensions, but not in excess of 5 percent of the eligible compensation of all employees.

The contributory pension of an employee at normal retirement age is an annual amount for life equal to 1 percent of the aggregate of the compensation upon

which the employee has contributed 3 percent, this annual pension being equal to one-third of the employee's total contributions. The employee or his beneficiary receives at least the amount of his contributions plus interest in accordance with the provisions, either by way of pension benefits or return of contributions upon death, or termiantion of employment prior to retirement.

Provision is made for special retirement pension in the case of retirement with the consent of the employing company after age 55 and prior to age 65, the amount of pension being actuarially reduced in the event the pension commences prior to age 65. A participating employee is afforded the option of taking a reduced retirement pension payable during his life and continuing during the life of a designated beneficiary. Funds paid by the employees and the employing companies are deposited with a corporate trustee for investment. Contributory pension provisions may be amended by the board of directors of the corporation, although no amendment may be made which will deprive any participating or retired employee without his consent of any part of the trusteed funds to which he would otherwise be entitled by reason of the accumulated reserves accrued on his behalf at the time of such amendment.

It is proposed to continue the present 1 percent contributory pension benefits, with the employing companies making whatever payments are necessary which, together with the employee contributions, will provide the benefits. Future participation, however, will be limited to salaried employees (other than those represented by a collective-bargaining representative) who are not by law, contract or custom entitled to compensation for overtime services. Other employees or groups of employees may, however, from time to time, be designated by the board of directors of the corporation as being eligible to participate. Present participants who will not qualify for participation under this limitation after February 28, 1950, will be afforded the option of withdrawing their contributions in cash, plus interest in accordance with the provisions, or of leaving such contributions in the plan and upon retirement receiving a pension based only upon participation prior to March 1, 1950.

The following table shows the contributory pension benefits of employees, covered by the Federal Social Security Act, who retire after age 65, having contributed 3 percent of total eligible compensation, with the assumed annual compensation for the number of years of participation indicated.

Annual amount of contributory pension under provisions established in 1940

Average annual compensation (assuming compensation was never less than $3,000 per year)	Years of participation				
	10	15	20	25	30
$4,000	$100	$150	$200	$250	$300
$6,000	300	450	600	750	900
$8,000	500	750	1,000	1,250	1,500
$10,000	700	1,050	1,400	1,750	2,100

Eligible compensation will vary widely since an employee making contributions for 30 years may have a low starting salary with a higher salary in the closing years of his service, the average upon which the contributory pension is based being considerably less than the average for the last 10 years provided in the new noncontributory pension provisions.

The amounts of the annual pensions payable to such employees with higher salaries than those shown can be determined by multiplying the amount shown opposite the $4,000 figure in the table by the number of thousands of dollars of compensation above $3,000. This is because only the amount above $3,000 is used as the basis for contributions and benefits.

No deductions are made from these pensions for social-security pensions.

Under the proposed contributory pension changes, approximately 22,000 employees would be eligible for future participation.

E. Provisions for action by the board of directors

In order to provide adequately for discretion in the board of directors of the corporation with respect to providing noncontributory and contributory pensions for employees under varying circumstances as occasion may require, it is considered necessary, as set forth in the attached plan for employee pension benefits, to continue the authority of the board of directors of the corporation

to authorize adoption of the pension provisions heretofore described and to authorize amendments or revisions of such provisions and benefits so as to provide different pension benefits or employee contributions from those set forth, to provide for the same or different pension benefits for other groups of employees, and to designate employees as being within or no longer within the coverage of any such pension benefits, all as the board of directors of the corporation shall, in its discretion, from time to time believe to be required by the differing situations of various employees or groups of employees and in the best interests of the corporation and its stockholders. In accordance with the provisions of the general corporation law of the State of New Jersey, any such amendment or revision may be altered, changed, or repealed by the stockholders of the corporation.

ESTIMATES OF THE COST OF THE PROPOSED INSURANCE AND PENSION BENEFITS

As previously stated, it is estimated that the annual cost to the corporation and subsidiaries of providing the insurance benefits now contemplated will approximate $14,000,000 at full operations.

In determining the cost of pensions various factors have an important bearing, such as the age at which employees retire, the methods of financing used, and the interest rate assumed for invested funds. Actuarial estimates of the cost of the proposed pension benefits have been prepared by independent actuaries, using a method which recognizes the cost of the pension of an employee during the period of his active employment. In the financing of pensions, the principle of accruing the cost of an employee's pension prior to the time he retires is deemed proper by insurance companies, by the Pension Trust Division of the United States Treasury Department, and by actuarial societies in this country and abroad.

Under the method used the cost of pensions is divided into two parts, one for future service and the other for past service. For future service the annual cost is expressed as a level percentage of pay roll, such percentage computed so as to remain constant. For past service the total cost is expressed as a lump sum amount at the start of the plan. Under United States Treasury Department tax regulations for funding pensions, the minimum requirement is that the annual future service cost must be met in full and at least an amount equal to the interest on the past service cost, at the rate assumed in actuarial estimates, also must be met. Also under the Treasury Department regulations the maximum amount that may be used as a deductible item for tax purposes in any y ar is the full annual cost of future service, plus 10 percent of the total past service cost at the start of the plan. The minimum method of financing does not cover the entire cost of the pensions, but only provides that the total unfunded cost at any time shall not be greater than it was when the plan started. On this minimum basis of funding, and on the basis of the pension provisions previously described, cost estimates are set forth below.

A. Estimated cost of proposed new noncontributory pension benefits for present employees

Future service: On the basis of present pay roll, the estimated cost for 1950 on an annual basis is 42.6 million dollars.

Past service: The lump-sum cost for present employees in excess of that under present noncontributory pension provisions is estimated to be 496 million dollars; the annual amount needed to meet the interest requirement is 12.4 million dollars; total, 55 million dollars.

B. Estimated cost of proposed noncontributory pension benefits for employees retired prior to March 1, 1950

The lump-sum cost of the proposed noncontributory pension benefits for employees retired prior to March 1, 1950, is estimated to be $55,000,000 in excess of that under present noncontributory pension provisions. On the basis outlined above for paying the amount needed to meet the interest requirement for minimum funding of the lump-sum cost of past service for employees who have retired since January 1, 1940, and continuing the past practice of making direct payments to pensioners, rather than advanced payments into a trust fund for employees who retired prior to January 1, 1940, the estimated cost for 1950 on an annual basis is $5,000,000, an increase of $2,000,000 over the present estimated annual cost.

C. Estimated cost of contributory pensions

Contributory pensions became operative in 1940, and no credit was allowed for service prior to that date. Therefore, there is no past service cost involved for contributory pensions.

Using the same actuarial method of determining cost described above, the annual future service cost for 1950 is estimated to be 4 million dollars, a reduction of one-half million dollars from the present estimated annual cost.

SUMMARY OF PENSION AND INSURANCE COSTS

The following table shows a summary of the estimates of the costs of the respective elements of the proposed pension and insurance provisions on the minimum basis of funding stated compared with the cost of the present provisions, all of which costs are before the effect of income taxes:

[In millions of dollars]

	Total lump-sum cost of past service				Estimated annual cost, 1950		
		Under proposed plan					
	Under present plan	Total cost	Less funds now trusteed	Unfunded cost	Present plan	Proposed plan	Increase
Noncontributory pensions:							
Present employees	64.0	560.0	64.0	496.0	2.0	55.0	53.0
Retired employees	62.0	117.0	39.0	78.0	[1] 3.0	5.0	[1] 2.0
Total	126.0	677.0	103.0	574.0	5.0	60.0	55.0
Contributory pensions					4.5	4.0	−.5
Total for pensions					9.5	64.0	54.5
Insurance benefits					1.0	14.0	13.0
Total for pensions and insurance					10.5	78.0	67.5

[1] Represents estimated cost for 1950 of unfunded pensions and is applicable to employees who retired prior to Jan. 1, 1940.

Since the noncontributory pensions are based on the earnings during the 10 years prior to retirement, the amount of pensions to be provided for employees who retire in the future will be related to wage and salary levels of the future. Accordingly, the annual cost estimates are subject to revision upward if the total pay-roll cost should increase or revision downward if the total pay-roll cost should decrease.

The estimate also assumes the present levels of public pensions. If the Federal Social Security Act is amended so as to increase retirement benefits, the direct cost to the corporation and its subsidiaries for pensions under the proposed plan would be reduced, but the present cost of social-security taxes would be increased to support the increased public pensions. No estimate is attempted with respect to the amount of any change in costs by reason thereof.

There are many factors relating to financing the cost of pensions, particularly noncontributory pensions, which may make desirable, from time to time, changes in the method of making financial provision for these costs and in the amounts set aside in any year. The board of directors of the corporation proposes to use its discretion from time to time with respect to such financing.

REMUNERATION AND PENSIONS OF DIRECTORS AND OFFICERS

The following table contains information with respect to remuneration paid during the last fiscal year of the corporation to each of its directors who received in excess of $25,000, to each of its three highest-paid officers, to its directors and officers as a group, and to associates of directors who received in excess of $25,000; and information with respect to pensions for directors and officers.

About May 6, 1941, the corporation entered into contracts with each of its three highest-paid officers, respectively, which provide in effect that in the event of his continued service on behalf of the corporation for a continuous period of at least 5 years after May 6, 1941, and his attaining the age of 60 years (unless this age requirement is subsequently reduced by the board of directors of the corporation), he shall be entitled upon retirement to receive annually from the corporation during his life a sum equal to $5,000 for each year of such continuous service after May 6, 1941, with a proportionate part thereof for any

fraction of a year of such service, but not more than $50,000 annually; the full annual sum thus computed to be paid in the year of his death to him or his estate.

None of said officers could have become eligible at age 65 for a noncontributory pension under the 25-year-service rule then in effect. However, Messrs. Fairless and Voorhees may each become eligible to a pension under the non-contributory-pension part of the proposed pension plan if he remains in the employ of the corporation until he reaches age 65; and in the case of Mr. Olds, if he remains in service until age 68.

In view of the payments to which he may become entitled under said contracts, each of said officials has waived his rights to any benefits under the noncontributory part of the proposed pension plan and the board of directors of the corporation has accepted those waivers.

Name of person or identity of group	Capacity in which remuneration was received	Remuneration paid in 1949 by corporation and subsidiaries (accrual basis)	Contributory part of present and proposed pension plan			Noncontributory part of pension plan—estimated annual pension after retirement	
			1949 contributions		Estimated annual pension after retirement		
			By corporation and subsidiaries	By the individual		Present plan	Proposed plan
Irving S. Olds	Director, member of finance committee, and chairman of board.	[1] [2] $164,200	$6,527	$4,410	[3] $13,815	None	None
Enders M. Voorhees	Director, chairman of finance committee, and comptroller.	[2] [4] 163,200	6,527	4,410	[3] 20,323	None	None
Benjamin F. Fairless	Director, member of finance committee, and president.	[2] [5] 211,000	8,747	5,910	[3] 26,537	None	None
Nathan L. Miller	Director, member of finance committee, and general counsel.	110,600	None	None	None	None	None
Myron C. Taylor	Director, member of finance committee, and advisory counsel.	56,800	None	None	None	None	None
All directors and officers.[6]	As directors and officers.	932,616	25,057	16,930	69,175	$58,058	$82,739
White & Case [7]	Legal services	101,000					

[1] Net after taxes, $70,853.

[2] These amounts are the estimated net remuneration of the 3 highest-paid officers after paying income taxes. The estimates are based on the assumption that each individual's remuneration from the corporation is his only income, and that he is entitled to no deduction therefrom other than as a married person and, in computing Federal income tax, a deduction of New York State income tax.

[3] The amount of contributory pension shown is the amount to which he would be entitled under the contributory plan: (*a*) If the individual continues in the employ of the corporation or its subsidiaries until he reaches 65 years of age, makes contributions under the contributory part of the plan until reaching that age, and retires at that age: (*b*) if the remuneration of the individual will continue at the 1949 rate until he retires; and (*c*) if the contributory pension plan continues in effect until retirement. Their respective ages at Dec. 31, 1949, were Irving S. Olds, 62; Enders M. Voorhees, 58; Benjamin F. Fairless, 59.

[4] Net after taxes, $70,584.

[5] Net after taxes $84,653.

[6] No present director of United States Steel Corp. will be entitled to a pension under either the present or the proposed pension plans, except the above-mentioned 3 officers to the extent above set forth and except William A. Irvin, formerly president of the corporation, whose 44 years of service prior to his retirement as president in 1938 entitle him to a noncontributory pension.

[7] Irving S. Olds, a member of the firm of White & Case, does not participate in this remuneration.

It is not practicable to state the amount which would have been paid or set aside for all persons, as a group, who were directors or officers of the corporation at any time during 1949 if the provisions for noncontributory pensions set forth in this proxy statement had been in effect, since the method of computing pension cost, as previously described, is based on the amount of pay roll related to the entire group of employees covered.

The amounts set aside for the foregoing individuals and groups with respect to the contributory pension plan in 1949 are shown by the foregoing table, and such amounts would be the same if the contributory pension plan as it is proposed to be amended had been in effect during that year.

INTERESTS OF DIRECTORS AND THEIR ASSOCIATES IN CERTAIN TRANSACTIONS

Sewell L. Avery is chairman of the board of United States Gypsum Co. and chairman of the board of Montgomery Ward & Co., Inc. In the period since December 31, 1948, these companies, or their subsidiaries, in the ordinary course of business, have sold commodities to, and purchased commodities from, some of the corporation's subsidiaries.

James B. Black is president of Pacific Gas & Electric Co. In the period since December 31, 1948, this company, in the ordinary course of business, made contracts for the furnishing of certain materials and performance of work by some of the corporation's subsidiaries, purchased commodities from some of the corporation's subsidiaries, and furnished gas or electric utility service, or both, to some of the corporation's subsidiaries.

Robert C. Stanley is chairman of the board of the International Nickel Co. of Canada, Ltd., and chairman of the board of the International Nickel Co., Inc. In the period since December 31, 1948, one or both of these companies, in the ordinary course of business, sold commodities to, and purchased commodities from, some of the corporation's subsidiaries.

It is anticipated that the foregoing transactions will continue.

PROPOSALS BY STOCKHOLDERS

First proposal

Mrs. Wilma Soss, of 66 Park Avenue, New York, N. Y., the holder of record of 15 shares of common stock of the corporation, informed the management by letter dated November 21, 1949, that she intends to present at the meeting the following resolution:

"*Resolved,* The board of directors of United States Steel Corp. shall be requested to amend the bylaws of the United States Steel Corp. to provide as follows:

" 'The board of directors shall not put into effect any pension, retirement, or similar plan, or such clauses in employment contracts, unless such plan is submitted to and approved by the stockholders of the corporation.' "

The statement submitted by this stockholder in support of the foregoing proposed resolution is as follows:

"Reasons: To insure stockholders that all pensions, whether for labor or management, shall continue to be submitted to the public owners of the corporation for which right the Federation of Women Shareholders in American Business, Inc., had to work during the steel strike until Big and Little Steel announced new pension agreements would be submitted to the shareholders under the democratic process before adopting them. This bylaw will tend to protect dividends, shorten pension negotiations between labor and management, and preserve the rights of the stockholders."

The board of directors recommends that stockholders vote against this proposal

The laws of the State of New Jersey provide that any plan for employee insurance or pension benefits adopted thereunder by any corporation of that State, "may be amended or revised by the board of directors of the corporation by resolution of said board; provided, however, that no such amendment shall be effective which shall attempt to * * * divert any part of the fund whether corpus or income which may have been set up by the corporation to provide for the payment to or for the benefit of the employees of the corporation, or of any corporation a subsidiary thereof or affiliated therewith, of pensions during old age, disability, or unemployment or for the relief or general welfare of any or all of such employees. Any amendment to or revision of the plan so made by the directors of the corporation may be altered, changed, or repealed by the stockholders."

The board of directors believes that no provision should be made in the bylaws of this corporation which will vary the respective rights and authorities of the board of directors and the stockholders under applicable law. Furthermore, the statutory method of amendment provides the necessary flexibility to enable the board of directors to deal adequately and promptly with the many questions respecting pension and insurance matters frequently arising, and also preserves the right of the stockholders to alter, change, or repeal any such amendment or revision.

Second and third proposals

Mr. James Fuller of 284 Church Street, Hartford, Conn., the holder of record of 15 shares of common stock of the corporation, informed the management by

letter dated December 22, 1949, that he intends to present at the meeting the following resolutions:

"*Resolution No. 1.—Resolved,* That our pension plan be amended so that there be a ceiling of $12,000 per year as the total compensation which any employee of United States Steel Corp. or its subsidiaries can draw either under the present pension plan or any future plan."

The statement submitted by this stockholder in support of the foregoing proposed resolution is as follows:

"*Reason for resolution.*—It must be remembered that pension costs continue in good years and bad, and should business take a downward swing, then—the cost of these expensive pensions, may become too heavy a load and burden and thus jeopardize the shareholders' dividends.

"Stockholders will be better protected if the money saved under a more conservative pension plan will be added to the corporation's surplus.

"Why should highly compensated officials feel that $12,000 is unsatisfactory upon retirement? The stockholders' interests should be considered also."

"*Resolution No. 2.—Be it resolved,* That all United States Steel Corp. employees and the employees of United States Steel Corp. subsidiaries who receive $20,000 per year or more annual compensation shall be obliged to contribute 20 percent of the cost of the pension plan, if they want to participate."

The statement submitted by this stockholder in support of the foregoing proposed resolution is as follows:

"*Reason.*—I have discussed corporate pension plans with many stockholders and most of them are convinced the executive getting $20,000 per year should contribute anywhere from 20 to 50 percent as these stockholders feel that the costly pension plan should not be paid for by stockholders exclusively.

"I am convinced that the corporation can save many hundreds of thousands of dollars for the shareholders, per year, if this resolution is passed."

The board of directors recommends that stockholders vote against these proposals

In the opinion of the board of directors of the corporation the adoption of either of these proposals would make it difficult if not impossible for the corporation and its subsidiaries to employ and retain persons of the ability and experience required for the proper conduct of the affairs of the corporation and its subsidiaries.

REVOCABILITY OF PROXY

Any proxy given by a stockholder may be revoked by that stockholder by notifying the secretary in writing at any time prior to the voting of the proxy.

COST OF SOLICITATION

The cost of solicitation of proxies will be borne by the corporation.

In addition to the use of the mails, solicitations may be made by regularly engaged employees of the corporation and certain of its subsidiaries by telephone, telegraph, cable, and personal interview. It is not anticipated that anyone specially engaged by the corporation, or by any other person, will solicit proxies.

GENERAL

There are outstanding 26,109,756 shares of the common stock and 3,602,811 shares of the preferred stock of the corporation, all of which are entitled to vote at the above mentioned special meeting, except 8,298 shares of common stock belonging to the corporation. Every stockholder is entitled to one vote for each share of common stock and three votes for each share of preferred stock registered in his name on January 20, 1950, the record date stated in the notice of meeting.

The management knows of no business which will be presented for consideration at the special meeting other than that stated in the notice of meeting. However, if any other business shall properly come before the special meeting, votes may be cast pursuant to said proxies in respect of any such other business in accordance with the best judgment of the person or persons acting under said proxies.

By order of the Board of Directors.

WM. AVERELL BROWN,
Secretary.

Dated January 18, 1950.

UNITED STATES STEEL CORP.—PLAN FOR EMPLOYEE PENSION BENEFITS

(Revision of 1950)

This plan for employee-pension benefits constitutes a general description of the provisions for pensions upon retirement due to age or disability, and for similar employee benefits, made for employees of United States Steel Corp. (herein called the corporation) and for employees of such subsidiaries of the corporation as shall adopt this plan.

NONCONTRIBUTORY PENSION BENEFITS

An employee having at least 15 years of continuous service retiring on or after March 1, 1950, after attaining age 65 (herein called "normal retirement") or retiring because of permanent incapacity shall receive a monthly pension, subject to deductions hereafter mentioned, amounting to 1 percent of the average monthly earnings during the last 10 years of service prior to retirement, multiplied by the number of years of continuous service; provided, however, that an employee who retires after attaining age 65 with 25 years of continuous service shall receive a minimum pension (including public pension such as Federal old-age benefit) of $100 a month, and for an employee with 15 years or more but less than 25 years of continuous service, that proportion of $100 which the years of his service bear to 25. An employee retired due to permanent incapacity shall receive a minimum pension of $50 per month until attainment of age 65 when the minimum for a normal retirement shall apply. The pension so determined shall be subject to deduction not only for the entire amount of public pension to which the employee is entitled but also on account of this portion of any other pension or similar payment from any source or fund (other than under the United States Steel contributory pension plan) attributable to the contributions or payments which shall have been made, directly or indirectly, by the corporation or any subsidiary. Deductions shall also be made under like conditions for any dismissal or severance allowance and for certain disability payments under workmen's compensation and occupational disease laws and for similar payments.

The benefits to be provided under the new noncontributory pension provisions are intended to be applicable to employees (including officers and such directors as are active in the business in a capacity other than as directors) retiring on and after March 1, 1950, exclusive of employees represented by collective-bargaining representatives who have not entered into collective-bargaining agreements providing for such benefits.

Any employee who shall have retired from employment because of age or permanent disability during the 24 calendar months next preceding the date upon which such new noncontributory pension provisions become effective shall be deemed not to have incurred a break in continuous service by reason of such retirement, if covered by a collective-bargaining agreement so providing or if not represented by a collective-bargaining representative, and, if otherwise eligible, shall receive the new noncontributory pension benefits. The period subsequent to date of retirement shall not be credited for the purpose of determining length of continuous service.

The foregoing noncontributory pension provisions shall not be made applicable to employees represented by a collective-bargaining representative unless and until designated by the board of directors of the corporation.

The noncontributory pension provisions as constituted February 28, 1950, shall be amended, effective with pensions for March 1950, and subsequently by (1) eliminating the 1933 percentage reductions in pensions, (2) restoring credit for service subsequent to December 31, 1939, and prior to date of retirement, and (3) calculating pensions on the basis of 1 percent of the average monthly pay received during the last 10 years of service prior to retirement date, multiplied by the number of years of creditable service prior to such retirement date; such amended provisions to relate only to employees retired before March 1, 1950, and who are eligible for pension under the noncontributory pension provisions as constituted February 28, 1950, but to whom such new noncontributory pension provisions do not apply, and to such other employees as may be designated from time to time by the board of directors of the corporation.

If provisions have been or are hereafter made with the collective-bargaining representatives of any group of employees intended to provide pension benefits outside of the corporation plan for employee pension benefits, or if provisions

have been made in lieu of pension benefits, employees or retired employees for whom such other provisions are made shall not be eligible to receive the benefits of the corporation plan.

No employee prior to his retirement under conditions of eligibility for pension benefits shall have any rights under any noncontributory pension provision or any interest in or to any portion of any funds which may be paid into any pension trust or trusts established for the purpose of paying noncontributory pensions.

CONTRIBUTORY PENSION BENEFITS

The general provisions relating to contributory pensions in effect February 28, 1950, with the employing companies making whatever payments are necessary which together with the employee contributions will provide the 1 percent benefit presently being paid, shall be continued with the exception that participation after February 28, 1950, shall be limited to salaried employees (other than those represented by a collective-bargaining representative) who are not by law, contract or custom entitled to compensation for overtime services, with such changes, including changes as to benefits, employee contributions or employees eligible to participate, as the board of directors of the corporation from time to time shall deem advisable. Participants who will not qualify for contributory pensions based on participation in the plan on and after March 1, 1950, shall be afforded the option of withdrawing their contributions, plus interest in accordance with the provisions of the plan, at any time prior to retirement, or of leaving such contributions in the plan and upon retirement receiving a pension based only on contributions made prior to March 1, 1950.

GENERAL PENSION PROVISIONS

The board of directors of the corporation from time to time may adopt pension provisions different from those above set forth, or provide the same or different pension provisions, or continue provisions existing February 28, 1950, for other groups of employees not covered by the foregoing provisions, and may designate employees or groups of employees as being within, or no longer within coverage of any such provisions, all as the board of directors of the corporation shall in its discretion believe from time to time to be required by the differing situations of various employees or groups of employees and in the best interests of the corporation and its stockholders.

The board of directors of the corporation from time to time also may determine the manner and means of making financial provision for, and funding and paying for, pension benefits. It may also delegate in whole or in part to any properly constituted administrative body, such as the United States Steel and Carnegie pension fund, such authority as it may from time to time determine with respect to the administration of and the interpretation of the provisions relating to pensions.

The adoption or authorization of specific rules or regulations or interpretations with respect thereto by the board of directors of the corporation or as authorized by it shall constitute the interpretation of this plan and be conclusive upon all parties in interest.

The board of directors of the corporation shall, from time to time, by resolution implement this plan by adopting or authorizing the adoption of specific benefits; by determining the employees to be covered by specific benefits; by authorizing contracts relating to or providing for such benefits to be made with trustees or insurance companies or with others; by authorizing such rules and regulations and revisions thereof as it may determine proper to make such plan effective and to provide for its administration; and by revising or terminating specific benefits or provisions relating thereto. The board of directors of the corporation from time to time may also make such amendment or revision in the plan for pension benefits as it shall deem advisable, in accordance with applicable law, provided that any revision of the plan so made by the board of directors may be altered, changed or repealed by the stockholders of the corporation.

Effective as of March 1, 1950.

UNITED STATES STEEL CORP.—PLAN FOR EMPLOYEE INSURANCE BENEFITS

(Revision of 1950)

This plan for employee insurance benefits constitutes a general description of the provisions for insurance against such contingencies as accident, sickness, or death, and for similar employee benefits, made for employees of United States Steel Corp. (herein called the corporation) and for employees of such subsidiaries of the corporation as shall adopt this plan.

Insurance benefits, such as death benefits, sickness and accident benefits, and hospitalization benefits, may be included. The board of directors of the corporation shall have authority to authorize such insurance benefits and insurance programs for any employees as the board of directors of the corporation, in its discretion, may deem from time to time to be desirable and in the best interests of the corporation and its stockholders. Such provision therefor may be varied from time to time by the board of directors of the corporation in order to accord with changing circumstances.

This plan for employee insurance benefits shall include the insurance program described in the proxy statement, dated January 18, 1950.

Employee contributions to the cost of all or any of such benefits shall be provided to the extent deemed by the board of directors of the corporation from time to time to be fair and reasonable under the circumstances. Insurance benefits may be provided pursuant to contracts with representatives of employees, or otherwise. The manner and method of financing insurance benefits, including the establishment of trust funds therefor, where deemed advisable, shall be in the discretion of the board of directors of the corporation, subject to applicable provisions of law.

The board of directors of the corporation shall, from time to time, by resolution implement this plan by adopting or authorizing the adoption of specific benefits; by determining the employees to be covered by specific benefits; by authorizing contracts relating to or providing for such benefits to be made with trustees or insurance companies or with others; by authorizing such rules and regulations and revisions thereof as it may determine proper to make such plan effective and to provide for its administration; and by revising or terminating specific benefits or provisions relating thereto. The board of directors of the corporation from time to time may also make such amendment or revision in the plan for insurance benefits as it shall deem advisable, in accordance with applicable law, provided that any revision of the plan so made by the board of directors may be altered, changed or repealed by the stockholders of the corporation.

Effective as of February 1, 1950.

Mr. HUBER. Fifteen years' service—that is assuming the worker was hired at the age of 50, I was wondering whether there would be very many of those hired at the age of 50.

Mr. VOORHEES. I was hired at the age of 46.

Mr. HUBER. You were a young fellow, then. You were not working in the skelp mill, though.

Mr. BUCK. I would say they were more or less the unusual case, except some that were hired during the war, but in order to have the table complete we gave the whole business.

Mr. HUBER. That is right. With no criticism of the steel corporation—I think it is true that industry generally does not hire people 50 years of age.

Mr. BUCK. There were some hirings during the war because there was a dearth of workers.

Senator TAFT. I want to ask one thing. There is no possibility of transfer? There is no transferability to another company in case of employment or anything of that sort? The board would have no power to grant any such right; is that right?

Mr. VOORHEES. No right whatsoever. Within the company, yes; outside, no, but there is no vesting from the standpoint of the noncontributory plan. He carries nothing with him unless he fulfills the requirements of the plan with respect to age or disability and length of service.

Senator TAFT. Supposing a man is discharged before he reaches the retirement age. Does he retain a pension under some circumstances?

Mr. VOORHEES. Not insofar as the noncontributory plan is concerned.

Senator TAFT. Supposing a man—supposing the company lets him go before he gets to the age. Does he have any rights?

Mr. VOORHEES. He does not have any rights. It is all in accordance with the terms of the union contract.

Senator TAFT. What are those terms?

Mr. VOORHEES. As far as pensions are concerned—he has protection under the union contract from the standpoint of his termination.

Senator TAFT. He cannot be unreasonably discharged?

Mr. VOORHEES. That is right.

Senator TAFT. But if he was discharged for cause, he would lose his pension?

Mr. VOORHEES. That is right.

Senator TAFT. Can you tell me the average basis of annual compensation in the steel company today of all employees?

Mr. VOORHEES. The average basis is somewhere between $3,600 and $3,700 a year.

Senator TAFT. So the average pension would run $1,450 for 40 years' service, something of that kind?

Mr. VOORHEES. That is right.

The CHAIRMAN. Congressman Buchanan?

Mr. BUCHANAN. What percentage of the approximately 240,000 registered holders of stock participate in these returns?

Mr. VOORHEES. I did not understand the question.

Mr. BUCHANAN. Of the approximately 240,000 registered holders of stock of the corporation, just what percentage, roughly speaking, participate in these proxy returns?

Mr. VOORHEES. It has been our experience and I guess this average goes quite far back that 60 percent of those who have the right to vote send their proxies in or appear in person.

The CHAIRMAN. Senator Douglas, have you any questions?

Senator DOUGLAS. There is one point I would like to follow up on the question which was begun by Senator Myers, referring to the last paragraph of Mr. Buck's statement. The social-security system is a contributory system, and the United States Steel system is noncontributory.

Therefore, any increase in contributions by employees under House bill 6000 would operate to diminish the liabilities of the company under United States Steel. Is that true?

Mr. VOORHEES. Insofar as the liability is concerned, it would appear that the amount of the increase in social-security would have that effect. Personally, I believe that over a period of 4 or 5 years our taxes will have been increased through one source or the other so that we will have very little benefit from the standpoint of future service cost.

Senator DOUGLAS. But so far as the security system itself is concerned, while your rate of contribution on social security will increase

to pay half of the total increase, the contributions of the employees will be increased by half, and yet the amount of your liability under your private plan will be diminished by the amount of the contributions of the employees.

Mr. VOORHEES. That would seem to be a very, very good conclusion, provided certain other things do not happen with respect to increases in taxes like the unemployment compensation of the States going up in exactly the same proportion. Those are things we have to consider, based on our past experience, before we make a flat statement that we are going to have a decrease.

Senator DOUGLAS. I wonder if I might ask Mr. Buck a question about some of the further assumptions in his actuarial estimate. Did you asume that each worker now employed would have a claim to a benefit; that each worker now employed, would be exposed to liability of pensions at age 65?

Mr. BUCK. By no means. We made allowances for the people that would withdraw from service and receive no benefits under the plan, for those that would die and their beneficiaries would receive no credits.

There is one other point I would like to make, and that is that when you have in mind that the social-security benefits would be incrased and that the taxes would be increased, the amount of the increase in the tax is not directly offsetable.

By that I mean that if the employee and the company were required to make contributions of one percent each, the whole two percent would not be a reduction against the amount of the contribution under this plan, because only part of the benefits of the Social Security Act are offsetable.

You understand that. And then this transfer provision consumes part of it.

Senator DOUGLAS. The share of the increased benefits for pensions which are borne by the employees would be a net saving to the company.

Mr. BUCK. I am not prepared to answer "yes" to that because I have been in quite a few discussions with certain representatives of labor unions recently, and I have found this: That the anticipated increase in social-security benefits is not being accepted by all unions as an offset. Whether they hold to the fact that you can offset the whole of it when it comes about is another question that I am not prepared to agree with.

Mr. BUCHANAN. Will you permit a question, Senator?

Senator DOUGLAS. Yes.

Mr. BUCHANAN. What percent of the employees now employed will ultimately withdraw from the pension fund approximately?

Mr. BUCK. I do not have that percentage computed.

The CHAIRMAN. If you did not compute it, how did you get a conclusion?

Mr. BUCK. The calculations are made by individual age and service groups, and he is asking for an over-all calculation which is not needed to produce the figure, and we did not produce it. We do have tables on which we anticipate how many people will survive out of a given group at each age.

Senator DOUGLAS. But, Mr. Buck, I want to follow up this point of Congressman Buchanan. The important feature, I think, is not

so much the death rate as the withdrawals of workers before they reach 65 and have 15 years' service, that is the crucial part.

I should think it would be that factor which would chiefly reduce your original actuarial estimate.

Mr. BUCK. I think that is true, and I think we have used appropriate tables. I can say in that respect that the tables we used and the tables that the unions were using are practically the same tables, because the union was doing everything it could to show the costs of these benefits at the very minimum, and we have had in these negotiations to meet actuaries of the unions. We did not just sit down and tell them what the costs were. We were telling each other.

So that from the union standpoint I think these figures have been rather carefully scrutinized.

Senator DOUGLAS. Is it possible that you made too small an allowance for withdrawals or separations and, therefore, your estimates of costs may be too high?

Mr. BUCK. That is entirely possible. I do not think any responsible actuary would tell you he knows what the death rate is going to be over the next 10 years and certainly not what the withdrawal rate will be. We do know that we have used withdrawal tables which over the past history of companies seem reasonable. It is also true that a variation in the withdrawal rate does not have quite as much effect as some people might think. Twenty percent difference in the death rate has a very important effect. Twenty percent difference in withdrawal rate will not make more than a 2 percent difference in the rate of contribution, although that may seem to be a paradox.

The reason is that withdrawals take place early in the service of the employee, when there is very little money accumulated and, consequently, you have very little revenue from lapses.

I think that the assumptions we have made in these calculations, if they err at all, err in understating the costs rather than overstating them, because we assume people will stay in after they become eligibile for benefits. After they are eligible for social-security benefits they will continue working after age 65—which is something during the depression I found among my clients that they were retiring everybody right down to the very minimum, and the employee groups were insisting on that. They did not want to have a man dismissed from his job when there was another employee in the company that could be retired on a pension. So that I think to that extent our figures probably err on understatement of costs. However, we have done our best here to give what we think is a reasonable estimate.

Senator TAFT. What happens when a man gets sick at 60 so he cannot work any more and retires voluntarily or has to retire voluntarily?

Mr. BUCK. He is entitled to a pension under the plan because anybody who is disabled after 15 years of service——

Senator TAFT. Disability from 60 to 65 and the pension after 65?

Mr. BUCK. Any man after 15 years of service who is disabled, regardless of age, is carried with a pension for the balance of his life.

Senator DOUGLAS. One more question I would like to ask, if I may. The figures which Mr. Buck has given have been figures of total liability and total costs, but in translating these liability costs into price increases they have to be converted, of course, to a tonnage basis.

Now, in computing the liabilities to the company, what tonnage basis did you use?

Mr. VOORHEES. Senator Douglas, in my presentation I cover that point very carefully from the standpoint of both costs and tonnages and the whole story.

Senator DOUGLAS. I regret I did not hear that.

Mr. VOORHEES. I mean I will cover it. I am next.

The CHAIRMAN. Congressman Kearns?

Mr. KEARNS. Would United States Steel favor the passage of House bill 6000?

Mr. VOORHEES. If you will tell me what kind of a bill you are going to pass and what the taxes are going to be after it is passed, I will give you the answer to it.

The CHAIRMAN. Mr. Buck, in response to one of the committee members I understood you to say that these tables were very carefully scrutinized by the representatives of labor, and the question was propounded to you in such a manner that it seemed, your answer seemed to be an excuse for the lack of such scrutiny on the part of the representatives of the corporation. Was that the impression you wanted to create?

Mr. BUCK. Mr. Chairman, I am in a little bit of a fog on this. The only impression I intended to create was that I think these figures have been carefully prepared, that if they err, I think they err by understating the cost rather than by overstating.

I mentioned in the statement, when I was attempting to qualify myself for appearing before this committee, the fact that I represent the railway labor unions and then I turn around and come down here as an employee of United States Steel Corp., one is an employer and the other is an employee.

To my mind, figures of this kind can only be tainted at a terrific risk to the fellow that prepares the figures.

The CHAIRMAN. Well, I noticed since you referred to your qualifications that you stated a number of companies "pay my office for actuarial advice, but not all of them follow the advice; so when one of them does follow the advice of my office, it seems to me that I must do whatever is in my power to explain the reasons for the course recommended."

Aside from that levity, Mr. Buck——

Mr. BUCK. I enjoy it.

The CHAIRMAN. I note that you described four different plans.

Mr. BUCK. Yes, sir.

The CHAIRMAN. Briefly, as I understand them, they were first, the pension plan based on cash disbursement. The second one was the plan by which no provision for the cost of pensions is made during the active service of the employees, but as they retire a fund is set up of an amount of money, computed with interest to be sufficient to pay the future pensions to which the employees may become entitled.

Mr. BUCK. Mr. Chairman, may I interrupt to say that in my testimony I left out the word "slightly" that got in the written document submitted.

The CHAIRMAN. Where shall we put "slightly"?

Mr. BUCK. If you will leave it out——

The CHAIRMAN. Oh, we will leave it out, very good.

Mr. BUCK. I did not intend that it should be there.

The CHAIRMAN. That was the second. The third plan is a method under which a contribution is made each year during the active service of employees to accumulate the funds from which the pensions are paid. The fourth is to pay the normal costs and determine the past service cost, but then to make provision not only to pay interest on this past service cost but to provide for the gradual liquidation of the principal of this cost.

Mr. BUCK. That is right.

The CHAIRMAN. Which of these is the least expensive?

Mr. BUCK. I would say that three and four are practically the same and that they represent the least expensive. As far as appropriations in the budget are concerned, the fourth is the minimum expense.

The CHAIRMAN. Three and four are the least expensive?

Mr. BUCK. I will say four is the least, and the third is next to it, but the third one is the least at the outset that will result in a contribution that will not be an increasing cost.

The CHAIRMAN. Which of the four is the one United States Steel adopted?

Mr. BUCK. The third, which gives minimum payments at the outset which are consistent without having an increasing strain on the budget.

The CHAIRMAN. When I use the word "expensive" in that question, what did you understand that word to mean?

Mr. BUCK. I had in mind this: I was referring to the city and State plans.

The CHAIRMAN. That was the fourth plan?

Mr. BUCK. That is right, and there we seek to get something that will require the minimum budgets, minimum payments into the fund, and the one that requires the minimum payments into the fund is the one that produces interest earnings in the fund and the maximum interest earnings in the fund. The fourth one does that and, therefore, requires the least payment into the fund.

The CHAIRMAN. That is what I meant, the least outgo.

Mr. BUCK. Yes, but at the outset the No. 3 requires a smaller outgo and catches up later. The No. 2 requires still smaller initial cost and it catches up and passes both 3 and 4.

The Chairman. The No. 4 is the program which you recommended to certain cities and States?

Mr. BUCK. That is right, and they have adopted that program. I do not say it was because of my recommendation, it was because of their analysis of the situation.

The CHAIRMAN. And which of these four is the method adopted by Bethlehem?

Mr. BUCK. By Bethlehem?

The CHAIRMAN. Yes.

Mr. BUCK. I am not familiar with Bethlehem. I would rather not discuss it. I think it was the second method, but I am not prepared to talk about something that I am not familiar with.

The CHAIRMAN. I was going to ask—perhaps you will not be prepared to answer this question either—whether you had examined the pension plans of any other steel companies.

Mr. BUCK. Yes, I have.

The CHAIRMAN. Now, which plans do they follow as to these four, if any of them?

Mr. BUCK. I am not prepared to give you a definite answer. My office is a fairly large consulting office, and we have about a dozen actuaries besides myself, and during all these negotiations with the various companies with which we are associated I have had to stay in the home office and I have had actuaries from my office sitting in the negotiations. I have sat in some, but most of the conferences I have had, they have come to my office. That is the only way you can function in a time of this kind.

Now, to what extent the recommendations have been made in those other companies and as to exactly what they are going to follow, I was just asking one of my associates with me this morning, and he does not know the answer in one of the companies we are working for. We have given them figures one way, we are expecting them to follow the second method, and they are asking for figures on the third method because they are not sure they have done right in accepting the second method.

I think some of the other companies we have worked for are going on the theory that they will take the second method.

The CHAIRMAN. The second method is actually the one which calls for the smallest immediate contribution?

Mr. BUCK. Reserve as the men retire, but that involves an increasing cost which will go far beyond what the third method will entail. If they would ask my recommendation, I would recommend the third method.

The CHAIRMAN. Do you think it would be a proper consideration in view of the pendency of social security legislation in the Congress of the United States, in view of the various proposals with respect to pension funds, that the least expensive method of setting up a pension fund would be the one which would call for the smallest immediate contribution until it was determined within a year or so what additional funds might be available for additional pension payments, might be available from the Federal Government?

Mr. BUCK. I think that is a matter of business judgment more than of actuarial question. Personally, I would follow the course of paying my bills as I went along, because I am a great one for using cash, and I think that you can temporize on these problems, and certain companies have temporized them, and have gotten themselves in quite embarrassing positions as time goes on.

The CHAIRMAN. Of course, this whole program is set up upon estimates as to what is likely to happen in the future. You must take into consideration the rate of withdrawal, which apparently was not too carefully scrutinized, you must take into consideration the death rate, and other factors probably too numerous for a layman like myself to mention; is that not true?

Mr. BUCK. You pull my work all to pieces by saying it was not carefully scrutinized. Of course, I am not admitting that and have not given you anything to indicate that.

The CHAIRMAN. That was the impression you left with us.

Mr. BUCK. If I left the impression that we did not do a good job on that, I want to withdraw the whole testimony.

The CHAIRMAN. I will withdraw the implication. But, seriously, these are estimates and it does seem to me, sir, that the recommendation which you made to United States Steel and which has been followed is based upon the most expensive immediate outlay.

Mr. BUCK. Mr. Chairman, you know I am just a layman and I do not know this situation very well, but I had an experience when the Social Security Act was passed, and I set up a pension fund for a very large company. I say I set up. That is a little egotistical. I helped to set up one for a very large company.

We had a social security offset and we figured on that. Then the Social Security Act was amended, and it increased the benefits, but it decreased my offset. If I had temporized on that first plan, we would have been in a worse hole than we were, because we had to raise our contribution.

I had another instance of an eleemosynary institution, and I have three eleemosynary institutions you probably do business with or put money into from your pocket, because I assume you are one that always gets nicked and one would certainly have caught you, and they expected that the Social Security Act would be amended to include social agencies.

We temporized for 6 or 7 years, always putting it off, always hoping to have a contributory plan and have our prior service cut, and then after all those years they then set up a plan and they were in a very much worse position than if they had set it up at the time they wanted to originally, but they temporized on what social security was going to do and thought it would be foolish to set one up.

Now, they have one set up and are in the throes of wondering what they are going to do if social security includes them. It seems to me you have almost got to live from day to day and do a good sound financial job from day to day. You will save money, and it is a good idea.

The CHAIRMAN. You want the committee to understand you have recommended a conservative plan?

Mr. BUCK. And one I certainly think they want to hold to. I do not want you to shake them loose from a sound program. They still can retreat from this.

The CHAIRMAN. I would not attempt to shake United States Steel loose from a sound plan.

May I read to you, Mr. Buck, just a paragraph or two from the President's Steel Industry Board, which I take it had the advice of some pretty good actuaries, too, but in any event, this appears on page 42 of our little pamphlet at the bottom of the page:

> On the liberal assumption that labor costs average 50 percent of total cost (they more likely come closer to 40 percent) this increase in total cost would be only about 2½ percent at an operation rate of 2,000 work hours per year. The steel companies, under present conditions and under presently foreseeable conditions (which include costs reductions because of plant improvements), appear able to afford this and still put into effect the price reductions mentioned above.

Have you any comment to make upon that conclusion?

Mr. BUCK. No, Mr. Chairman, I have not gone into how they are going to get the money to do this or what effect it has on their prices.

The CHAIRMAN. The remaining witnesses for United States Steel, Mr. Fairless, as outlined in your statement, are Mr. Voorhees, Mr. Reed, Mr. Austin, and Mr. Munson; is that right?

Mr. VOORHEES. That is right.

Mr. PATMAN. Mr. Chairman, I would like to ask Mr. Fairless one more question.

Mr. BUCK. May I be excused?

The CHAIRMAN. Thank you, Mr. Buck.

Mr. BUCK. Thank you for your kind attention. I hope I have not said anything I should not have. [Laughter.]

The CHAIRMAN. You can ask Mr. Fairless about that.

Mr. PATMAN. Mr. Fairless, you stated in your statement in the third paragraph that these heavy increases in your costs caused the price increases. You state there that this is the simple truth and you stated in answer to a question that you did not take into consideration any extra cost if you were to return to the so-called basing point system or freight absorption system.

Mr. FAIRLESS. That is correct.

Mr. PATMAN. According to your testimony, it will cost at least a dollar a ton extra if you return to that old system. Now, if you return to that old system, are you going to have another price increase?

Mr. FAIRLESS. Not for that reason.

Mr. PATMAN. For that $1 a ton?

Mr. FAIRLESS. No, sir.

Mr. PATMAN. How will you take care of that dollar?

Mr. FAIRLESS. Absorb it.

Mr. PATMAN. If you can absorb it, why do you not make this $2.82 a ton instead of $3.82?

Mr. FAIRLESS. And then absorb the dollar when it comes?

Mr. PATMAN. Yes. You said you were not anticipating this $1 price increase in connection with this estimate here.

Mr. FAIRLESS. That is correct.

Mr. PATMAN. That you had not taken it into account. You will have this dollar extra expense coming on you. If you can absorb it then, why would you make this increase 4 percent? Why not make it 3 percent? If you can absorb it then, you can absorb it now.

Mr. FAIRLESS. Congressman, that would be a contribution on our part to be competitive.

Mr. PATMAN. To be competitive?

Mr. FAIRLESS. Any place in the United States.

Mr. PATMAN. Any place in the United States?

Mr. FAIRLESS. Yes.

Mr. PATMAN. Suppose there is a steel mill out west and the freight advantage is $18 a ton. Would you actually pay $18 a ton extra and absorb that freight to compete with a local mill?

Mr. FAIRLESS. Not necessarily. I said the right to compete.

Mr. PATMAN. The right to compete?

Mr. FAIRLESS. That is quite different than saying we would compete in each and every transaction.

Mr. PATMAN. But you state it will cost you at least $1 a ton to return to price absorption.

Mr. FAIRLESS. I answered your question. You asked me what the average was.

Mr. PATMAN. And you will not increase your prices if you do that?

Mr. FAIRLESS. Not as a result of that cost increase alone.

Mr. PATMAN. But if there are other small costs, too, you will take into consideration over-all costs, if necessary?

Mr. FAIRLESS. I do not know what you mean by the word "small." Whenever we develop a price schedule, as you will find out later in

the day, we make a thorough study of all costs involved, a cost is a cost to us irrespective of the source.

Mr. PATMAN. I look forward to seeing your study.

Mr. FAIRLESS. Thank you, sir.

The CHAIRMAN. The committee will sit this afternoon beginning at 2:30, if that is agreeable to you. That will enable us, I think, to conclude your presentation this afternoon. Mr. Voorhees, will you be the first witness?

Mr. VOORHEES. I will be glad to.

The CHAIRMAN. Then the committee will stand in recess until 2:30 this afternoon, at which time Mr. Voorhees will be the first witness.

(Whereupon, at 12:45 p. m., the committee recessed to reconvene at 2:30 p. m. on the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

Mr. Voorhees, you are ready to proceed?

STATEMENT OF ENDERS M. VOORHEES, CHAIRMAN OF THE FINANCE COMMITTEE, UNITED STATES STEEL CORP.

Mr. VOORHEES. Mr. Chairman, I would consider it a great concession if you would permit me to have Bradford Smith, one of my assistants, read my statement. I shall be very glad to answer any and all questions with respect to it.

The CHAIRMAN. As long as you stand by the microphone, Mr. Voorhees, to answer the questions, it make no difference to us who reads the statement.

Mr. VOORHEES. I shall be waiting right here.

The CHAIRMAN. You wrote it, I presume?

Mr. VOORHEES. I will say that I am responsible for it.

(Read by Mr. Smith:) Mr. Chairman and gentlemen of the committee, it is my purpose briefly to describe the financial facts and factors behind the increase in steel prices, averaging about 4 percent, recently announced by the steel-making subsidiaries of United States Steel.

Behind the 4-percent price increase are many financial facts. But there is one simple central fact that dominates all other facts. It is this: There has been a large and continuing increase in the cost of producing steel in America.

The price changes are primarily the resulting effects of employment cost increases. I confess to some difficulty in understanding how anyone can reasonably condemn the effects while condoning the causes. If, however, one should approve the increased cost but disapprove the cost-covering price increase, I can only conclude his attitude to be that someone other than the person who actually gets the higher cost steel should foot the bill for that higher cost. Who should that other person be? The too easy answer is, of course, that the increased cost, whatever it is, should come of the owner's profits or losses, whatever they are. But, even if we adopt the popular notion that the "other fellow's" profit is always too big and, therefore, is always legitimately

to be "nicked" for unearned benefits, the real question of who should or does in fact pay is not quite that simple.

In this connection, I am continuously distressed that so many people outside of the accounting profession think they understand, but really do not understand, the real meaningfulness of the labels that accountants have put on dollar amounts. For example, most people think that undistributed profits constitute a stagnant pool of purchasing power. Nothing could be further from the truth. Or, they think that corporate owners get more out of the business than their dividends—but they don't, not one penny!

For these reasons, I think it very important to look for a few moments at the facts that bear on the proposition that the increased costs with which we find ourselves confronted should be absorbed rather than passed on to the buyers of steel to the extent that they may be competitively willing to pay the higher prices involved. For such an examination, we need two sets of facts. The first set of facts is the increases in costs with which we are confronted. The second set of facts is the flow of cash received from customers through the Corporation in order to consider the consequences of "nicking" some of those flows, so that the flow of buying power to and for employees may be enlarged.

With regard to the increased pension and insurance costs, the board of directors of United States Steel deemed them to be of such a nature and of such an extent that it was advisable to seek its stockholders' approval for their assumption. We are quite seriously seeking that approval. In order to provide the stockholders of the corporation with the means of approving or disapproving the company's assumption of the costs involved, it was necessary to prepare a proxy statement. Such a proxy statement has been prepared and, after submission to the Securities and Exchange Commission, it was sent to stockholders. It contains our best estimates of the new costs incurred. We have submitted to this committee copies of the proxy statement.

In that proxy statement, on page 7, you will find that the increase in annual pension cost on a basis that is actuarially sound, as described to you by Mr. Buck, and that is acceptable under United States Treasury Department tax regulations for funding pensions, is 54.5 million dollars. You will also find that to provide the employee insurance benefits, specified in our contract with the union, will cost us an additional amount of $13,000,000 annually. These together amount to 67.5 million dollars a year. That is a hard financial fact. There have been other increases in costs, notably in the case of coal, freight and social security taxes.

Mr. Fairless has told you of our cost increases in the period subsequent to the third quarter of 1949 and up to the December 16 price increase. I should now like to tell you what happened to some of our costs during 1949.

As you may observe in the accompanying tabulation, we have an increase in annual employment costs of 70.9 million dollars when 3.4 million dollars for further Federal old-age benefit taxes is added to the new pension and insurance cost of 67.5 million dollars.

During 1949, transportation cost on an annual basis increased 17.3 million dollars because of the freight rate increases.

Summary of cost and price changes during 1949 [1]

	Millions of dollars	Per ton
Changes in cost:		
Employment costs:		
Pensions and insurance	67.5	
Federal old-age benefits tax	3.4	
Total	70.9	$3.88
Products and services bought:		
Increases in coal (3-day week effect)	19.9	
Increase in freight costs	17.3	
Decrease in scrap, tin, and fuel oil −17.8		
Decreases in other purchases −14.1		
	−31.9	
Total	5.3	.29
Total above cost increases	76.2	4.17
Price increase of Dec. 16, 1949	69.7	3.82

[1] Based on yearly shipments of 18,250,000 net tons of steel to the public.

The added cost of coal, because of the 3-day week limitation on production and the resulting necessity of purchasing millions of additional tons of coal in the open market, adds 19.9 million dollars to annual costs.

During 1949 United States Steel had a gross decline of 31.9 million dollars in the cost of purchases. This total comprehends reduction in the annual cost of scrap, tin, and fuel oil of 17.8 million dollars and an annual decline of 14.1 million dollars in costs of other products and services bought.

Giving full weight to the lower current costs of certain of the items purchased the net effect of both additions and reductions is an increase of 5.3 million dollars since the beginning of 1949 in our annual costs for products and services bought.

If to this net increase in products and services bought there be added the 70.9 million dollars increase in employment costs, the result is a cost increase of 76.2 million dollars. This total exceeds the estimated additional revenue from the price increase by 6.5 million dollars.

Put it another way. These added costs alone increase the cost of producing steel by $4.17 per ton, as against a price increase of $3.82 per ton.

So much then for the fact of substantial cost increase. I turn next to the other set of financial facts that we need—that is, the flows of buying power through United States Steel.

I am sure that everybody understands, in the first place, that the only continuing source of money that any business has with which to pay the bills it incurs in the course of production is the receipts that it gets from customers in exchange for the goods and services it sells to them. That is as exactly true of United States Steel as it is of a corner drug store, the butcher, the baker, the candlestick maker. All businesses and all individuals have no way in the long run of paying out more than they take in.

Next, I suppose that most people understand that there are certain main categories of expenditures that virtually every corporation ex-

periences, and which must be covered by the receipts from customers if the corporation is to continue to do business.

With this in mind, I now give you the cash flow figures for United States Steel. I give them to you for the period January 1, 1946, to September 30, 1949, and also show the aggregate data reduced to an annual average basis.

Total cash receipts and disbursements, Jan. 1, 1946, to Sept. 30, 1949

[In millions of dollars]

	Total	Annual average
Receipts from customer—the public	7,971.0	2,125.6
Disposed of as follows:		
Employment costs	3,365.1	897.4
Products and services bought	3,284.6	875.9
Expenditures for property additions and replacements	818.0	218.1
Taxes	325.4	86.8
Interest and dividends	273.4	72.9
Repayment of borrowed money	17.2	4.6
Total	8,083.7	2,155.7
Deficit in cash	112.7	30.1

You will note from the tabulation that in the postwar period from January 1, 1946, to September 30, 1949, we received cash from our customers in the amount of $7,971,000,000. In the same period we paid out cash amounting to $3,365,000,000 to or for our employees. In order to conduct the business we bought products and services from others in the amount of $3,285,000,000. We spent $818,000,000 in the purchase of tools of production—largely for replacement and modernization of plants and equipment. We paid taxes in the amount of $325,000,000. The cash used to pay dividends, including a small amount of interest, amounted to $273,000,000, and we also spent $17,000,000 to repay money we had borrowed. Adding these up, we find that our total cash disbursements in this period amount to $8,084,000,000 or $113,000,000 more than we received from our customers.

These figures which I have just given you represent the actual flow of cash—of buying power—into, through, and out of the corporation. I have recast the conventional financial statements of the corporation in order to give you these flows of hard cash through the corporation for two reasons: In the first place, we are dealing with the fact that hard cash—not book entries—must actually be paid out to or for the benefit of employees. Therefore, we need to know what cash there is coming in and to what purpose and for what end it is already actually being used. Secondly, I have already referred to the widespread misunderstanding of the true significance of accounting terminology. I think those who do not understand that an undistributed profit represents buying power that has already been distributed can have a better basis for forming judgment by looking at the facts of cash income and outgo.

For those who are interested to note the accounting derivation of these cash receipts and cash disbursements, I have appended to my statement exhibits (I and III) which give their derivation, their reconcilation, and their verification in terms of standard-income statement and balance-sheet accounts. I have also supplied there the cor-

responding data (exhibits II and IV) for the 9 months ending September 30, 1949—the latest data available.

I feel it necessary to make one further statement to this committee concerning these figures of the corporation. In the course of our negotiations with collective-bargaining agents, over the years, there is one argument that has always been advanced by those agents with a regularity that resembles the rising of the sun. That argument has been that the profits of the corporation are too big, in their judgment, and furthermore that such profits are bigger than they have been reported to be by the company. From time to time, they have assumed to add some of our costs to our profits in order to get a bigger figure, and we have become accustomed to hearing such terms as "concealed profits." Well, I suppose it is only human for them to do this, for being in pursuit of increased benefits for themselves, the intended "take" might be rendered more palatable to the public if the profit could be made to appear, through self-serving statistical devices, as enormous. I find that it is seldom that the facts catch up with the misrepresentations of facts. Nevertheless, in all those instances where labor disputes have been resolved through public boards and the corporation's figures have been in evidence, those boards have accepted as factual the figures of the corporation and have thereby repudiated the union contentions to the contrary. In the report of the steel panel in the National War Labor Board case, as set forth in the panel's findings, submitted September 9, 1944, the following excerpts appear:

> The reserves and allowances for depletion, depreciation, amortization, and for additional war costs are proper and cannot be considered as concealed profits. * * *
>
> The union's characterization of the reserves and allowance for depletion, depreciation, and amortization and for additional war costs and contingencies as "concealed profits" is unwarranted. Such allowances and reserves are regarded as sound and necessary by industry, and appear to be in accordance with good accounting practice. * * * On the evidence before this panel, the finding is that these items are proper and necessary.

In the report to the President of the United States on the labor dispute in the basic steel industry by the Steel Industry Board, submitted September 10, 1949, the following excerpt appears:

> "From its study of all the evidence considered on these points during the hearings, the Board concludes as follows: (*a*) In respect to the amounts of profit, we have decided to accept the "reported" figures of the companies as a basis for studying the question of possible inequities against the workers. In doing this, we are accepting the same figures as those which Government agencies and the majority of accountants now accept as good accounting practice.

I have now laid before you the financial facts with respect to, first, the increase in our costs, and, secondly, the flow of cash—the flow of buying power—into, through, and out of the corporation. The committee is now in possesison of the same set of basic financial facts that we had in considering the alternatives that were possible with respect to what to do about the increased cost with which we are confronted.

If we consider only the large and continuing employment cost increases, we find, as I have set forth, that they amount to approximately $71,000,000 a year. Just where are we going to find that cash within the framework of these financial flows, assuming for the moment that customers are not to be charged for the products as much as they may competitively be willing to pay? Let us consider the possibility and

consequences of "nicking" the other flows of cash through the corporation to secure the required addition to employment costs.

To make the added annual employment cost figure comparable with the recent 9 months' flow data which I have mentioned I could take three-quarters of it. Alternatively, I can compare the annual cost increase directly with the annual average cost flow data for the 3¾-year period I have just described. I have done both and the resulting conclusions are the same. Since pensions and insurance are long-term affairs, it is preferable to use the longer-term basis.

Using the annual averages for the 3¾-year period, then, our problem is to hunt through the cash flow data to find $71,000,000 to be added to our $897,000,000 annual employment costs.

First, could our $876,000,000 cost of goods and services purchased from others—our second biggest cost—be reduced to $71,000,000? With regard to that, we are up against an interesting and even dismaying fact: It has been United States Steel's long experience that whenever a significant employment-cost increase—whether in wages, pensions, or insurance—gets started in one of the country's industries, that increase of employment cost tends to spread to all industries. This is indeed evidenced by the fact that wage levels among the industries tend more nearly to parallel each other than to be diverse in their changes. It is also given popular recognition in the phrase "rounds of wage increase." The effect of those spreading increases in employment cost finds its expression in cost-covering price increases for the things which United States Steel has to buy in order to do business. This applies not only to the current goods and services we purchase, but it applies also to the purchases of construction, machinery, and equipment which must be bought if the business is to be maintained. The point of this is that it is almost an historical certainty that sooner or later the increase in our employment costs will be nearly matched by an increase in the cost of goods and services we purchase from others. The cost increases we must ultimately contemplate are, therefore, not just the $71,000,000, but substantially greater amounts. In an accompanying diagram, exhibit V, I show our mounting employment costs, year by year, and the closely paralleling rise in the cost of our products and services bought.

Well, let us turn next to our purchases of the tools of production. Such purchases averaged $218,000,000 annually in the period being used as an example. Could we squeeze the needed $71,000,000 out of that $218,000,000? Here, it is true, we have some elasticity in our choice. We could, in fact, greatly slow down or stop the purchase of the tools of production, aside from those most urgently needed to keep production lines in operation. We could let our tools wear out and become obsolete without undertaking to replace them. Suppose we did that. What are the consequences, and would they be in the public interest? Let me list for you those consequences.

The first obvious consequence would be to curtail the modernization program we have under way and, if carried far enough, this course of action would serve to erode United States Steel's existing capacity to produce steel and provide jobs.

Secondly, if we stopped buying tools of production the immediate effect in the industries producing those tools of production for us would be to disemploy workers in those industries. Jobs vanish when

customers stop buying. In addition to that, we would, of course, be called upon to dismiss those of our own employees who are engaged in constructional activities.

Careful scrutiny of the consequences of attempting to provide the increased benefits to our employees by cutting down our purchases of tools of production leads to the conclusion that it is financially possible but is not in the public interest or in our interest to do it that way if it could be achieved otherwise. From the point of view of national security, it does not seem wise to slow down or reverse the trend toward replacement and modernization of steel facilities. From the point of view of employment in this country, it does not seem desirable to bring about disemployment. Finally, it seems basically unsound and unjust to take a course of action which means liquidating the jobs of employees engaged in producing the tools of production in order to give additional benefits to employees operating the existing tools of production.

Getting back now to the listed flows of cash in our hunt to find the needed $71,000,000, we come next to the item of taxes. It is $87,000,000. Taxes, their amount, and the means of their calculation are determined by the several taxing bodies. There is nothing we can do about them.

There remains, finally, out of the entire receipts of cash from our customers, only one last item—the $73,000,000 paid in dividends to our stockholders. Could we squeeze the $71,000,000 out of that? Well, of course, we could do so if it were absolutely necessary; and, indeed, there have been periods in United States Steel's history when the cash flows into the corporation have not been sufficient to leave anything to be paid to the owners.

There are certain facts about dividends I believe it necessary to recognize in considering whether it is desirable to squeeze them in order to pay increased benefits to employees. In the first place, and as I previously noted, some people are prone to believe that stockholders get more out of the business than is declared to them in dividends. Some people like to use such words as "enormous profits" or "the biggest profits ever made" and imply that profits as so described are in some undescribed evil way taken away from the country's purchasing power and given to stockholders. The fact is, however, that stockholdlers do not get and never do get one penny more out of the business than is declared to them in dividends. If one is to keep himself within the truth as to what stockholders get out of the business, then he must confine himself to the dividends that are declared to them, except only as the business is finally liquidated and any parts of their original savings that remain are then returned to them. In the cash-flow statement of the corporation's affairs which I have submitted to you, I have accounted for all the dollars that came into the corporation and for their disposition. That statement shows the dollars that went to the stockholders as dividends, and that is all that went to them.

The next thing to note in considering the desirability or feasibility of diminishing the dividends to stockholders in order to increase the benefits to employees is the fact that the current dividends of United States Steel amount to only $1 to each $13 or $14 paid to or for its own employees. Comparing 1948 with prewar 1940, the increase in annual payments to United States Steel's owners has been $17,000,000;

but the increase in payments to or for its employees has been $570,000,000, or 33 times as much. The average annual dividend paid on present common stock of United States Steel since it was created nearly a half century ago amounts to $1.03 per share. The present book value of United States Steel's common stock amounts to about $60 per share. This value is based in large part on hard dollars represented by plant, equipment, and other assets provided before the war and before the inflationary spiral which has brought us to today's much cheapened dollars.

Based on a current rate of $2 annual dividends per present share, with a book value of $60 per share, there is but a 3⅓-percent return to common stockholders, and this in a period of near capacity operations. Any attack on the size of such dividends—that is, upon what the owners are getting out of the business that they have created—is comparable to killing the goose which, though underfed, continues to lay the golden egg.

In order that you may compare what the stockholders have got out of the business over the years with what employees, suppliers, tool makers, and government have secured, I have appended a diagram, exhibit VI, to my statement in which each of the major items of our income statement has been charted.

There is another aspect of dividends fraught with great public interest to which we in United States Steel, as well as all other men who want their country to prosper, must pay attention. Dividends and dividend prospects are intimately if intangibly associated with a nation's power to produce abundantly in peacetime and to defend itself valiantly in wartime. Please consider for a moment why anyone ever spends or lends or invests his money to buy tools of production. Is there any other incentive that commends itself to good judgment than that he hopes and expects thereby eventually to get back enough to compensate himself for his self-denial and the risk of loss he takes? In the case of savings loaned, the compensation is interest; in the case of savings invested, the compensation is, for corporations, termed a dividend.

The interest and dividend compensation is the cost to the community of having the tools of production, and if that cost is not covered by receipts from customers there will be no further savings voluntarily forthcoming for investment in tools of production. Of these two incentives, that of dividends after personal income taxes is a major key to progress. Loaned capital is not available unless equity capital has first been supplied to cushion the risk the lender would minimize. No business is a borrower until it is started, and to start it savings must directly be risked in hope of a larger return than the fixed interest with which the lender is content. I assume that everyone in America wants ample tools of production and the jobs of operating them that their presence creates. We can put the same thought in the negative. Without the tools of production that have been furnished by stockholders, the Nation's now large and expanding population could not be supported. If we want ample tools of production and the jobs their presence creates, we had best set up and maintain in America a social atmosphere endorsing rather than condemning ample dividends and the profits which make them possible.

With these matters in mind, what could we expect the consequences to be if we chose to finance the $71,000,000 increase in employment costs by reducing the $73,000,000 of dividends to stockholders? We believe there would be a serious and profound consequence. In our judgment, for United States Steel sharply to reduce its dividends in a period of near-capacity operation, when those dividends are already small, especially in relation to the amounts paid for employment, in relation to the volume of business done, and in relation to amounts invested—this would constitute a devastating blow to investor confidence and would sweep across the land with grave danger of seriously, if not fatally, impairing the processes by which tools of production come into existence, by which new jobs are thereby created to provide for an expanding labor force, by which the American people have in the past and may alone hope in the future to have ever more and better good things of life.

I have now described each of the major flows of cash through the corporation and accounted for all the dollars that have come into the corporation in the given period. I have considered the possibility of and the consequences of subtracting from some of those flows of cash through the corporation in order to meet the required increase in the flow of cash to or for employees. As a result of that analysis, I think you will agree with me that there are only two places in which we have any practical discretion. First, we can reduce our buying of tools of production, which would tend to bring on unemployment in the tool-producing industries. It would also reduce productive capacity beyond what it might otherwise be. The second place where we have discretion is to reduce or eliminate the dividends to owners, concerning the consequences of which I have just given you my views.

This completes my examination of the proposition that payments to or for our employees should be increased but that someone other than the customers who get the higher-cost steel should pay for that higher cost. This brings me to borrowing as a source of money with which to purchase tools of production, thus freeing money from that expenditure to provide increased benefits for employees.

It is my opinion that a manufacturer should be able to recover out of the sales dollar, through depreciation and through income remaining for reinvestment after equitable dividends, amounts sufficient to replace and keep modern his plant and equipment so as continuously to retain his productive capacity on a competitive basis. By depreciation I mean depreciation on either a replacement or an accelerated basis, whereby sufficient dollars are recovered currently to provide the same purchasing power as so-called normal depreciation dollars commanded when they were initially expended. It is only for expanded capacity that there is justification for borrowing or new capital. Under present taxing policies it is difficult to adhere to this principle, because the Government taxes as profit at 40 percent the difference between depreciation on original cost and depreciation calculated on a replacement basis or on an accelerated basis. As a result many companies have found it necessary to borrow merely to replace facilities which are wearing out, thereby diluting the equity of present investors.

To finance increased capacity a durable-goods manufacturer should, if possible, use equity securities; and whether or not new equity money can be obtained depends upon the earnings of old equity money already

in the business. A durable-goods manufacturer should avoid incurring fixed interest or dividend obligations except as a last resort, for it means in times of reduced business volume the fixed charges and principal payments will be very hard to meet. What I have described as desirable depreciation policy is already recognized and practiced in England and Canada, and in this country with respect to the last-in, first-out method of costing inventories of short-term goods. This LIFO method has diminished the severity of the inventory readjustment in 1949; and comparable treatment of depreciation on a replacement or accelerated basis would, in my opinion, tend to diminish the severity of any future readjustments we might encounter.

Cash recovered through depreciation deductions is used primarily for replacement purposes; and that, together with any earnings that are reinvested in modern property, plant, and equipment are what I call powerhouse generating money in its effect on general business. In some manner we must make it easy for both industry and investors to put their money into machinery, plant, and equipment and thus provide jobs, a high standard of living, and security in case of national emergency.

Since United States Steel has been engaged far more in a modernization and replacement program than in expansion of basic capacity, its financing must, to the extent possible, lie within the policy I have just described. This brings me finally to a consideration of the price of our products as a source of the needed $71,000,000 increase in our employment costs.

With regard to the general prices of steel products, the first thing to note is that those prices, as compared with the prices of other major groups of commodities, are not high. On the contrary, they are low. It is a fact that advances in the prices of steel products have been markedly laggard rather than in the vanguard of the great price inflation during the past 10 years. If we compare the movements in steel prices with other major trends in the economy, we find, for example, that the prices of our products have not moved up as much as have our employment costs, or as much as have our taxes, or as much as have the prices of many of the things we buy in order to do business. Steel prices of today would have to be increased by 35 to 40 percent to restore their prewar parity with farm prices, for example. They would have to be increased 12 to 16 percent to restore their prewar parity with wholesale prices in general, as measured by the Bureau of Labor. This can be readily observed by noting the accompanying diagram, exhibit VII, in which I have compared the percentage increase in steel prices since 1940 with the corresponding percentage increases in the prices of all the major commodity groups for which the Bureau of Labor computes indexes. It is a fact that, while we may be examining an increase in the prices of steel products, we are nevertheless examining steel prices which, after that increase, are comparatively low, not high.

May I, in the second place, point out that we possess a distinct realization, which I trust will not be regarded as too naive in this environment, of the vigorous competition that prevails among and between the buyers and the sellers of steel products. Our customers are our policemen. They are on the job every day, and there is absolutely no way in which we can force them to pay any higher prices

for steel products than they believe those products are worth in the light of what other competing buyers are willing to pay to secure those products for themselves. Short of true emergency periods, characterized by sudden large and necessitous demands for steel, there isn't any possibility of getting steel prices too high except as we abandon the principles of competition as our standard of judgment.

Consider what the price of steel products would have to be today to justify the building of a brand new steel plant at today's high prices for construction and equipment. The present cost of the plant, machinery, and equipment necessary to produce steel is vastly greater than it used to be. To earn a reasonable return on the increased number of dollars required would require, in the careful and conservative judgment of our staff skilled in such matters, that the price of steel products be advanced from present levels by about $20 a ton on the average.

Let me now summarize. We find ourselves confronted by the hard financial fact of a large and continuing increase in our employment costs. I have revealed to you the entire disposition in expenditure of all the cash coming in to us from our customers, and I have surveyed all the alternative ways of trying to find the cash to meet the increased costs. That reckoning has revealed that, without going outside the corporation to find the needed sums, the only places in which we had any practicable discretion were, first, to reduce expenditure for tools of production with the double consequence of bringing about disemployment, primarily in the tool-producing industries, and simultaneously slowing down or reversing our program of replacement and modernization toward more efficient production of ever-better steels; or, secondly, we could restrict or eliminate dividends with, we believe, devastating consequences to public confidence in American industry.

We then considered going outside the corporation either to the capital markets or to the steel-product markets to find the additional cash required. To go to the capital markets we found to be outside those financial policies which we believe fundamentally sound for manufacturers of durable goods.

This left only the buyers of steel products. It was decided that it was entirely appropriate for those who actually got and had the benefit of the higher-cost steel to pay, at least in part, for that higher cost to the extent that they were competitively willing to do so. Should this proper referring of the matter 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.

Exhibit I

CASH FLOW—IN AND OUT— JANUARY 1, 1946—SEPTEMBER 30, 1949

(In Millions)

	Sales, Costs and Income					Adjustment of Totals to Cash Basis		
	1946	1947	1948	9 Months 1949	Totals	Explanation	Amount	Total Cash Receipts and Disbursements
Receipts from Customers—The Public	$1,496.1	$2,122.8	$2,481.5	$1,916.8	$8,017.2	Add—Proceeds from sales of properties	$ 29.3	
						Less—Increase in uncollected receivables	*75.5*	**$7,971.0**
Disposed of as Follows								
Employment costs								
U. S. Steel's direct employment ...	704.5	903.6	1,035.7	764.3	3,408.1	*Less*—Increase in unpaid employment costs ..	*43.0*	**3,365.1**
Products and services bought								
Provides *employment* by suppliers and by their suppliers in turn	560.4	839.4	1,008.9	750.3	3,159.0	Add—Payment of war costs and other items charged reserves	43.7	
						Increase in inventories and deferred costs	124.4	
						Less—Increase in amounts owed to suppliers	*42.5*	**3,284.6**
Wear and exhaustion								
Provides *employment* by suppliers of new plants and equipment and by their suppliers in turn ..	68.7	114.0	146.0	111.4	440.1	Add—Use of proceeds from sales of properties	29.3	
						Other amounts expended	348.6	
						Total expenditures for property additions and replacements		**818.0**
Taxes								
Provides *employment* by governments and by their suppliers in turn								
State, local and miscellaneous	69.1	136.2	158.9	155.9	520.1	*Less*—Increase in unpaid taxes	*194.7*	**325.4**
Federal income								
Interest								
Compensation for savings loaned ..	64.8	73.4	79.8	59.8	277.8	*Less*—Increase in unpaid dividends	*4.4*	**273.4**
Dividends								
Compensation for savings invested						Repayment of borrowed money	17.2	**17.2**
Income reinvested	28.6	56.2	52.2	75.1	212.1	*Less*—Used toward increased receivables, inventories and expenditures for property additions and replacements....	*212.1*	**—**
	$1,496.1	$2,122.8	$2,481.5	$1,916.8	$8,017.2		$ 66.5	**$8,083.7**
						Deficit in cash		**$ 112.7**
						Met from		
						Sale of Government securities	$140.1	
						Increase in cash funds:		
						Balance January 1, 1946 ..... $231.8		
						Balance September 30, 1949 .. 259.2	*27.4*	**$ 112.7**

Exhibit II

CASH FLOW—IN AND OUT— FIRST NINE MONTHS OF 1949

(In Millions) (In Millions)

	Sales, Costs and Income	Adjustment to Cash Basis: Explanation	Adjustment to Cash Basis: Amount	Total Cash Receipts and Disbursements
Receipts from Customers—The Public	$1,916.8	Add—Proceeds from sales of properties	$ 3.5	
		Less—Increase in uncollected receivables	*3.3*	**$1,917.0**
Disposed of as Follows				
Employment costs				
U. S. Steel's direct employment	764.3	Add—Decrease in unpaid employment costs	3.1	**767.4**
Products and services bought				
Provides *employment* by suppliers and by their suppliers in turn	750.3	Add—Increase in inventories and deferred costs	28.5	
		Decrease in amounts owed to suppliers	29.6	**808.4**
Wear and exhaustion				
Provides *employment* by suppliers of new plants and equipment and by their suppliers in turn	111.4	Add—Use of proceeds from sales of properties	3.5	
		Other amounts expended	20.3	
		Total expenditures for property additions and replacements		**135.2**
Taxes				
Provides *employment* by governments and by their suppliers in turn				
State, local and miscellaneous	155.9	*Less*—Increase in unpaid taxes	*27.6*	**128.3**
Federal income				
Interest				
Compensation for savings loaned	59.8	Add—Decrease in unpaid dividends	6.5	**66.3**
Dividends				
Compensation for savings invested		Repayment of borrowed money	1.9	**1.9**
Income reinvested	75.1	*Less*—Used toward increased receivables, inventories and expenditures for amounts owed to suppliers and for property additions and replacements	*75.1*	
	$1,916.8		*$ 9.3*	**$1,907.5**
		Increase in cash		**$ 9.5**
		Sale of Government securities		**24.3**
		Increase in cash funds:		
		Balance January 1, 1949	$225.4	
		Balance September 30, 1949	259.2	**$ 33.8**

Exhibit III

CHANGES IN BALANCE SHEET ACCOUNTS

VERIFICATION OF CASH FLOW

(In Millions)

	Jan. 1, 1946	Sept. 30, 1949	Change +	Change —
Current Assets				
Cash	$ 231.8	$ 259.2	$ 27.4	
U. S. Government securities	197.6	189.5		$ 8.1
Receivables	117.8	196.8	79.0	
Inventories	270.6	370.1	99.5	
Total	817.8	1,015.6	197.8	—
Less—Current Liabilities				
Accounts payable	147.5	233.0	85.5	
Accrued taxes	40.4	235.1	194.7	
Dividends payable	15.0	19.4	4.4	
Long-term debt due within one year	14.1	5.5		8.6
Total	217.0	493.0	276.0	—
Working Capital	600.8	522.6		78.2
Miscellaneous Investments	27.4	23.9		3.5
U. S. Government Securities Set Aside				
For property additions and replacements	250.0	155.0		95.0
For expenditures arising out of war	58.0	21.0		37.0
Plant and Equipment, less depreciation	972.5[1]	1,321.1	348.6	
Operating Parts and Supplies	23.8	39.8	16.0	
Costs Applicable to Future Periods	11.3	20.2	8.9	
Total Assets Less Current Liabilities	1,943.8[1]	2,103.6	159.8	—
Deduct				
Long-Term Debt	78.6	70.0		8.6
Reserves				
For estimated additional costs arising out of war	57.2	20.6		36.6
For insurance, contingencies and miscellaneous expenses	112.0	104.9		7.1
Excess of Assets Over Liabilities and Reserves	$1,696.0[1]	$1,908.1	$212.1[2]	—

[1] After adjustment for $270,000,000 of depreciation reserves transferred to surplus in 1948.
[2] Income reinvested in the period.

Exhibit IV

CHANGES IN BALANCE SHEET ACCOUNTS

VERIFICATION OF CASH FLOW

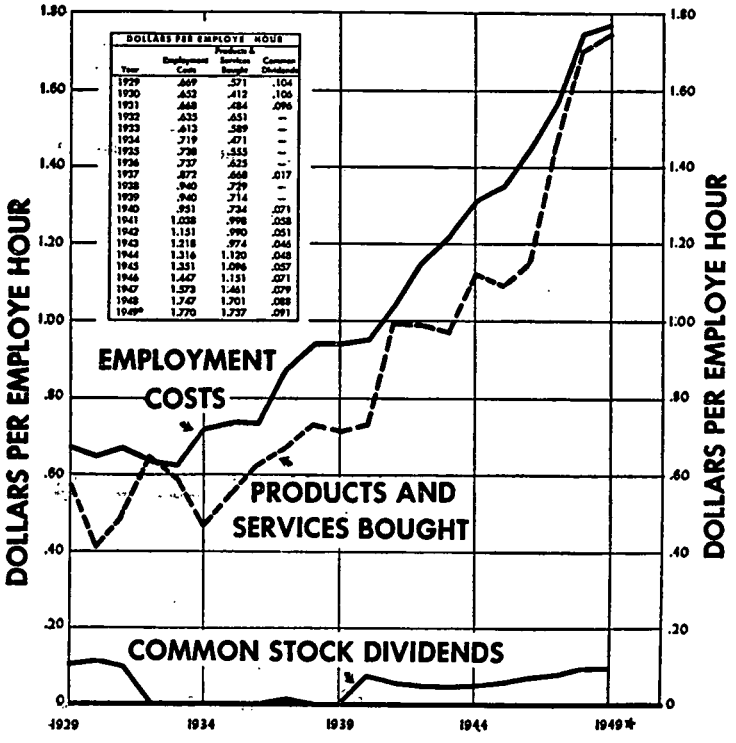
(In Millions)

	Jan. 1, 1949	Sept. 30, 1949	Change +	Change —
Current Assets				
Cash	$ 225.4	$ 259.2	$33.8	
U. S. Government securities	213.8	189.5		$24.3
Receivables	196.0	196.8	.8	
Inventories	339.2	370.1	30.9	
Total	974.4	1,015.6	41.2	—
Less—Current Liabilities				
Accounts payable	265.7	233.0		32.7
Accrued taxes	207.5	235.1	27.6	
Dividends payable	25.9	19.4		6.5
Long-term debt due within one year	5.8	5.5		.3
Total	504.9	493.0	—	11.9
Working Capital	469.5	522.6	53.1	
Miscellaneous Investments	21.4	23.9	2.5	
U. S. Government Securities Set Aside				
For property additions and replacements	155.0	155.0	—	
For expenditures arising out of war	21.0	21.0	—	
Plant and Equipment, less depreciation	1,300.8	1,321.1	20.3	
Operating Parts and Supplies	42.0	39.8		2.2
Costs Applicable to Future Periods	20.4	20.2		.2
Total Assets Less Current Liabilities	2,030.1	2,103.6	73.5	—
Deduct				
Long-Term Debt	71.6	70.0		1.6
Reserves				
For estimated additional costs arising out of war	20.6	20.6	—	
For insurance, contingencies and miscellaneous expenses	104.9	104.9	—	
Excess of Assets Over Liabilities and Reserves	$1,833.0	$1,908.1	$75.1[1]	—

[1] Income reinvested in the period.

Exhibit V

Cost Inflation



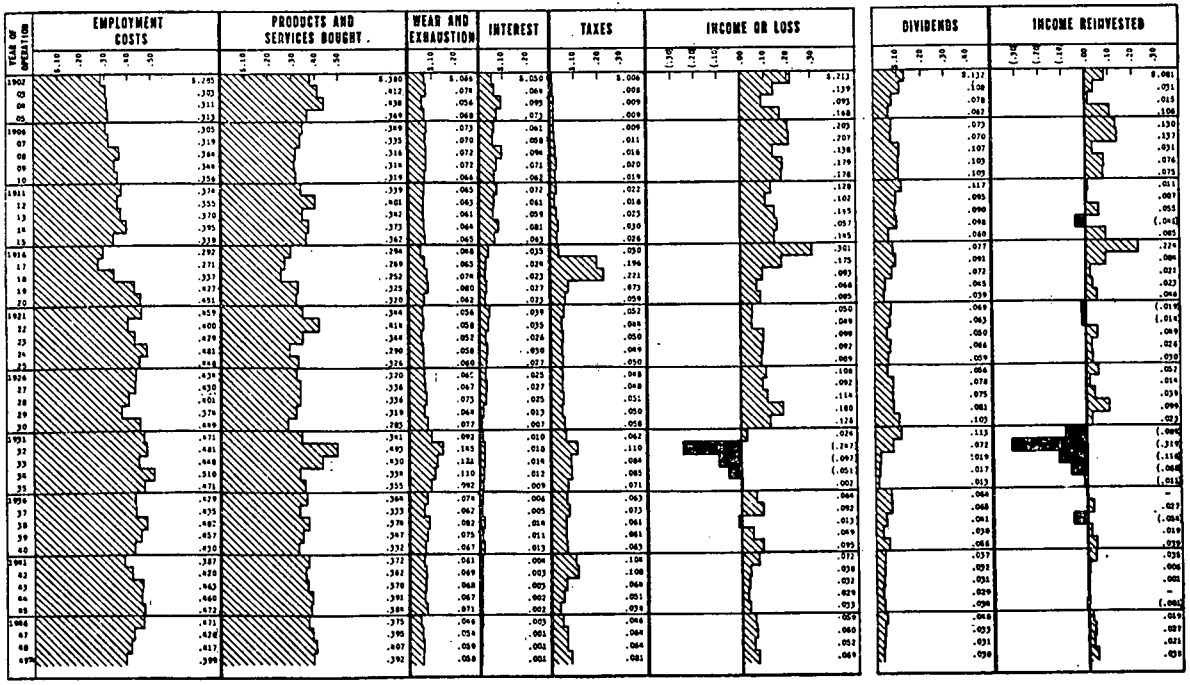
DOLLARS PER EMPLOYE HOUR

Year	Employment Costs	Products & Services Bought	Common Dividends
1929	.669	.571	.104
1930	.652	.412	.106
1931	.648	.484	.096
1932	.635	.451	- -
1933	.613	.589	- -
1934	.719	.471	- -
1935	.738	.555	- -
1936	.737	.625	- -
1937	.872	.868	.017
1938	.840	.729	- -
1939	.860	.714	- -
1940	.951	.734	.021
1941	1.028	.998	.028
1942	1.151	.990	.051
1943	1.218	.974	.046
1944	1.316	1.120	.048
1945	1.351	1.096	.057
1946	1.467	1.151	.021
1947	1.573	1.461	.029
1948	1.767	1.701	.088
1949*	1.770	1.737	.091

★DATA FOR 1949 BASED ON FIRST NINE MONTHS RESULTS.

Exhibit VI

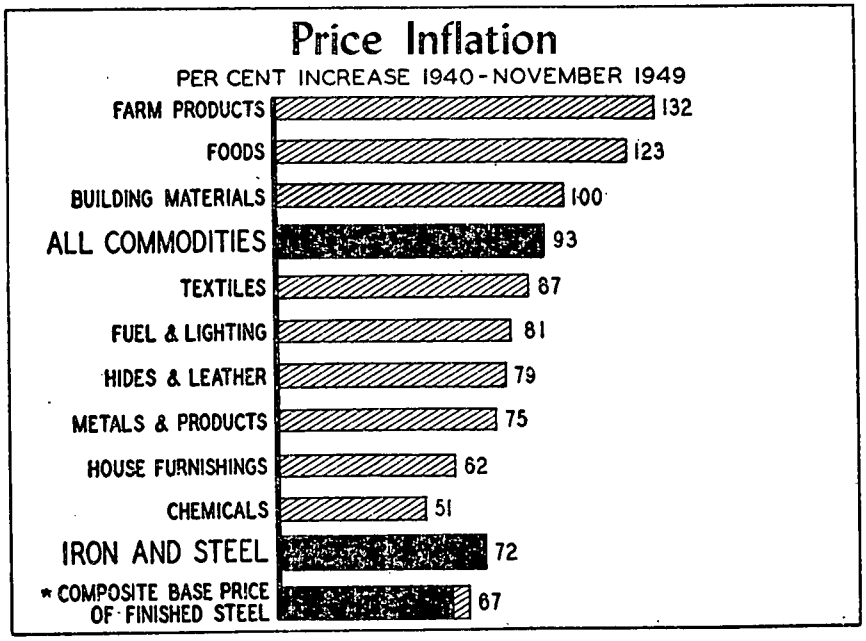
How The Sales Dollar Has Been Divided Since 1902



SOURCE: 1948 Annual Report and 1949 Quarterly Earnings Reports.

* Nine months 1949. Parentheses denote deficits.

Exhibit VII



SOURCE: U. S. BUREAU OF LABOR STATISTICS — WHOLESALE PRICE INDEXES

★ THE IRON AGE — BEFORE (61%) AND AFTER (67%) DECEMBER PRICE INCREASE.

61914—50——6

The CHAIRMAN. Congressman Patman, do you have any questions?
Mr. PATMAN. No questions, Mr. Chairman, thank you.
The CHAIRMAN. Senator Myers?
Senator MYERS. None at this point, Mr. Chairman.
The CHAIRMAN. Senator Watkins?
Senator WATKINS I have no questions.
The CHAIRMAN. Mr. Huber?
Mr. HUBER. Not at this time.
The CHAIRMAN. Mr. Buchanan?
Mr. BUCHANAN. Just where would you have purchased this steel had you not have purchased it from these few big companies?
Mr. VOORHEES. I did not get the question.
Mr. BUCHANAN. Just where would you have purchased this steel if you had not purchased it from these few big companies. That is the last paragraph on page 19, referring to the statement there.
Mr. VOORHEES. I do not understand the connection with the last paragraph.
The customer is King, Mr. Buchanan. He decides whether he wants to buy at the price or whether he does not, and we are employed by the customer. And our employees are employed by the customer. If he does not place his orders, we have no employment, we have no production.
Mr. BUCHANAN. It would mean the termination of production at that point?
Mr. VOORHEES. That is right, if the customer does not pay. We are absolutely dependent upon the customer.
The CHAIRMAN. Mr. Voorhees, may I ask you to turn to page 6 of the statement?
I find there that during the period January 1, 1946, to September 30, 1949, you have $818,000,000 labeled as "expenditures for property additions and replacements."
Mr. VOORHEES. Yes, sir.
The CHAIRMAN. An average of 218.1 per year?
Mr. VOORHEES. Yes, sir.
The CHAIRMAN. Is this the cost of the modernization program?
Mr. VOORHEES. It is, sir.
The CHAIRMAN. What was the modernization program?
Mr. VOORHEES. I think Mr. Reed, who is coming after me, our vice president in charge of engineering, has the full details on that.
Mr. FAIRLESS. He will follow, Senator, and he has the complete picture you want, I know.
The CHAIRMAN. I do not want the details now. I want to get the general picture of what it accomplished for the United States Steel Corp.
Mr. VOORHEES. With respect to the accomplishment, looking entirely at the question you are asking, there was a very small percentage increase, a very small increase in the amount of steel we had for sale or in steel ingots of production—a very small increase.
The CHAIRMAN. A small increase of output?
Mr. VOORHEES. A small increase of final output, of capacity produced; a very small one.
The CHAIRMAN. Was there an increase in capacity?
Mr. VOORHEES. Yes; a very small one.

The CHAIRMAN. Then what were the benefits obtained from the expenditures?

Mr. VOORHEES. The benefits obtained from the expenditure had to do with meeting customer requirement with respect to the quality of steel that was required by the customer. And in some cases it was more improved equipment from the standpoint of doing the job a little bit better.

The CHAIRMAN. Any reductions in costs?

Mr. VOORHEES. By the machine? Yes.

The CHAIRMAN. How much?

Mr. VOORHEES. From the standpoint of the costs, I think we have in the record a statement by Mr. Cooper that will give you the indications of that particular equation.

The CHAIRMAN. What is running through my mind at the moment, Mr. Voorhees, is the presentation that was made before this committee a year ago last December by General Motors. I have mentioned it previously at these hearings.

The General Motors brought to the city of Washington two automobiles. One was a 1949 Chevrolet, and the other was a 1929 Buick. The purpose of the exhibit was to show that by expenditures for plant improvement and efficiency of output, General Motors was giving its customers a 1949 Chevrolet for less money than the 1929 Buick, although the 1949 Chevrolet was a much better car—much more automobile, much more horsepower, and all of those attributes that go to the automobile—than the more expensive 1929 Buick.

In other words, in 20 years, expenditures for modernization of plant and equipment had resulted in a great advance of product and a great decrease of the cost.

Now, have your expenditures for modernization had a similar effect on costs?

Mr. VOORHEES. I am quite sure that with respect to the item of costs, that is not exactly the same. But with respect to the quality of the product, if we could bring in here rails and sheets and tin plate as compared to some of the old processes that we used, I think it would have just as striking reception by you, Senator. That is the difference in the quality of the product and the quality and the characteristics of the steel.

The CHAIRMAN. Well, if I understand you, Mr. Voorhees, you are telling the committee that while General Motors gave a better car for a lower price, you are giving better quality but not for a lower price.

Mr. VOORHEES. I would say that is characteristically true. But the General Motors Corp. is primarily—or the automobile industry is primarily one of fabricating and buying products from other people.

Now in the steel industry, with respect to the steel industry, it is a different kind of a business. We start from raw materials and go right on through, and the proportion of our fixed assets to our total sales is very much different than it is in the automobile industry. In other words, the amount and the costliness of fixed assets to produce steel is very much greater proportionately.

Mr. HUBER. Mr. Chairman?

The CHAIRMAN. If you will pardon me just a moment.

Mr. HUBER. Go ahead.

The CHAIRMAN. I wanted to ask Mr. Voorhees to turn now to page 17. At the end of that page we have the statement:

With regard to the general prices of steel products, the first thing to note is that those prices, as compared with the prices of other major groups of commodities, are not high. On the contrary, they are low. It is a fact that advances in the prices of steel products have been markedly laggard rather than in the vanguard of the great price inflation during the past 10 years. If we compare the movements in steel prices with other major trends in the economy, we find, for example, that the prices of our products have not moved up as much as have our employment costs, or as much as have our taxes, or as much as have the prices of many of the things we buy in order to do business.

Now, I have a table here prepared by the Bureau of Labor Statistics which would seem to indicate—taking this testimony of yours that modernization by United States Steel has increased the quality of the product but has not reduced the price—if instead of comparing the prices of October 1929 with the prices of 1940, you had compared them with 1926, it would show that the iron and steel industry ranks fourth from the top in the size of the price increase.

The first industry is building materials, which is 189.2 as compared with the base of 100 in 1926. Hides and leather are No. 2, showing an increase from 100 to 181.3.

Metals and metal products increased from 100 to 167 and ranked No. 3.

And then comes our iron and steel, with an increase from 100 in 1926 to 163.3 in 1949.

So that when it is computed upon the basis of the 20-year record, instead of the 9-year record, steel apparently stands pretty near the top of the industries in which prices have been increased.

Wholesale price index, 1940, October 1949, and December 1949

[1926=100]

	December 1949		October 1949		1940 (average)	
	Index	Rank	Index	Rank	Index	Rank
Building materials	190.3	1	189.2	1	94.8	4
Hides and leather	179.9	2	181.3	2	100.8	1
Metals and metal products	167.8	3	167.3	3	95.8	2
Iron and steel [1]	165.4	4	163.3	4	95.1	3
Foods	155.7	5	159.6	5	71.3	10
Farm products	155.3	6	159.6	6	67.7	11
All commodities	151.3	7	152.2	7	78.6	6
House furnishings	144.1	8	143.0	8	88.5	5
Textiles	138.4	9	138.0	9	73.8	8
Fuel and lighting materials	130.8	10	130.5	10	71.7	9
Chemicals and allied products	115.3	11	116.0	11	77.0	7

[1] 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. Price changes were recorded on only three of the items other than steel-mill products while 42 items showed no price change. It should be pointed out that the Bureau of Labor Statistics uses prices of extras on only 11 of the 30 regular steel-mill products included in the index and that 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 make 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 (Consumers' Prices of Steel Products, Bureau of Labor Statistics, Mar. 31, 1943, p. 15).

Source: U. S. Bureau of Labor Statistics.

Mr. VOORHEES. Did you say the 20-year period?

The CHAIRMAN. Yes.

Mr. VOORHEES. I thought you were talking about 1946.

The CHAIRMAN. October 1949.

Mr. VOORHEES. As compared to what?

The CHAIRMAN. As compared with 1926.

Mr. VOORHEES. 1926?

The CHAIRMAN. Yes.

Mr. VOORHEES. It is a 23-year record. All I know, and some other of our representatives may be able to answer the question, the quality of the product in 1949 as compared with 1927 and 1926 is the difference between day and night.

The CHAIRMAN. Well, it still is not clear to me how it comes about that, as you say on page 17, United States Steel has been engaged far more in modernization and replacement program than in expansion of basic capacity.

Mr. VOORHEES. That is right.

The CHAIRMAN. That you have expended over $800,000,000 for modernization, which amounts to 10 percent—more than 10 percent of the entire cash flow as set forth on your table on page 6; that you have not succeeded in bringing about any decrease in price.

Mr. VOORHEES. I think—and I would just like to check this. This is iron and steel. This is not steel. This is the Bureau of Labor Statistics, is that right?

The CHAIRMAN. The Bureau of Labor Statistics.

Mr. VOORHEES. There is everything in there including the kitchen cat with respect to steel. There is everything in there you can possibly think of. Scrap is in there. The list index from my standpoint is not a fair index with respect to our prices, in talking of prices or increase of steel prices.

The CHAIRMAN. Assume that to be correct you have still testified explicitly that you have improved your quality but have not reduced your price. That stands as your testimony.

Mr. VOORHEES. I would be very glad, if our people can do it, to put in the figure we think is comparable to that 159 you have there, and I am sure it will be very striking to you with respect to this situation.

The CHAIRMAN. If you will be good enough to furnish us with that material, we will file it with the Bureau of Labor Statistics and see what the comparison may be.

Now may I ask you to turn to exhibit 7.

Mr. VOORHEES. Exhibit 7; what page, sir?

The CHAIRMAN. It follows page 18.

Mr. VOORHEES. I have that.

Senator WATKINS. Before you leave that, do you have a price for each year showing a comparison from the time you began?

The CHAIRMAN. This same table he has.

Senator WATKINS. I wondered if the Bureau of Labor Statistics has given you that to show a comparison for each year on to the present time.

The CHAIRMAN. The point, Senator Watkins, is, if you will turn to exhibit No. 7, you will observe that Mr. Voorhees in his statement and in the preparation of this chart has used the Bureau of Labor Statistics figures for the iron and steel industry. His objection to quoting the figure for iron and steel was not apparent to him when he was preparing his chart, making the comparison between 1940 and the present time. It became apparent only when I used exactly the same figures but on the 1926 basis instead of the 1940 basis.

Mr. VOORHEES. But we have both there. We have both figures, Senator. We have the composite base price of finished steel, and we have the other figure, too.

The CHAIRMAN. Well, the record is clear on the basis of these figures which you chose for your presentation. When I used the other column of 1926, iron and steel stands a way up—No. 4 on the list.

Now there are one or two other questions which I think I might like to ask you.

First, do I understand clearly that there has been very little capacity increase?

Mr. VOORHEES. Of U. S. Steel?

The CHAIRMAN. Of United States Steel; yes.

Mr. VOORHEES. Yes; a considerable amount. I think you will hear from Mr. Reed about it. But it is not large in relation to our total. I think it would run pretty close to about 3 percent.

The CHAIRMAN. How about the increase of output?

Mr. VOORHEES. On the basis of ingot capacity, it is just about the same.

The CHAIRMAN. Of course, but during the war you operated at a much higher percentage of capacity than previous to the war.

Mr. VOORHEES. That is right.

The CHAIRMAN. And you have been operating at a pretty high percentage of capacity now?

Mr. VOORHEES. That is right.

The CHAIRMAN. What do you think is the outlook for the future?

Now, the reason I am asking you the question, Mr. Voorhees, is because it would seem to me that when any industry is operating at a higher percentage of capacity, that is to say, turning out a larger volume, selling more of its goods, it is much more likely to have a higher rate of profit than it had when it was selling only a small percentage of its capacity.

Mr. VOORHEES. In other words, the effect of volume.

The CHAIRMAN. That is right. That is true, is it not?

Mr. VOORHEES. That is true in a good many cases, yes.

The CHAIRMAN. All right.

Mr. VOORHEES. That is the general case.

The CHAIRMAN. How about your output increase?

Mr. VOORHEES. You are talking about insofar as the future is concerned or now?

The CHAIRMAN. Now.

Mr. VOORHEES. It has increased.

The CHAIRMAN. As compared with 10 years ago?

Mr. VOORHEES. I do not know exactly what the figures show compared with 10 years ago. Mr. Reed has those. As compared with 1943, I think the figures are up about 800,000 tons, something of that figure.

The CHAIRMAN. Would you venture a percentage?

Mr. FAIRLESS. We can give you the exact figure. We do not have to guess about them.

The CHAIRMAN. While looking for the exact figures in response to that question, would you want to venture a statement as to the percentage increase in 20 years since 1926, for example?

Mr. VOORHEES. Since 1926. I would not want to hazard a guess at all. The actual figures are available.

The CHAIRMAN. Would you please have them put in the record at this point. I suspect that you will find that United States Steel is producing and selling a much larger volume of a much better quality steel, to use your own phrase, than you were 10 years ago or 20 years ago.

Mr. FAIRLESS. Certainly.

The CHAIRMAN. Certainly. Is that not right, Mr. Fairless?

Mr. FAIRLESS. Yes, surely.

(The information requested appears on pp. 28 and 29 of the Annual Report of United States Steel Corp.).

The CHAIRMAN. Now are you making a better rate of profit, with all this modernization and all this increased efficiency?

Mr. VOORHEES. As far as the rate of profit is concerned, I do not think our profit in the last 4 years, which are inflationary years, is as high as it was in the period that you are talking about.

The CHAIRMAN. Well, you give us the picture of having greatly improved your quality, of not having improved your price, and if you are not making a greater profit, then the only answer is that quality United States steel is a much more expensive product both to United States Steel and to the consumers.

Mr. VOORHEES. That does not follow.

The CHAIRMAN. I may be off the beam on that logic, but it seems reasonable to me.

Mr. VOORHEES. It does not follow at all.

The CHAIRMAN. All right.

On page 1 of your statement——

Mr. VOORHEES. Page 1?

The CHAIRMAN. Yes.

You say with respect to this cost of producing steel, "There has been a large and continuing increase in the cost of producing steel in America." That is your statement.

Mr. VOORHEES. That is right.

The CHAIRMAN. How do you reconcile that statement with this modernization of plant and equipment?

Mr. VOORHEES. Because we are talking about labor and you are talking about something else. We are talking about labor costs, the cost of employment.

The CHAIRMAN. Are you willing now to challenge the profit rate figures which I read to Mr. Fairless this morning from the Federal Trade Commission?

Mr. VOORHEES. Absolutely.

The CHAIRMAN. Do you have our little pamphlet?

Mr. VOORHEES. I have the pamphlet there, and I would like to put in the record what our basis is from the standpoint of what our figures are.

The CHAIRMAN. All right.

(The document is as follows:)

JANUARY 24, 1950.

Percent income of investment

In view of the fact that the data contained in tables 11 to 14 of the Basic Data Relating to Steel Prices report, dated January 23, 1950, United States Steel asks that the following data which are taken from our annual report and which correctly state the facts involved, be made a part of the record of this proceeding.

	Percent		Percent
1917	[1] 12.1	1934	[1] [2] 0.8
1918	[1] 7.2	1935	[1] .4
1919	[1] 4.8	1936	[1] 3.2
1920	[1] 6.1	1937	[1] 5.6
1921	[1] 2.9	1938	[1] .0
1922	[1] 3.0	1939	[1] 3.1
1923	[1] 6.0	1940	[1] 7.0
1924	[1] 4.9	1941	[1] 7.1
1925	[1] 5.1	1942	[1] 4.5
1926	[1] 6.2	1943	[1] 3.9
1927	[1] 4.9	1944	[1] 3.8
1928	[1] 6.0	1945	[1] 3.6
1929	[1] 9.9	1946	[1] 5.6
1930	[1] 4.8	1947	[1] 7.4
1931	[1] .8	1948	[3] 6.5
1932	[1] [2] 3.1	1949 (for 9 months)	[3] 6.3
1933	[1] [2] 1.5		

[1] Page 29—1947 Annual Report of United States Steel Corp.
[2] Deficit.
[3] Statement of Mr. B. F. Fairless before the committee.

Mr. VOORHEES. I would like to say this one thing at this point, Mr. Chairman: Return on invested capital, when prices are stable or relatively stable over a period, is a pretty fair judge of return. But in inflationary periods it is not very good.

Now there are two kinds of bases with respect to judging profit in an inflationary period in my opinion. One is the percentage of profit on sales, and the other, and the best one in an inflationary period, is to follow the cash flows.

There seems to be a predominant feeling in certain groups that profit and undistributed or reinvested earnings are a pot of gold that can be nicked at will.

In an inflationary period it is my humble opinion that reinvested earnings are not a true judge of earning power because of the high cost of replacing fixed assets, because of the inflation with respect to prices that shows up in two spots—in the accounts receivable and also in inventory. And, therefore, to make certain, I would not put very much faith in returns on investment.

The CHAIRMAN. How much faith then do you put in the figures which you have just presented to me?

Mr. VORHEES. Only because you put some figures in. I am telling you the basis and what my judgment is with respect to earnings during this period.

The CHAIRMAN. Let me read the exhibit you have just handed to me so it will be clearly in the record for those who may read to understand what we say.

Mr. VOORHEES. All right.

The CHAIRMAN. Beginning in 1917 and ending in 1947, this table shows the percent of income on investment by United States Steel.

For 1947, I find a rate of 7.4, which is apparently the largest rate of profit since 1929 by your own figures.

Mr. VOORHEES. That is right.

The CHAIRMAN. Now, how did you compute your investment base upon which these percentage figures were computed?

Mr. VOORHEES. Our investment base is this figure: It is the total assets less current liabilities. That is the base we have always used in connection with showing invested capital.

The CHAIRMAN. What is the dollar value of your investment? Is it on the basis of the money put in?

Mr. VOORHEES. It is on the basis of the money existing at the end of the period.

The CHAIRMAN. Does that make allowance for increased prices, for inflation?

Mr. VOORHEES. It does not. You are comparing soft dollars with hard dollars, that is the reason.

The CHAIRMAN. How about depreciation when you compute your depreciation? Have you not computed it in what you call inflated prices?

Mr. VOORHEES. With respect to depreciation, let me get this straight on that one. You have the basis now for our invested capital. Now we will talk about depreciation.

With respect to depreciation it has been a terrific battle with the accounting profession and the SEC, who have more or less adhered to the accounting profession, with respect to what I call accounting depreciation and accelerated depreciation.

We learned the hard way. And I want to give you a few details here of how we learned the hard way.

In 1947, we had this modernization and replacement program in operation. I am not quite sure of the dates, but we had the original estimates of what it was going to cost for these replacements that were in process—and those were approved for going ahead.

The first thing that happened was that we got a hurry-up call from our engineering department that we had to spend $30,000,000 more to complete the project. But that was not all. It was not very much longer before there was another $30,000,000 increase. And then there was $36,000,000 on top of that; and then there was 35 more; and then there was 10. There was a total of $145,000,000 on top of the origional estimates that were approved from the period of 1946 to the middle of 1949—$145,000,000 more.

Now if anybody tells me that depreciation based on original costs is a fair criterion, when it cost me in cash $145,000,000 more in those three periods than I had anticipated, even at the costs that were in effect at the time the estimate was made and the appropriation approved—now that is hard cash. If during that period you were not

entitled to accelerated depreciation from the standpoint of those cash flows, then I am sure depreciation on original costs would have put us in a very, very distressing position.

The CHAIRMAN. Of course, I am not trying to tell you you should not have had accelerated depreciation. I am just trying to get you to explain to the committee, Mr. Voorhees, your own figures.

Mr. VOORHEES. All right.

The CHAIRMAN. Now your figures show that in 1947 you had the highest percent of income on investment that you had since 1929, and I am merely asking you to tell the committee on what basis you computed your investment during this period.

Mr. VOORHEES. Insofar as that investment is concerned, it shows right there in the statement, 7.4. But in 1947 we were just getting into this story with respect to accelerated depreciation and replacement depreciation, and I am just as sure, Senator, that that figure of accelerated depreciation is greatly understated insofar as the year 1947 is concerned.

The CHAIRMAN. May I ask you whether these figures which have been presented in your table represent the percent of income before or after taxes?

Mr. VOORHEES. After taxes. I can only pay my bill after taxes.

The CHAIRMAN. Very good.

Now I just want to turn to the table of the Federal Trade Commission showing the rate of return on total investment after provision for Federal and other income taxes.

Now, as compared with your figure of 7.4 for 1947, the Federal Trade Commission gave you 9.68.

Mr. VOORHEES. What page are you reading from?

The CHAIRMAN. Page 20.

Mr. VOORHEES. Yes.

The CHAIRMAN. I just want to put these in the record together with your figures.

	Percent		*Percent*
1947	9.68	1939	3.21
1946	6.01	1938	.04
1945	3.98	1937	6.78
1944	4.81	1936	3.82
1943	4.32	1935	.39
1942	4.80	1934	—.96
1941	7.60	1933	—1.76
1940	7.34	1932	—3.54

The figures for 1932, 1933, and 1934 were deficits.

	Percent
1931	0.95
1930	5.67
1929	11.39

So here again we find, acording to the Federal Trade Commission, that in 1947 you had the highest rate of return on total investment after taxes in any year since 1929.

Mr. VOORHEES. I do not agree.

The CHAIRMAN. Well, your own figures show the same thing but give different figures.

Mr. VOORHEES. No.

The CHAIRMAN. Yes, sir. You show 7.4, and there was nothing comparable to that figure for 1947 until you go back as far as 1929 when 9.9 is shown.

Mr. VOORHEES. And that shows there was not a satisfactory profit during that period.

You see with responsibility for paying off in cold cash 290,000 employees, and satisfying 240,000 stockholders, you do not do that with book entries. And if you have responsibility for that, you look at it from the standpoint of that cash, where that cash is coming from.

The CHAIRMAN. We might have these technical explanations——

Mr. VOORHEES. These are not technical.

The CHAIRMAN. All I am pointing out, and this is your record, sir. You have challenged the Federal Trade Commission figures.

Mr. VOORHEES. I have.

The CHAIRMAN. And you present a new set of figures.

Mr. VOORHEES. Yes.

The CHAIRMAN. This new set of yours shows that in 1947, on your own computation, you had the highest percentage return on investment since 1929. The Federal Trade Commission showed exactly the same curve, only they gave you a higher rate of profit.

Now we shall have the staff of the Federal Trade Commission get together with your staff and try to make some adjustment as to the bases.[1]

Mr. VOORHEES. I think I know exactly the basis. They have thrown out accelerated depreciation, and they have thrown out war costs, reserves for war costs; and they have made their figure up on a different basis. But your 1947 figure, I told you how we learned the hard way, and it was during 1947 that we learned the hard way about accelerated depreciation and increased costs of replacing fixed assets. And you are picking that year, or the Federal Trade Commission is picking that year.

Now again with respect to undistributed profits. I think it might be desirable at this point to take that chart over there and explain what happened to the reinvested earnings or the undistributed profits.

The CHAIRMAN. You may do that if you wish. But first let me make this point clear for the record with respect to the cost of modernization.

The $818,000,000 which you show in this table on page 6 for plant expansion and improvement, was of course, taken out of retained earnings, was it not?

Mr. VOORHEES. It came from about four sources, Senator. The major place was depreciation, both on a normal basis and accelerated. That is No. 1.

It came from reinvested earnings. It came from depreciation that had not been spent, was accumulated during the war period because

[1] See appendix B, p. 557, for letters from Federal Trade Commission, February 13, 1950.

we could not replace it at that time. It came from a reduction in cash and the sale of Governments. And it came from an increase in liabilities.

Now those are all general, but you cannot follow a dollar individually through the accounts.

The CHAIRMAN. Would you be good enough to put in the record at this point a break-down of these different sources so that we find out how much came from each source?

Mr. VOORHEES. They are shown exactly in the chart. And if you will go to my statement, it is the first chart behind the text, and it will show you the derivation. There is the derivation of it, and there, for all practical purposes, is where it went.

The CHAIRMAN. Very good. It is in the record.

Mr. VOORHEES. I think this, Senator: We can only learn about what is going to happen in the future by looking at the past very carefully. Now in the past this money has been used, this reinvested earnings has been used for these purposes. But, as I said before, you cannot trace each individual dollar out, you can only trace it in the spots where the bigger money was spent. But that will give you the story, I am sure.

The CHAIRMAN. Except for increased liability which, I would assume, might have been borrowings.

Mr. VOORHEES. No.

The CHAIRMAN. What is it?

Mr. VOORHEES. If your accounts payable increase as a result of purchases, your liability has increased, has it not? There is no borrowing in this picture.

The CHAIRMAN. Then the $818,000,000——

Mr. VOORHEES. I will show where it comes.

The CHAIRMAN. It is actually out of the resources of the company?

Mr. VOORHEES. That is right.

The CHAIRMAN. Now that was a capital investment, was it not?

Mr. VOORHEES. It had to be capitalized. The replacement has to be capitalized.

The CHAIRMAN. So it was not part of the cost of producing steel?

Mr. VOORHEES. Oh, yes.

The CHAIRMAN. On the same basis as employment costs? Is not there a difference between capital costs and current costs?

Mr. VOORHEES. Depreciation, in my opinion, should be sufficient to recover the replacement costs in an inflationary period. When you buy new equipment you capitalize it, of course.

The CHAIRMAN. I am trying to find out whether this $818,000,000 was so accounted for by the United States Steel Corp., that it was used as a basis of the increased cost of steel of which you are talking.

Mr. VOORHEES. Only insofar as the accelerated depreciation is concerned on the items of equipment that were fully in use during this period.

The CHAIRMAN. So that it is not a cost of producing steel, as wages are.

Mr. VOORHEES. As to the 800 million. Not all of it is a cost of steel produced in this period—only a very small proportion.

The CHAIRMAN. A very small proportion?

Mr. VOORHEES. That is right.

The CHAIRMAN. I just wanted to have the record clear on that point. Now you wanted to explain some chart?

Mr. VOORHEES. I think you have pretty near hit the point there, but I think I might just as well. If you will give me the pointer here, I will show it.

The ordinary earning statement is in this form. We have sales, we have employment costs, we have products and services bought, we have wear and exhaustion or depreciation, which in this case includes that part which we have been able to arrive at with respect to accelerated depreciation.

Here are the taxes. Here is the interest and the dividends paid to owners, and here is the income reinvested.

The ordinary supposition is that this $212,000,000 here is a pool of gold at the end of this period, and that you can just put your hands right in and pick it out. Every single day that these transactions were occurring, this money was being used, being turned over, and here is where it hits an inflationary period. It hits as an increase in accounts receivable.

Your prices are up, and this is not any different from any business in the United States that has accounts receivable during this period. Therefore the money must be provided to finance those accounts receivable; the increase.

We actually received in cash seven billion nine. Our payments were three billion three for labor. The products and services we bought from others were 3.284 million. So far as the total was concerned, our earnings statement shows purchased goods to be 3.159 million.

As to the difference, we had payments for war costs and other charges to reserves of 43 million. The increase in the inventories and deferred costs amounted to 124 million—and there is the inflationary item with respect to inventories showing up. Less an increase in amounts owed to suppliers of 42 million, representing a liability that had not yet been paid.

The actual cash disbursements for products and services bought were 3.284 million or 8.759 million average on an annual basis. Wear and exhaustion, we recovered 440 million through our selling prices. We spent eight hundred eighteen million.

The difference comes from the use of proceeds from the sale of properties and from other amounts. That is where the flow comes in, the 212 million of income reinvested.

Now, here is the increase in taxes, interest, and dividends, repayment of borrowed money. Now, the point is this, with respect to this chart: This 212 million is in our flow. The point is, where do you want to absorb this $71,000,000 of increased cost, or rather, 75 million. Where do you take it out? Do you want to take it out of accounts receivable? You cannot get it out of products and services bought and still continue the business.

If you take out of this amount expenditures for properties, then you are going to destroy the ability of United States Steel to maintain itself and supply the American people with the kind of products that they as customers want, and you are going to destroy employment.

Again you come down here to dividends. If you take it from there, you destroy confidence with respect to obtaining capital, so there is

only one place, Senator, that it can come from, and that is from the customer.

Are there any questions that you would like to ask on this chart?

The CHAIRMAN. No; but there is another chart to which I would like to direct your attention. I do not know whether you have a large copy of it. It is chart 6.

Mr. VOORHEES. I have that one, too. I am very, very glad to have that one because I would like to explain that one, too.

Do you want me to explain this chart and then have you ask me questions, or do you wish to ask me questions first?

The CHAIRMAN. Well, I will ask you a question first, but perhaps before calling your attention to this chart, may I say to the members of the committee this exhibit appears as part of Mr. Voorhees' statement, so each member of the committee has one before him.

I got the impression from your last statement, Mr. Voorhees, that it was your belief that the customer should pay the cost of the increased facilities that you are providing.

Mr. VOORHEES. He is bound to pay for it in the long analysis over the period that those facilities are used. He is bound to pay for it or he will not get the service.

The CHAIRMAN. Well, of course, that is the difference between equity investment in plant and the current cost of production.

Mr. VOORHEES. The customers pay these costs or we go out of business, and then he does not get the service. It is just as simple as that, unless we get a Government subsidy, and I do not think any of us would like that. I think the person that uses the steel should pay for it, and not the taxpayer.

The CHAIRMAN. The capital returns to industry would cover a period of years, it seems to me, instead of being accounted for in consumer price all in 1 year or in a short time.

Mr. VOORHEES. They are not covered in 1 year insofar as fixed assets are concerned. They are covered in approximately 22½ years.

The CHAIRMAN. All right, will you look at the first column there? The burden of the testimony today has been that employment costs have advanced so materially that they have compelled the price increase of which you speak.

Mr. VOORHEES. There is not any doubt about that. You follow that trend right down there. It averaged about 30 up in this period and it is still about 42 or 43.

The CHAIRMAN. I am reading the figures which you have provided. In 1949 you estimate the employment cost at 0.399; 1948, 0.417; 1947, 0.426; 1946, 0.471; 1945, 0.472; 1944, 0.460; 1943, 0.463; 1942, 0.420; 1941, 0.387; 1940, 0.430; 1939, 0.457; 1938, 0.482; 1937, 0.435; 1936, 0.429; 1935, 0.471; 1934, 0.510; 1933, 0.448; 1932, 0.481; 1931, 0.471; 1930, 0.449, and 1929, 0.374.

Now, that seems to me to say that employment costs are estimated to be lower in 1949 than for any year since 1929 except the year 1941, when it was slightly lower.

Mr. VOORHEES. Well, I would not agree with you at all on that, Senator.

The CHAIRMAN. Well, how do I misread your figures?

Mr. VOORHEES. Here is the point that you have not looked at. As the rate of profit goes down, my dear friend, the proportion of the total sales dollars of labor becomes greater.

Now if you follow the trend—and this is the point—you will see that labor is consistently getting more out of that dollar of receipts, and you will see also that our products and services are getting more, and you will see that our wear and exhaustion is down from the averages here insofar as this period we are talking about is concerned.

The CHAIRMAN. Well, Mr. Voorhees, when I recall what labor was getting out of United States Steel back in 1902 at the beginning of the century, I have a feeling that your chart, even in the cross-hatched portion of column 1, does not show any substantial increase. There is a slight increase, but from the 12-hour day——

Mr. VOORHEES. The actual increase insofar as the first 15 years are concerned with respect to employment costs is from an average of 0.333, after the war period 0.425, an increase of 9 cents out of the sales dollar. Now these are facts that I am giving.

Products and services bought during the same period has increased 4.3 cents, and taxes have increased 4.7. Now let us see where those came from. Let us look at where they same from. The wear and exhaustion is down 1 cent. Interest has decreased from 6.3 cents per sales dollar down to one-tenth of 1 cent per sales dollar. Income has decreased from 17 cents down to 6 cents per sales dollar.

Senator MYERS. Are you interpreting this chart now?

Mr. VOORHEES. That is right, and let us follow what happened with the rest of that.

The CHAIRMAN. Where does that percentage of the sales dollar appear on this chart?

Mr. VOORHEES. I am taking the averages here of this period in here as compared to the period right here, and I am showing you exactly what happened.

The CHAIRMAN. But you are reading from——

Mr. VOORHEES. I would be glad to put this into the record.

The CHAIRMAN. A table which we do not have.

Mr. VOORHEES. Our income has been reduced 11 cents. Now let us see what happens to that.

Senator MYERS. Reduced 11 cents compared with what period, Mr. Voorhees?

Mr. VOORHEES. Compared with the period starting in here.

Senator MYERS. You mean compared with the early years?

Mr. VOORHEES. Yes, sir; the first 15 years.

The CHAIRMAN. You mean you are getting a smaller percentage of the sales dollar than you were back in 1902.

Mr. VOORHEES. That is right. Employment cost and products and services and taxes have squeezed "income or loss," and they have squeezed this "dividend and reinvested" so that dividends have decreased from 9 cents of the sales dollar to $3\frac{3}{10}$ cents per sales dollar.

The CHAIRMAN. What was your volume of sales at the beginning of the century?

Mr. AUSTIN. Eight million, nine hundred and thirteen thousand tons shipments in 1902.

Mr. VOORHEES. I am taking a 15-year period.

The CHAIRMAN. What were your sales last year?

Mr. VOORHEES. Our sales last year showed what, 2,400,000,000?

Mr. AUSTIN. Eighteen million two hundred and fifty thousand tons in 1949.

The CHAIRMAN. You are talking about tons, and we are talking in dollars. Well, is it not a fact—put the figures in the record later—that your volume both as to tons and as to dollars is vastly greater now than it was during the 15 years at the beginning of the century?

Mr. VOORHEES. That is very true, but there is a ratio, and especially during an inflationary period it is represented by percentage income on sales.

The CHAIRMAN. Well, can you not reduce price as you increase your volume?

Mr. VOORHEES. I would say we have, because look where this 18 cents has come from.

The CHAIRMAN. I thought you said you merely increased the quality but did not reduce the price.

Mr. VOORHEES. From the standpoint of these items here, the income is down to the extent of 11 cents on the sales dollar. The dividends are down very materially, and the amount reinvested, look at these flow charts here, do you see these lines going down? Do you see this line almost disappearing?

The CHAIRMAN. Well, I think that it is an axiom of business that the producer can very easily accept a much smaller unit of profit if he succeeds in increasing his volume of units, so that on the whole the aggregate profit is much increased.

Mr. VOORHEES. But if you do not get enough dollars back to do a satisfactory job, how are you going to be able to assume increased costs?

The CHAIRMAN. And the United States Steel, has it not gotten a sufficient amount of dollars back to enable you to do a satisfactory job?

Mr. VOORHEES. We have, but it has only come through that amount reinvested which you consider profit.

The CHAIRMAN. Well, it was not profit?

Mr. VOORHEES. I do not think so.

The CHAIRMAN. Merely because you invested it in plant expansion?

Mr. VOORHEES. But it did not do the job of replacing our situation. We had to recover the money in other ways.

The CHAIRMAN. Well, this reminds me of the ring-a-round we had a year ago when we were discussing depreciation. I really am not impressed by the sad story you are telling us now about the decreasing position of United States Steel in the steel industry.

Mr. VOORHEES. Well, let me look at it another way. Let me take these figures another way and see how you like them. Let me take it per employee.

In the first 9 months of this year United States Steel received $4.44 for every hour that an employee worked. We had spent $1.77 for employment costs. We spent $1.74 for products and services. The wear and exhaustion was 26 cents per hour, and taxes took 36 cents.

Now out of that $4.44 we paid 13 cents as interest and dividend payments, and we had reinvested income of 18 cents. Now I would like to know, from the standpoint of equities, whether that is an exorbitant profit. In other words, for every hour an employee worked—and we provided the tools for them, the stockholders provided the tools——

The CHAIRMAN. Mr. Voorhees, on the basis of what you are saying, the issue is not whether United States Steel make an exorbitant profit.

You want us to think that United States Steel made no profit at all.

Mr. VOORHEES. Well, listen, that is not my basis here. You are saying from the standpoint of this situation, that pension costs should have been absorbed.

The CHAIRMAN. I have not made any statement of that kind as yet.

Mr. VOORHEES. I beg your pardon.

The CHAIRMAN. I am asking you questions.

Mr. VOORHEES. I beg your pardon.

The CHAIRMAN. But I do say that the retained earnings, the profits which are plowed back into expansion in any business, in any industry, are still profits. You did not distribute them in dividends. You chose rather to use them for expansion of industry in capital investment.

What proportion we must definitely call profit, that I do not attempt to pass on, but $818,000,000 was a capital investment, and most of that, according to your testimony, I think, came out of retained earnings.

Mr. VOORHEES. Most of it came out of depreciation, normal depreciation and accelerated, plus our cash which had accumulated from that source.

The CHAIRMAN. All right, and when we get down to talking about the meaning of depreciation, we are discussing a problem of whether or not you should be permitted to figure all your plant at the inflated dollar instead of at the dollar which it originally cost, even though it may have a much better rate of productivity. That of course is not a question that we can debate here.

Mr. VOORHEES. That is right, but in an inflationary period I think the reasoning that I have used in this situation is 100 percent sound, and that the cash flow determines where you are in an inflationary period, and that the pool of profits which shows at the end of the earnings statement has to be used up very fast.

The CHAIRMAN. Now you made the statement on page 10 of this presentation——

Mr. PATMAN. Mr. Chairman, if you will pardon me, I have a question. The investment of retained earnings was described by one witness before our committee as costless capital. You recall that?

The CHAIRMAN. That is right.

Mr. PATMAN. He later struck it out of his statement.

Mr. VOORHEES. I will say it is high-powered money, Mr. Patman.

Mr. PATMAN. I would say it is a rather devastating admission.

Mr. VOORHEES. I do not consider it that by any means.

The CHAIRMAN. Well, on page 10 of your statement you will see this sentence:

> It has been United States Steel's long experience that whenever a significant employment cost increases—whether in wages, pensions, or insurance—gets started in one of the country's industries, that increase of employment cost tends to spread to all industries.

Mr. VOORHEES. That is right.

The CHAIRMAN. Well, is not that also true with respect to price increases?

Mr. VOORHEES. I would say to a degree that is right.

The CHAIRMAN. So that the increased price of steel will be reflected right down through the line of all steel-using industries.

Mr. VOORHEES. Not necessarily, but it may. It depends upon competition insofar as the final customer is concerned, the products that compete at that point determine it.

The CHAIRMAN. Now during the hearing a year ago when we were considering profits, I wrote down a little excerpt from the letter that was written to the stockholders of United States Steel by Mr. Irving Olds. This was published in the February 1948 issue of the United States Steel Quarterly. It was entitled "Inflationary Dangers," and reads as follows:

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

Do you think there was any opportunity at all for United States Steel on December 16, 1949, to exhibit this statesmanship of which Mr. Olds spoke, or whether only the increased wages or pensions that go to labor are the increases which should be cut off or reduced?

Mr. VOORHEES. I would say this, Senator: That you are looking at the effect rather than the cause, and the cause was an employment cost increase.

Now is it better for United States Steel to be in the position of being able to supply products of the quality desired by the customer and where, if an emergency occurs, we are in a position to supply that steel and to do a job, or is it better for us to be in a position of not being able to do that?

There is only one answer to it. United States Steel has a major responsibility to the people of this country to keep its plants modern for the future, and that is a very big responsibility and we feel it.

The CHARMAN. Well, of course I know, Mr. Voorhees, that increased steel prices are reflected not only in the costs of other industries, in costs of equipment to agriculture, to the householder and to building materials and all of that, but to the Government also. I know that it is not an easy problem, of course.

Everybody in Congress recognizes that there is such a thing as the wage-price spiral, but the picture that seems to be presented here is that of an industry which has grown steadily since the turn of the century from a comparatively small producer, in terms of the present day, to a very large producer.

Here you now have a $2,000,000,000 industry, a far-flung industry producing steel and selling it all over the United States and exporting it to the world. Do you want to say that in your judgment and the judgment of the management of the United States Steel, you could not have absorbed, as the President's board said, as a result of the increased efficiency of your modernization, the cost of this increased pension?

Mr. VOORHEES. I will say this in answer to that question, Senator; that insofar as the flows of cash throughout that corporation are concerned, I do not know which one I would nick from the standpoint of absorbing that cost.

The CHAIRMAN. Well, I observed that in your statement you put it just that way, as though you would have to take the whole 71 million out of one or the other. You might have distributed it among them all.

Mr. VOORHEES. That is true, but again you cannot talk about costs or profits or selling prices on the basis of a short-term situation. You have to deal on the basis of a long-term phase.

Now when our costs are increased—this has actually happened during this period, Senator, and again we learned the hard way. Wages were increased and we increased the prices to the extent of the wage increase, and then our products and services came along and then we had to increase them again. Every time we were behind the eight ball because the products and services caught up with us. Now you learn the hard way, as I say.

The CHAIRMAN. But on the testimony of Mr. Buck, your witness this morning, there were four pension plans which you might have adopted. You adopted the most expensive of the plans.

Mr. VOORHEES. No. Mr. Buck said that the fourth one was the least, and he said the first and second were the most expensive in the end.

The CHAIRMAN. That was not my understanding of his testimony.

Mr. VOORHEES. I will take the record for that.

The CHAIRMAN. Well, we will look over the record, then, because I do not want to draw any conclusions except from the record.

Mr. VOORHEES. There is another point about that that I would like to put in the record, too. We have had a lot of experience with pensions. We know how retiring employees and retired employees bank upon these pensions. We know it has been necessary in some of our cases to reduce pensions in periods of very, very slack business. Our employees do not like it and we do not like it, and we think we must be sound from the standpoint that when the work is performed by the employee, that gives him the pension after he meets the criteria at 65. It is a cost as the work is performed, and that is fair to him and it is fair to the corporation and it is fair to the customer to pay it as he gets the product.

The CHAIRMAN. I do not want to prevent the complete presentation of your case this afternoon. I am sorry I have taken so much time with these questions.

Mr. Fairless?

Mr. FAIRLESS. Mr. Chairman, may I make a suggestion. It is based entirely on your desires, I understand, to complete our hearing today. I do not want you or your committee to miss this iron-ore picture which I think I referred to in my statement. I think it is important not only to the steel industry but to the Nation.

The CHAIRMAN. I think it is very interesting and very important.

Mr. FAIRLESS. With your permission we would be perfectly willing to submit the statements of the other witnesses, although we would like very much to have Mr. Reed testify on facilities, and Mr. Austin on price structure report, so it is your decision.

The CHAIRMAN. How long will it take to present that picture?

Mr. FAIRLESS. Forty-five minutes.

The CHAIRMAN. Senator Myers wants to ask a few questions.

Mr. FAIRLESS. This is not a moving picture that we are going to present. We are only using slides to illustrate certain scenes. It is not a movie.

Senator MYERS. Mr. Voorhees, from the statement that you presented to the committee, I see that you indicate that in 1947 the percent income of investment was 7.4.

Mr. VOORHEES. That is right.

Senator MYERS. And that was better than any of the previous war years.

Mr. VOORHEES. Yes; that is very true.

Senator MYERS. And do you have any figures for 1948?

Mr. VOORHEES. They are in back of the schedule which I think you have there.

Senator MYERS. And is the percent income of investment for 1948 better than 1947?

Mr. VOORHEES. It is less.

Senator MYERS. How much less?

Mr. VOORHEES. As I said before, it was during 1947, Senator, that we found out the hard way about the high cost of replacing fixed assets.

Senator MYERS. What about the first 9 months of 1949?

Mr. VOORHEES. The first 9 months of 1949? It is also shown on that statement, sir.

Senator MYERS. Well, according to the document prepared by the committee entitled "Basic Data Relating to Steel Prices," on page 17, there is a statement that the profits of the United States Steel increased 51 percent in the first 9 months of 1949 over the first 9 months of 1948.

Mr. VOORHEES. Where did you get that?

Senator MYERS. I say on page 17 of this document, prepared by the staff of the joint committee, entitled "Basic Data Relating to Steel Prices."

Mr. VOORHEES. That is right.

Senator MYERS. I find that table 9, entitled "Profits After Taxes of 10 Major Steel Companies, First 9 Months 1948 and 1949; United States Steel Corp. First 9 Months of 1948, $88,000,000, First 9 Months of 1949, $133,000,000," or a percentage increase of 51 percent.

Mr. VOORHEES. That is right.

Senator MYERS. Well, if there is that great increase in profits, Mr. Voorhees, when do we reach that point that both you and Mr. Fairless would agree that the steel company has made a fair return on its sales or investments if the increase in the first 9 months of 1949 was 51 percent over 1948?

Mr. VOORHEES. Senator Myers, my objective is to make as much money on a ton of steel—while selling it at a competitive price, whatever that competitive price is, and make a more satisfactory profit than my nearest competitor. Now that is my objective. The competition determines what the situation is.

Senator MYERS. That is not the point, Mr. Voorhees. Mr. Fairless says, in his opinion, United States Steel has not made a fair return either on its sales or investment at any time during the last 2 years.

Now if there is a 51-percent increase in 1949 over 1948, when do we reach that point where you both would agree that at least, although you may not be satisfied with the profits, it is a fair return on investment? When do we reach that point?

Mr. VOORHEES. Senator, any short period in the steel business is not a fair criteria of a return.

Senator MYERS. Mr. Voorhees, the curve is constantly up on your own figures.

Mr. VOORHEES. All right, but look at the trends over there I have just shown you on the sheet.

Senator MYERS. 1945, '46, then '47, then '48, then '49, that is a 5-year period. Now the trend is constantly upward.

Mr. VOORHEES. But it is not constantly upward. It has been constantly downward here for a long period, for the last 20 years. Look at the chart. You can see it right there.

Senator MYERS. Even on your own chart, Mr. Voorhees, I was rather confused, how the sales dollar has been divided since 1902.

Now you show for employment costs, that in 1949, 3.99 of the sales dollar goes to employment costs, the last item in the first column, "Employment costs." Am I correct?

Mr. VOORHEES. I do not understand where you got 3.3 cents from.

Senator MYERS. You interpret for me how the sales dollar has been divided since 1902.

Mr. VOORHEES. I interpreted it, Senator, this way: That during the first 15 years our employment costs were 33⅓ cents of the dollar as compared to 42½ cents in the last 5 years or since the war.

Senator MYERS. Let us begin with the last 5 years and compare each of the last 5 years with the preceding year.

Mr. VOORHEES. You are going back to 1944, is that what you would like to do?

Senator MYERS. I have this chart of yours, and you end with the year 1949 as I interpret it.

Mr. VOORHEES. That is right.

Senator MYERS. Now as I interpret that—and I may be wrong—it seems to me that your own chart indicates that a smaller amount of the sales dollar has gone into employment costs in 1949 than in 1948.

A smaller amount of the sales dollar goes into employment cost in 1948 as compared with 1947, and still a smaller amount of the sales dollar goes to employment costs in 1947 as compared with 1946.

Mr. VOORHEES. Well, that is true in any year in which the profit is small. When the profit is small, the employment costs represent a higher proportion of the sales dollar.

Senator MYERS. But still there has been a constant increase over those years in wages, has there not?

Mr. VOORHEES. That is right.

Senator MYERS. And yet although with that constant increase in wages, a smaller amount of the entire sales dollar was taken up with employment costs.

Mr. VOORHEES. That is right, but as I showed you, the trend has been consistently for labor to get a higher and higher proportion of the sales dollar with respect to the long-term trend. You are looking at short terms.

Senator MYERS. Certainly. Not in the last 5 years?

Mr. VOORHEES. You are looking at short terms.

Senator MYERS. Well, of course, I am looking at short terms, just as you indicated with a small volume of business your unit profit was much higher. Quite naturally so, but with a larger volume, your profits, your unit of profit should be much smaller, but getting back to your original statement, I am really disturbed about the statement that

you have never made a fair return, and yet in 1949 your profit was 51 percent greater than in 1948.

Mr. VOORHEES. But you are only talking about a very short period here, Senator.

Senator MYERS. Well, Mr. Fairless said, "In any year, 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."

"Any time" means any year. Now if 1949 was a much better year than 1948, and a better year than 1947, and a better year than the war years does not give you a fair return, when do we reach that point? That is my only purpose.

Mr. VOORHEES. Well, the only point is that it is based on competition. Therefore we have to do the best we can within that area. Then again from the standpoint of that situation it depends upon the conditions under which your sales are made, and there are so many factors involved in this situation, Senator.

Senator MYERS. Well, I think the difficulty, Mr. Voorhees, is this: I think it is difficult for you to get across to the American people that you do not believe you are getting a fair return in 1949 when your profit was 51 percent greater than in 1948. There may be an answer, but I do not think that just the bald statement that it is not a fair return is sufficient, and I think the American people are disturbed about that great profit, and yet the company is saying it is not a fair return. Maybe I am wrong.

Mr. VOORHEES. Well, would you consider 6 or 7 cents on the sales dollar a fair profit, or would you consider 3 cents to the stockholder as a fair return? I mean those are the questions you have to decide.

Senator MYERS. That is what I am asking you. Do not ask me.

The CHAIRMAN. May I intervene there, Senator Myers?

Senator MYERS. Surely.

The CHAIRMAN. This table of how the sales dollar has been divided since 1902 in my opinion is altogether inadequate since it does not contain a column showing the growth of the number of sales dollars.

Now, of course, we know that it is a common practice of large national businesses to compute their profits in terms of the sales dollar rather than in terms of the actual capital invested. It makes a great difference.

Now the reason that you can show in the column on dividends or the column on income or loss that you have a smaller share of the sales dollar for income, a smaller share of the sales dollar for dividends than you had at the beginning of the century, is only due to the fact that your business has been so tremendously profitable that its volume has expanded tremendously.

Take your column of dividends back in 1902. You were getting 13.2 cents out of the sales dollar and for dividends in 1949 you figured 3 cents on the sales dollar, and yet the total dividends for 1949 as compared with the total dividends distributed in 1902 even with an adjustment for the inflationary dollar, would show what sort of a picture?

Mr. VOORHEES. The dividend figures are all shown here in the annual report. I can give them to you if that is what you want.

The CHAIRMAN. What was the total amount distributed in dividends back in 1902?

Mr. VOORHEES. In 1902 the dividends distributed were $56,000,000.

The CHAIRMAN. What were the dividends distributed in 1948?

Mr. VOORHEES. In 1948 there were $77,000,000, of which $25,000,000 was preferred and the balance was common.

The CHAIRMAN. And way back there at the turn of the century, of course, you were not paying any dividends on common stock for a long time.

Mr. VOORHEES. That is right, we did not pay for a long time in the middle thirties.

The CHAIRMAN. Because the common stock did not represent any capital investment. It just represented the additional——

Mr. VOORHEES. But that day is long past, Senator.

The CHAIRMAN. But it was there.

Mr. VOORHEES. That day is long past, and those are hard dollars, too, but let me answer your question here. You are making a comparison insofar as profits are concerned in an industry where your gross fixed assets are not turned over in 1 year. Our sales are only equivalent to about 80 percent of our total fixed assets.

Now in an industry of that kind where the turn-over is so small, you must have a satisfactory profit to keep those fixed assets in shape. Now there is not any doubt about that, and therefore it has been very lean picking insofar as the United States Steel Corp. is concerned, and we are trying, very, very much to put it in shape to do a better job for the American people from the standpoint of servicing their requirements.

Senator MYERS. You tempt me to inquire what is a satisfactory profit, but I will not ask that question again.

The CHAIRMAN. Well, please let us have for the record at your convenience a statement showing the total sales volume for each year shown on this chart that we have been discussing.

Mr. VOORHEES. And I want to also say for the record that we paid common dividends right straight through from 1906 to 1931.

The CHAIRMAN. Off the record.

(Discussion was had outside the record.)

Mr. VOORHEES. I would like to offer this annual report of 1948 which gives all of the information we had in mind. Can I put that in the record?

The CHAIRMAN. It will be incorporated in the record at this point.

The Annual Report of the United States Steel Corp. above-referred to follows:)

ANNUAL REPORT, UNITED STATES STEEL CORP.

A REVIEW OF THE YEAR BY THE CHAIRMAN

Meeting peacetime needs

The year 1948 brought no abatement in the Nation-wide heavy demand for steel products. United States Steel contributed its full share toward meeting these pent-up steel needs of the country, and during the year established new peacetime records for the production of ingots and for the shipment of steel products.

United States Steel produced in 1948 a total of 29.3 million tons of steel ingots and castings, such production averaging 93.8 percent of its rated capacity. Strikes in coal operations, shortages of essential materials, and necessity for repairs chiefly prevented the attainment of full capacity operations. During the fourth quarter of 1948, however, steel production averaged 99.4 percent of capacity.

Shipments of steel products by United States Steel in 1948 amounted to 20.7 million tons, which exceeded its previous peacetime record by more than 400,000 tons. United States Steel's shipments to foreign countries under Government export licenses equaled 5 percent of its total 1948 shipments.

The year witnessed heavy utilization of raw materials, grueling operation of facilities to maintain high production, and mounting operating costs.

Financial results

Income and dividends.—For the second consecutive year United States Steel, in 1948, established a new high record in total dollar sales, receipts from customers amounting to 2,481.5 million dollars. Income for the year was 129.6 million dollars. Although sales receipts in 1948 were 358.7 million dollars greater than in 1947, income for 1948 was only 2.5 million dollars more than for the preceding year. The income for 1948 was equivalent to a profit of 5.2 percent of sales, compared with a profit of 6 percent of sales in 1947. Income in 1948 on the basis of return on sales was the smallest for any year of comparable rate of operations in United States Steel's entire peacetime history.

Prior to 1948, United States Steel included vacation costs in its accounts in the year in which they were paid. Due to changes in certain labor agreements, together with recent legal interpretations, these vacation payments are considered to have accrued during the period in which employees qualify for a vacation. Therefore, the major part of the estimated vacation payments to be made in 1949 was accrued in 1948, with the result that income for the year 1948 reflects the cost of vacation payments actually made in that year as well as those to be made in 1949. Income for the year 1948 was reduced approximately 19.9 million dollars as a result of this accrual.

Dividends for the year 1948 totaled $7 per share on the cumulative preferred stock and $6 per share on the common stock (including a special dividend of $1 per share declared on January 25, 1949)—aggregating 77.4 million dollars. After dividends, there remained for reinvestment in the business 52.2 million dollars. This amount, together with total wear and exhaustion provisions of 146 million dollars, was 77 million dollars short of the 1948 expenditures for additions to and replacements of facilities.

Wear and exhaustion.—In its accounts for 1947, United States Steel reflected in the total wear and exhaustion for the year an amount of 26.3 million dollars in addition to the normal depreciation based on original cost of its facilities. This added amount, which represented 30 percent of the normal depreciation, was determined partly through experienced cost increases and partly through study of construction cost index numbers. Although it was materially less than the experienced cost increase in replacing worn-out facilities, it was a step toward stating total wear and exhaustion in an amount which would recover in current dollars of diminished buying power the same purchasing power as the original expenditure.

This principle was continued during the first three quarters of 1948. In view of the continued increase in the cost of goods and facilities during 1948, the additional charge for wear and exhaustion was advanced, effective as of January 1, 1948, to 60 percent of the depreciation based upon original cost, because the 30 percent initially adopted was not sufficient to cover the true cost of property currently consumed.

In the release of the accounts for the third quarter of 1948, it was stated that, in view of the position taken by the American Institute of Accountants and the discussions between the corporation and the Securities and Exchange Commission, further study was being made in an effort to agree upon principles satisfactory to the Commission for determining and reflecting additional wear and exhaustion cost.

United States Steel believes that the principle which it adopted in 1947 and continued in 1948 is a proper recording of the wear and exhaustion of its facilities in terms of current dollars as distinguished from the dollars which it originally expended for those facilities. However, in view of the disagreement existing among accountants, both public and private, and the stated position of the American Institute of Accountants, which is supported by the Securities and Exchange Commission, that the only accepted accounting principle for determining depreciation is that which is related to the actual number of dollars spent for facilities, regardless of when or of what buying power, United States Steel has adopted a method of accelerated depreciation on cost instead of one based on purchasing power recovery. This method is made retroactive to January 1, 1947. The amount of the accelerated depreciation for the year 1948 is $55,335,444, including a deficiency of $2,675,094 in the amount reported in 1947 as depreciation added to cover replacement cost. Such accelerated depreciation is not presently deductible for Federal income-tax purposes.

Working capital and debt.—Working capital of United States Steel Corp. and subsidiaries at December 31, 1948, was 469.5 million dollars, compared with 548.6 million dollars at December 31, 1947. The several factors causing this decrease of 79.1 million dollars are fully set forth in the statement on page 30 of this report. Funds segregated for property additions and war costs, not included in working capital, totaled 176 million dollars at December 31, 1948.

Long-term debt of United States Steel at December 31, 1948, was 71.7 million dollars excluding 5.7 million dollars of bonds covered by deposits with trustees—the lowest in United States Steel's history.

Change in capital.—In 1935, following a detailed analysis of the corporation's investment in properties, $270,000,000 was added, by action of the board of directors, to the depreciation reserves to cover economic obsolescence of these properties. This amount had been reserved prior to 1927, principally from earned surplus, as management's estimate of the amount of income which had been reinvested in machinery, plants, and mines. When this additional depreciation reserve was set up in 1935, the steel-making subsidiaries had operated for 5 years at an average of less than one-third of capacity and property prices were substantialy lower than in the preceding decade. This addition to the depreciation reserves was for the purpose of stating conservatively the net property values based on then existing economic conditions. The economic situation has been so altered by World War II and what has followed that this reserve, in the opinion of the board of directors, is no longer needed for the purposes anticipated in 1935. Therefore the board of directors has authorized that this amount of $270,000,000, no part of which has ever been treated as a depreciation cost in income statements or allowed as a deduction for income-tax purposes, be transferred back to earned surplus from depreciation reserves, effective as of December 31, 1948.

Since this amount of $270,000,000 when originally set aside prior to 1927 represented a reinvestment of income in properties, the board of directors has resolved that a sufficient part thereof be added to the stated capital represented by the now outstanding non-par-value common stock to increase such stated capital from $75 to $100 per share, effective as of December 31, 1948, thus restoring the capital of the common stock to what it was in April 1938. Of the total resulting increase of $217,581,300 in capital, $38,462,801 has been transferred from existing capital surplus, thus eliminating the balance in this account, and the remaining $179,118,499 has been transferred from earned surplus.

On January 25, 1949, the board of directors recommended a 3 for 1 split in the common stock of the corporation, the amendment of the certificate of incorporation of the corporation to effect this split to be voted upon at the annual meeting of stockholders of the corporation to be held on May 2, 1949. It is hoped that a wider distribution of the common stock will result from this split.

Steel prices

Changes in year.—Price reductions, ranging from $1 to $5 a ton, on a wide variety of steel products, were made effective May 1, 1948, by the steel-producing subsidiaries. The announcement that there would be reductions applicable mainly to steel products closely related to the cost of living was made on April 22, 1948, simultaneously with the refusal by United States Steel of the demand of the United Steelworkers of America (CIO) for a "substantial wage increase." United States Steel was hopeful that its action in denying a wage increase and in reducing steel prices would have a beneficial effect throughout the Nation toward bringing about greater economic stability. This endeavor to aid in effecting stabilization or reduction in the cost of living was unsuccessful, because industry after industry subsequently granted wage increases and prices generally continued to advance. As a consequence a wage increase was granted by United States Steel effective July 16, 1948.

United States Steel stated at the time of the announcement of this wage increase that its steel-producing subsidiaries would be obliged to advance their prices for various steel products due to the fact that steel prices had not kept pace with rising costs. Price increases, effective July 21, 1948, were announced a few days later by these subsidiaries. It was then pointed out that United States Steel had no alternative; that these higher costs could be met only through increases in steel prices; and that these price increases were made solely to compensate for increases in costs of operation, such as increases in employment costs, in transportation charges, and in the cost of coal, scrap, and other purchases.

These new steel prices embraced a restoration of the average price reduction of about $1.25 a ton announced in April 1948, and in addition included an average

increase of approximately $8.09 a ton, or about 9.6 percent, in the prices for major steel products quoted in April by United States Steel subsidiaries. Steel prices today are among the least inflated of all commodity prices.

Adoption of mill prices.—On July 8, 1948, United States Steel announced that its steel-producing subsidiaries were adopting the method of announcing prices for steel products at the mill or shipping point, or, if the customer so desired, at delivered prices which would reflect full transportation charges from shipping point to destination. On July 12, 1948, these subsidiaries announced prices for steel products of their manufacture at mill or shipping point, effective July 13, 1948, thus abandoning the basing-point method of selling steel which long had been in use by them and which was generally similar to that which had been in use in the cement industry.

This change in selling method was made necessary by the decision of the Supreme Court of the United States on April 26, 1948, in the proceeding brought by the Federal Trade Commission against members of the cement industry. In that case the Supreme Court held that the basing-point delivered-price method employed in the cement industry was discriminatory and was an unfair trade practice which the Federal Trade Commission could suppress. The Supreme Court sustained the cease-and-desist order of the Federal Trade Commission, to become effective on July 9, 1948, against 74 members of the cement industry, including Universal Atlas Cement Co., a United States Steel subsidiary. On July 1, 1948, Universal Atlas Cement Co. announced the abandonment by it of the basing-point method of marketing cement.

The basing-point method of selling is a noncollusive merchandising practice which has naturally evolved in the steel industry over a period of many years to the advantage of both producers and consumers. Nevertheless, United States Steel had no recourse other than to comply with the law as determined by the Supreme Court.

United States Steel Corp. on October 5, 1948, voluntarily consented to the entry by the United States Court of Appeals at Philadelphia, Pa., of a decree of affirmance of an order entered by the Federal Trade Commission in 1924 against United States Steel Corp. and certain subsidiaries in a proceeding, instituted in 1921, involving the then use of the so-called Pittsburgh-plus method of selling steel products.

In 1947, as reported in the annual report for that year, a new proceeding was begun by the Federal Trade Commission against approximately 100 companies in the steel industry, including United States Steel, involving the use of the so-called multiple basing-point method of selling steel. The ultimate outcome of this new proceeding should determine by what methods steel can competitively be sold. Because of this pending suit and the adoption by United States Steel subsidiaries of the practice of selling steel products on the basis of mill prices, United States Steel consented to the decree of affirmance in the Pittsburgh-plus case believing that the court of appeals should not be called upon to review a voluminous record taken at hearings held so many years ago for the purpose of deciding a question which had become academic.

The management of United States Steel firmly believes that the right systematically to meet in good faith the delivered prices of competitors better located geographically with respect to certain buyers is essential to the maintenance of competitive industry.

Supply of steel

Even though more than half of the world's supply of steel flows from the mills of the American steel industry, and even though shipments from American steel mills were the highest in the history of the American steel industry, many steel products during 1948 were in short supply in the United States. Normal demands for steel had to be subordinated to the exigencies of World War II. Termination of the war thus released peak backlog demands from all sections of the market to focus simultaneously upon suppliers of steel. Strikes and other work stoppages in the steel and coal industries aggravated the disparity between production and this pent-up postwar demand.

Ordinarily this peak demand for steel by one industry is paralleled by less than peak demands by other industries. Since the end of the war, an abnormal situation has existed in that the demand for steel has come concurrently from all industries. In this sense the supply of steel provided by the entire industry has been insufficient to meet this unusual combined demand just as an otherwise adequate fire department would be insufficient if every house caught on fire at the same time.

Increasing capacity.—There are two ways in which increased quantities of steel can become available, if needed by the economy of the Nation, namely, by

additions to capacity, and by increased output from existing facilities. A public knowledge of the facts about steel capacity and production is essential in view of the recent suggestion of the possible entry by the Government into the steel business, a proposal which conceivably could develop into a program for the eventual nationalization of the American steel industry along proposed British lines.

The central fact stands out that the steel industry, on the initiative of its own members, has been and is now moving as rapidly as possible to carry out, step by step, rational plans for the expansion and improvement of its facilities. This is no suddenly established policy. In United States Steel's case, for example, such programs have been under way for many years. Those who now advocate the immediate construction of 10,000,000 tons or more of additional steel-making capacity apparently close their eyes to what is being done by various members of the steel industry, and for some unexplained reason choose to ignore the realities of the situation.

The steel industry comprises many separate, independent, highly competitive companies. Each company must decide for itself what it will do about expanding or modernizing its facilities. But, the members of the steel industry cannot truthfully be accused of doing nothing when due consideration is given to the outstanding fact that the various separate programs for expansion and modernization of steel facilities adopted since VJ-day call for a total expenditure of more than $2,000,000,000. The American steel industry had 96.1 million tons of ingot capacity at January 1, 1949—an increase of 14.5 million tons, or about 18 percent, since January 1, 1940. Nearly 5 million tons of ingot capacity has been added by the industry in the brief period since 1947. Plants which will add another 2 million tons of steel capacity are scheduled for completion by various steel companies by the end of the year 1949.

Any Government plan for adding many millions of tons of new ingot capacity, as has been suggested, could not be carried out in time to be a factor in satisfying the current abnormal demand.

Building further new steel mills of great size at this time is bound to consume large amounts of steel of the kinds now in short supply. Such new mills, in all probability, cannot be constructed and placed in operation in less than 2 or 3 years. By that time it is expected that much of the present unbalance between steel demand and supply will have been adjusted. If the proposed mills are to be of sufficient size to meet the projections of certain critics, a serious problem must be met in the way of adequate raw materials and a sufficient supply of skilled labor to operate these large new plants. At times during 1948, some members of the steel industry were unable to operate their steel plants at full capacity, one of the principal reasons being the scarcity of satisfactory raw materials. Failure to provide the necessary new supplies of raw materials for the operation of new facilities would result in a failure to increase the production of steel through the addition of capacity. Construction and equipment costs are about double what they were a few years ago. Higher prices for steel products would appear to be inevitable in order to provide an adequate return on the huge investment needed for these proposed large mills.

Increasing production.—The members of the steel industry are fully aware that the availability of sufficient steel scrap, improvements in the quality of coking coal and other raw materials, and advances in operating technology can each help in increasing steel output from existing facilities.

Failure continuously to maintain steel-making operations close to 100 percent of rated capacity often has been caused by a shortage of suitable steel scrap. Major reasons for this situation include the exporting of large quantities of scrap during the 1930's, and the loss of the steel scrap involved in nonrecoverable war products and through the record wartime steel shipments abroad.

Various members of the steel industry, including United States Steel, have recently built, or now have in course of construction, plants of the most improved design for the washing and cleaning of coal. The bringing into operation of such plants will permit greater output from existing facilities through the use of coking coal of better quality.

Advances in mill opeartion technology are, by their nature, unpredictable in effect. Technological advances are being utilized as rapidly as economically practicable. The use of oxygen to speed melting time in the furnace, for example, is one of many technological developments now being tried out by some members of the steel industry in an effort to increase the flow of steel from existing facilities.

Shipments by the entire steel industry of 66,000,000 tons of finished steel products during 1948 established a new high record for any year. The steel industry

should be judged by its actual performance. That performance, in all fairness, entitles the members of the steel industry to high credit for a job well done.

The management and the employees of the steel-producing operations of United States Steel are pledged by the stated objective of the applicable labor agreements "to achieve uninterrupted operations in the plants, and to achieve the highest level of employee performance consistent with safety, good health, and sustained effort." Joint labor-management studies of this subject were undertaken in 1947 and are now in progress.

Raw materials

United States Steel in 1948 established a new peacetime record of 48.9 million tons of ores mined from its own properties. About 3,000,000 tons of this total represented iron ore concentrates derived from low-grade ores by methods developed by United States Steel. Reserves of coal, iron ore, and limestone have proved adequate thus far to supply the raw materials essential to United States Steel's unprecedented production of steel in recent years. Long-range development programs are now under way in an endeavor to assure the continuity in the future of an adequate supply of high-quality raw materials. The need for the development of additional sources of iron ore is shown by the fact that during the 6 years 1940–45 defense and war needs resulted in the extraction of iron ore from deposits in Minnesota equal to one-fifth of the total direct-shipping iron ore mined there since these deposits were discovered almost 100 years ago.

Following VJ-day, United States Steel resumed its practice of seeking to obtain full information about all known foreign deposits of iron ore which might be utilized in the future to supply the American steel industry, in order to determine sources to supplement and extend the life of reserves of iron ore in Minnesota and elsewhere in the United States. For some time past, United States Steel has been carrying on extensive exploratory drilling in Venezuela in areas believed to contain iron ore deposits of considerable magnitude.

With a view to supplementing the supply of manganese ore which United States Steel has heretofore obtained from various foreign sources, United States Steel recently took an option on certain manganese properties in Brazil, which are now being investigated to determine whether they can be economically utilized. These properties are in addition to the manganese mine in Brazil operated by United States Steel for many years, which in some years has furnished as much as one-third of United States Steel's manganese ore requirements.

Facilities

United States Steel's rated annual capacity at January 1, 1949, for the production of steel ingots and castings was 31.3 million tons—representing 32.5 percent of the total steel-ingot capacity of the Nation. United States Steel's capacity is 2.5 million tons, or 8.6 percent, greater than it was at the end of 1945 following the elimination of certain obsolete and marginal facilities which had been continued in operation during the war.

During the year 1949 about 600,000 tons of additional ingot capacity should become available with the completion of steel-producing facilities now under construction at the Lorain, Ohio, plant of National Tube Co. and at the Duluth, Minn., works of American Steel & Wire Co.

Following the war, United States Steel embarked upon an extended program of additions to and replacements of facilities. This program has been pushed aggressively during the entire postwar period despite constantly increasing costs of construction. The current estimated cost of completing projects under way is $128,000,000 more than the amount originally estimated by United States Steel's engineers as the total cost of these projects. By December 31, 1948, United States Steel had expended for facilities under this program $695,900,000, of which $275,200,000 was spent in 1948—the largest sum it ever expended for facilities in a single year. At the end of the year, there remained $242,000,000 to be spent on projects yet to be completed.

To balance its raw material, steel producing and finishing, fabricating and distributing facilities in such a way as to satisfy, so far as possible, the demands of its customers for steel products of every sort is a principal objective in United States Steel's construction and modernization program.

Former annual reports contained accounts of the proposed purchase of the fabricating assets and business of Consolidated Steel Corp. and of the suit instituted by the Department of Justice to enjoin this acquisition on the ground that it would result in a substantial suppression of competition in violation of the Sherman Antitrust Act. On June 7, 1948, the Supreme Court of the United States, by a divided Court, upheld the order of the United States

district court at Wilmington, Del., dismissing the complaint of the Department of Justice. Following the disposition of the matter by the Supreme Court, United States Steel announced on August 31, 1948, the purchase of certain of the assets of Consolidated Western Steel Corp., formerly Consolidated Steel Corp. by a new United States Steel subsidiary of the same name.

On April 20, 1948, the United States Navy accepted an offer of sale by the Federal Shipbuilding & Dry Dock Co. of its shipbuilding yard at Kearny, N. J. The sale price was $2,375,000 and resulted in no gain or loss for United States Steel. The yard was transferred to the United States Navy on December 31, 1948. By the purchase the Navy is in a position to preserve this important shipyard as a unit to help meet any future needs of the Nation.

Research

During 1948 United States Steel's research and development technologist continued work on a wide variety of problems covering the full range from raw materials to finished products. Increased attention was given to specific problems relating to greater output and productivity. The modern steel mill is largely dependent for its proper functioning on highly sensitive electrical control devices and technically trained personnel. Full advantage is being taken of technological developments of recent years in the design and installation of the facilities which are now constructed or brought into operation.

Investigation continued on methods of beneficiating relatively low grade iron ores in preparation for the time when they may have to be used in larger quantities than at present. Advances were made in the study of the coking cycle. Blast furnace studies involving the use of new and improved refractories as well as better operating techniques continued—increased yield and smoother operation being the main objectives. New techniques in steel making a practiced in the open hearth electric and bessemer processes were under constant investigation and development. Many of these studies are designed specifically to provide data that should ultimately lead to savings in fuel, alloying elements, and critical raw materials, or to increase the productivity of the particular operation under investigation.

Wihin its laboratories, United States Steel's research personnel continued to study and utilize the most modern techniques and research tools and to apply them to the various problems under investigation. These special techniques include, among many others, such items as electron microscopy, high speed photography, ultrasonics, spectroscopy, advanced methods of gas analysis, and X-ray fluorescent analysis.

Labor management relations

The labor agreements of April 22, 1947, between the steel producing subsidiaries and the United Steelworkers of America (CIO) were, by their terms, to continue in effect until April 30, 1949. Either the subsidiaries or the union had the right on April 1, 1948, to request negotiations on a general and uniform change in rates of pay. The union exercised this right and requested "a substantial wage increase."

During the negotiations which followed, the union also requested that an employer-financed plan of life, accident, health, medical and hospital insurance benefits be made effective. As stated in the annual report for 1947, these subsidiaries in April of that year agreed to conduct a joint study with the union covering the field of insurance with a provision that when an agreement was reached on the elements of an insurance plan together with methods for its financing and administration, it should be put into effect. The study, however, required considerable time and was not concluded by the stipulated date of November 1, 1947. The study having been concluded by April 5, 1948, when the new wage negotiations commenced, representatives of these subsidiaries agreed to consider the subject of insurance as well as the request of the union for a wage increase at that time. Negotiations with the union did not result in an agreement on either the union's insurance proposal or the subsidiaries' counter-proposal.

In the negotiations during April 1948 representatives of these subsidiaries advanced the view that the wage increase requested by the union would not in the long run bring benefit to anyone; that it would lead to similar wage increases in other industries, and to higher prices generally. On April 22, 1948, United States Steel announced its unwillingness to grant the wage increase asked by the union, but stated that it would reduce prices effective May 1, 1948, on a wide variety of its steel products.

When the union's demand for a wage increase was refused in April 1948, it was made clear that if, despite United States Steel's action in reducing steel

prices in an endeavor toward economic stabilization, costs should continue to advance, United States Steel would in fairness to employees and stockholders consider at some later date the adequacy of both wages and steel prices under the conditions which might then exist. Thereafter it became clear that the endeavor to aid in effecting stabilization had not been successful. Accordingly, after negotiations with the union had voluntarily been resumed by United States Steel, a wage increase of approximately 9 percent was agreed to and announced, effective July 16, 1948.

In consideration of this wage concession, the union accepted a supplemental agreement which continues the terms of the April 22, 1947, agreement from the expiration date of that agreement, April 30, 1949, until May 1, 1950, with the understanding that 60 days prior to July 16, 1949, either party might serve notice of its desire to negotiate for a general and uniform change in rates of pay and/or for life, accident, health, medical, and hospital insurance benefits. The 1949 reopening provision provides that, failing mutual agreement on such issues as may be presented, the union may resort to strike in support of its contentions if no agreement is reached by July 16, 1949. If the issues raised are settled, all of the terms of the agreement shall be reinstated, together with the addition of such new provisions as may be agreed upon with respect to wages and insurance, and shall remain in effect until May 1, 1950.

Coal miners' contract

A general strike affecting substantially the entire bituminous-coal industry and a subsequent strike confined chiefly to the coal mines owned or operated by various steel companies caused serious interruptions in the year 1948 in the production of coal and a consequent curtailment of steel operations, resulting in a loss of production to United States Steel approximating 4,000,000 tons of coal and 600,000 tons of steel.

The first coal strike started March 15, 1948, and full production was not resumed until April 22, 1948. The strike began over the inability of the board of trustees of the United Mine Workers of America welfare and retirement fund to agree upon the pensions to be paid from the fund established by the contract between representatives of the bituminous-coal industry and the United Mine Workers of America. On March 23, 1948, the President of the United States invoked the procedures of the Labor-Management Relations Act and subsequently an injunction was issued ordering the strike to terminate. A new trustee joined with the miners' trustee and adopted a basis for paying pensions.

Following the institution of contempt proceedings in which substantial fines were later levied, full production was resumed. Bargaining conferences for a new agreement began May 18, 1948, and, when no agreement was reached, the President of the United States created a board of inquiry to investigate the issues. Subsequent court decision determining the validity of the settlement of the pension-plan dispute paved the way for the negotiation by commercial operators of a new labor agreement to be effective at the expiration of the then existing agreement on June 30, 1948. Ultimately an agreement between the United Mine Workers of America and the commercial operators was reached and a new contract signed on June 25, 1948.

This contract effective July 1, 1948, provided for a $1-a-day wage increase and a doubling—from 10 to 20 cents a ton—of the royalty payments to the welfare and retirement fund. The contract also continued various provisions of the prior contract, including the union shop provision, although the union had not complied with the requirements of the Labor Management Relations Act necessary for the inclusion of such a provision. For this reason the various steel companies operating coal mines refused to execute this contract and, on July 2, 1948, filed unfair labor practice charges with the National Labor Relations Board against the union. Thereafter operations of the mines were interrupted by a work stoppage continuing for more than a week until, with court approval, a contract was signed on July 13, 1948, by the representatives of coal mining companies operated by the members of the steel industry and the United Mine Workers of America which contained the provisions agreed to by the commercial operators, but with a stipulation making the union shop provision subject to final court determination.

Production resumed after the signing of the new contract and continued throughout the year with intermittent work stoppages resulting in a further

loss of production to United States Steel of nearly half a million tons of coal. The contract remains in effect until June 30, 1949, with the right of either party to terminate the agreement at an earlier date by giving the required notice. The issue of the legality of the union shop provision awaits a final judicial decision on unfair labor practice charges filed by the steel companies. On January 19, 1949, the trial examiner for the National Labor Relations Board ruled that the United Mine Workers of America union shop provision in the 1948 captive coal mine contract is illegal under the Labor Management Relations Act.

In 1948 the cost to United States Steel for payments to the United Mine Workers of America welfare and retirement fund was about $4,000,000.

Employment and employee earnings

Jobs were provided to an average of 296,785 men and women by United States Steel in 1948—the highest number of employees for any peacetime year. More than 16,300 women were employed in offices, manufacturing, inspection, and research. United States Steel is proud of the fact that about one-half of all its employees have been on the pay roll for 10 years or more.

The total pay roll in 1948, including accruals for 1949 vacations, amounted to $1,029,300,000 and the man-hours worked totaled 593,000,000. Average hourly and weekly earnings of all employees of United States Steel in 1948, as shown in United States Steel's operating story on page 28, were $1.68 and $64.21, respectively. Both of these measures of employee earnings were the highest of any year in United States Steel's history. Weekly hours of work for all employees averaged 38.2 in 1948, reflecting the decrease in work schedules during and immediately following the prolonged cessation of coal mining.

Deductions of about $4,000,000 under contract check-off provisions, were made from the wages of union employees in 1948 for union dues, fees and assessments, and transferred to authorized union officers.

Pensions and group insurance

Under the United States Steel pension plan, pensions were granted in 1948 to 1,371 retiring employees. At the end of the year there were 15,422 pensions in force. Sums provided by the employing companies in 1948 and 1947 under the United States Steel pension plan were:

	1948	1947
Provided by companies under—		
Contributory part of plan	$4, 291, 150	$3, 227, 837
Noncontributory part of plan	5, 900, 698	7, 174, 442
Total	10, 191, 848	10, 402, 279

Beneficiaries of 1,603 employees received death benefits of more than $6,000,000 in 1948 under the employees' group life insurance plan. At the end of the year about 234,000 employees were insured under this plan for approximately $912,000,000.

Frequency and severity rates of accidents in the plants have been reduced from the wartime level. In steel producing operations in 1948 there were less than four lost-time accidents for every million man-hours worked. Throughout the operations many public awards for safety performances have been received including those from National Safety Council, United States Bureau of Mines, Joseph A. Holmes Safety Association, and awards from the State authorities. Thirty-three Distinguished Service to Safety Awards, National Safety Council's highest recognition, have been won by United States Steel plants—18 in 1948.

Capital stock and stockholders

Stockholders of United States Steel Corp., numbering 228,000, live in every State and Territory of the United States. Of the total preferred and common shares, it is estimated that more than 75 percent are held by or for individuals. No individual holds as much as 1 percent of the outstanding preferred or common stock. Of all stockholders—institutions, companies, estates, individuals, brokers, and others—only about 1 out of 10 owns as much as 100 shares of either

common or preferred stock. There follows a statement, by classes, of the number of stockholders and shares held as of December 31, 1948.

	Preferred		Common		Total	
	Holders	Shares	Holders	Shares	Holders[2]	Shares
Charitable and educational [1]	1,322	131,458	500	60,670	1,700	192,128
Insurance companies	135	346,466	95	56,325	202	402,791
Industrial and other companies	541	79,677	1,312	291,262	1,703	370,939
Trustees, guardians and estates	8,651	463,100	4,947	383,824	12,932	846,924
Individuals:						
Women	39,088	1,187,724	70,609	2,356,077	102,158	3,543,801
Men	20,725	688,751	73,490	2,982,803	89,102	3,671,554
Joint accounts	5,008	104,556	14,789	459,446	18,861	564,002
Brokers, nominees and others	814	601,079	1,081	2,112,845	1,348	2,713,924
Total	76,284	3,602,811	166,823	8,703,252	228,006	12,306,063

[1] 15,101 are holders of both preferred and common shares.
[2] Includes medical and religious organizations, foundations, hospitals, libraries.

Community relations

In 1948 United States Steel continued its efforts to encourage the maintenance of good community relations. Among activities in furtherance of this policy were regular "open house" periods for the public at various plants, the increasing participation of officials in civic undertakings, assistance in public health and other programs, and the surveying of community needs in relation to present and prospective operations.

In October 1948, the board of directors inspected some of United States Steel's properties in the Chicago area and later attended the opening of the new Pittsburg, Calif., cold reduction sheet and tin mill.

In order to establish mutually satisfactory relationships, United States Steel recognizes that it must know the community problems in those areas in which it operates, and that it is equally necessary that the public in those localities understand United States Steel's policies, products, and production and distribution methods.

Informing the public

United States Steel as a national institution seeks to provide the public with detailed information about its affairs and its part in American life. The extent and depth of the public's esteem bear upon the future ability of United States Steel effectively to serve the Nation in both peace and war. Since public attitudes and opinions are arrived at in various ways, every appropriate means is used for making known the essential facts about United States Steel.

In 1948, for example, a motion picture entitled Unfinished Business and based on the annual report for 1947 provided information about United States Steel's financial results and its efforts to make more and better steel.

Three handbooks have been prepared for wide distribution early in 1949. One of these, The Public and You, is designed for the use of the members of the internal organization and deals with the aims and policies of United States Steel. A second handbook, Basic Facts About United States Steel, contains a short history of and key facts about United States Steel. A third book, Steel Making in America, is a nontechnical work which tells how steel is made and used. It should have a particular appeal for use in schools.

For the fourth year, United States Steel sponsored the Sunday evening broadcast of The Theater Guild on the Air. This hour-long dramatic program continued to serve its two-fold purpose of enhancing public knowledge about United States Steel and providing the best in dramatic entertainment. Its millions of regular listeners and many awards for excellence—the latest of which include the George Foster Peabody Award and the Award of the National Council of Teachers of English, testify to its success.

United States Steel and the Nation

United States Steel continuously strives to conduct its affairs in such a way as to advance the best interests of its stockholders, its employees, and its customers. At all times it seeks to further the proper functioning of the whole American economy, for only as the Nation as a whole prospers can United States Steel, as a part of the Nation, also prosper.

United States Steel's ability to better in 1949 its 1948 steel production performance will depend upon the availability of suitable raw materials, uninterrupted work schedules, and the completion of plants now under construction or being modernized. United States Steel—"The industrial family that serves the Nation"—again pledges itself to do its utmost to contribute to the advancement of national progress.

IRVING S. OLDS,
Chairman, Board of Directors.

FEBRUARY 23, 1949.

FINANCIAL SUMMARY

Cost inflation

The cost inflation that began in the middle 1930's was continued in 1948 and, in fact, was then more rapid than in any preceding year except 1947.

Employment costs and products and services bought from others constitute the two major costs incurred by United States Steel in its operations. In 1948 these costs were respectively 44 and 43 percent of all costs—together 87 percent. Of the remaining 13 percent, 7 percent represented taxes and 6 percent represented wear and exhaustion of facilities—interest was one-tenth of 1 percent.

All costs of United States Steel except interest have primarily reflected mounting wage rates. Thus United States Steel's payments for products and services bought from others are required by such others to cover their mounting employment, purchases, wear and exhaustion and tax costs. Tax costs, in turn, also represent in considerable measure the mounting requirements of government to cover its expanding employment of people at advancing compensation rates. Wear and exhaustion costs largely represent past wage costs for facilities that have to be replaced at much higher wage costs.

Employment cost to United States Steel in 1948 amounted to $1.75 per hour per employee. To provide materials and supplies and cover their cost of transportation to plants, and otherwise to furnish employees with the wherewithal to produce, United States Steel bought products and services from others in the amount of $1.70 for each $1.75 of employment cost. Tax costs per employee hour amounted to $0.27. Wear and exhaustion cost per employee hour amounted to $0.25. Total costs per employee hour were $3.97 in 1948. After taking care of these costs and after paying the fixed cumulative dividend to the preferred stockholders, and with such reinvestment of earnings as was deemed necessary by the board of directors to insure the survival and promote the progress of the business, the dividends to common stockholders for the year 1948 amounted to $0.09 per employee hour.

Percent income of sales versus percent of operations

United States Steel's income or loss characteristically fluctuates with relatively greater violence than does its volume. This means that for validly judging current income in terms of historical comparison, and to avoid self-serving bias in selecting past periods for such comparison, periods of similar operating rates should be selected. The principle that only like situations are comparable is equally abused by comparing dollars in one period with dollars of widely different purchasing power in other periods. One way of minimizing this error is to express the income or loss as a percentage of the sales dollar.

The results of such a calculation appear in the tabulation on page 110 in which the operating rate is compared year by year with the corresponding income or loss

percentage of sales. All prewar peacetime years are shown and for convenience they have been listed from the year of highest operating rate to the lowest.

Peacetime year	Percent of operations	Percent income of sales	Peacetime year	Percent of operations	Percent income of sales
Postwar:			Prewar—Con.		
1948	93.8	5.2	1919	77.0	6.8
1947	96.7	6.0	1904	72.8	9.3
1946	72.9	5.9	1924	72.2	9.2
Prewar:			1937	71.9	9.2
1906	100.6	20.3	1922	70.9	4.9
1902	97.2	21.3	1911	70.5	12.8
1905	93.2	16.8	Average	74.7	10.8
1929	90.4	18.0	1930	67.2	12.6
1913	90.1	14.5	1936	63.4	6.4
Average	94.3	18.2	1914	62.3	5.7
1912	89.8	10.2	1939	61.0	4.9
1923	89.1	9.9	Average	63.5	7.4
1926	89.1	10.8	1908	50.3	13.8
1907	88.6	20.7	1921	48.3	5.0
1920	86.2	8.5	1935	40.7	0.2
1915	85.2	14.5	Average	46.4	6.3
1928	84.6	11.4	1931	37.5	2.4
1940	82.5	9.5	1938	36.4	−1.3
1903	81.8	13.9	1934	31.7	−5.1
1925	81.7	8.9	1933	29.4	−9.7
Average	85.9	11.8	1932	17.7	−24.7
1927	79.8	9.2	Average	30.5	−7.7
1910	79.5	17.8	Prewar average	70.8	8.8
1909	77.8	17.9			

United States Steel's income in 1948 was at the relatively low rate of 5.2 percent of sales. For the same year its ingot operating rate was 93.8 percent. As may be observed from the tabulation, when the operating rate was over 90 percent in past peacetime years the income averaged 18.2 percent of sales—or 3½ times as much as in 1948. For peacetime years when the operating rate was between 80 and 90 percent, the income averaged 11.8 percent of sales, or double the 1948 rate. It may be noted from the chart that for the 1948 operating rate of 93.8 percent an income of about 17 percent of sales would have been normal in the light of the historical record.

United States Steel exists because of the prospect stockholders have of their company earning a profit and themselves receiving dividends. Profit and its prospect is the prime incentive that people have for risking their savings in providing tools of production for others to use.

Profit or loss is the relatively small difference left over from sales after all costs have been met. Profits or losses are neither good nor bad in nature or magnitude so long as the transactions from which they result are themselves equitably entered into and fulfilled. But one thing is certain: unless costs are kept under what customers are willing to pay in the light of prices at which competing producers are willing to sell, profit is not possible and loss and unemployment are inevitable. More than that, mere survival of an enterprise competitively requires the purchase of ever more modern tools of production.

Facilities program

United States Steel's postwar program for tools of production amounts to $938,000,000. Of this amount, $696,000,000 was expended up to December 31, 1948. For such program, $135,000,000 came from use of all of the earnings in the period not paid out as dividends. Of the balance, $347,000,000 was available from wear and exhaustion of this period and $214,000,000 from wear and exhaustion during the war years. Approximately a quarter of a billion dollars more is required to complete this program for additions to and replacements of facilities. These expenditures have already resulted and should continue to result in relatively lower cost of producing more and better quality steel products currently wanted by customers. Those additional investments are eminently deserving of earning and are properly expected to earn an appropriate income.

Benefits to employees from investment in tools

Among the principal beneficiaries of the pursuit of profit through tool-providing investment of savings have been the employees. They have benefited in terms of availability of jobs in building and operating the tools, in terms of lessened effort, in terms of decreased hours of work, in terms of increased safety while at work and in terms of more and better goods to be bought with the fruits of an hour's labor—that is, in an increasing real wage. This fact is well illustrated by the records of United States Steel.

In 1913 the employees received hourly earnings equivalent to $0.61 in dollars of average buying power prevailing in the year 1948. These real earnings have steadily increased, with but one interruption of significance in 1921–22, until in 1948 they amounted to $1.68. In the same span of time the weekly hours of labor declined from 69 to 38.

This is a magnificient record of improvement—of United States Steel's participation in the increase of the Nation's standard of living and of leisure to enjoy it. It is too easily forgotten and it is well to remember that this record has resulted from the presence of profit incentives, rooted in the past, to invest in the tools of production. More and better tools for the future will spring from increasing rather than decreasing the incentive to invest in them.

United States Steel's operating story, 1902–48

[Net tons in thousands]

Year of operation	Total ores mined	Total fluxes produced	Total coal mined	Total coke produced	Total iron produced	Ingots and castings		Steel products shipped	Employment statistics			
						Total production	Percent capacity operated		Number of employees	Weekly hours	Hourly earnings	Weekly earnings
1902	17,991	1,471	13,813	9,522	8,933	10,920	97.2	8,913	168,127	68.4	$.201	$13.75
1903	17,207	1,421	12,660	8,658	8,153	10,275	81.8	8,129	167,709	66.6	.207	13.79
1904	11,763	1,560	13,718	8,652	8,254	9,422	72.8	7,325	147,343	67.4	.192	12.94
1905	20,705	2,203	17,228	12,243	11,393	13,447	93.2	10,142	180,158	68.9	.198	13.64
1906	23,123	2,495	18,533	13,295	12,619	15,153	100.6	11,254	202,457	68.6	.204	14.00
1907	26,858	3,585	24,279	13,545	12,794	14,944	88.6	11,511	210,180	68.5	.214	14.67
1908	18,662	2,448	15,799	8,170	7,767	8,779	50.3	6,820	165,211	65.1	.214	13.92
1909	26,243	3,916	23,790	13,590	13,013	14,958	77.8	10,612	195,500	68.8	.216	14.85
1910	28,275	5,606	26,365	13,650	13,251	15,881	79.5	11,777	218,435	68.4	.224	15.33
1911	22,326	5,416	24,326	12,120	12,034	14,284	70.5	10,340	196,888	67.2	.234	15.73
1912	29,600	6,859	30,639	16,719	15,889	18,929	89.8	13,771	221,025	69.0	.238	16.41
1913	32,187	7,099	30,787	16,663	15,770	18,655	90.1	13,387	228,906	68.9	.252	17.35
1914	19,079	5,238	21,162	11,174	11,259	13,246	62.3	9,935	179,353	67.6	.257	17.38
1915	26,510	6,491	26,628	14,501	15,278	18,342	85.2	12,826	191,126	68.3	.260	17.76
1916	37,358	7,866	32,768	18,902	19,721	23,420	100.6	17,105	252,668	68.8	.290	19.94
1917	35,596	7,274	31,497	17,462	17,531	22,719	91.9	16,919	268,058	69.2	.359	24.85
1918	31,733	5,758	31,748	17,758	17,854	21,934	88.2	15,570	268,710	66.1	.489	32.33
1919	28,474	6,536	28,893	15,464	15,274	19,264	77.0	13,470	252,106	59.1	.617	36.48
1920	30,264	6,699	30,828	16,208	16,277	21,591	86.2	15,534	268,004	59.4	.699	41.55
1921	18,646	5,160	21,628	9,825	9,720	12,282	48.3	8,758	191,700	61.0	.546	33.30
1922	24,392	6,309	23,293	13,237	13,470	18,012	70.9	13,127	214,931	64.5	.446	28.78
1923	34,737	7,365	35,290	18,838	18,737	22,770	89.1	15,870	260,786	59.3	.583	34.54
1924	27,747	5,638	27,738	14,408	14,206	18,456	72.2	12,705	246,753	52.8	.650	34.29
1925	31,357	5,986	31,476	16,301	16,575	21,167	81.7	14,753	249,833	53.7	.653	35.04
1926	32,778	6,175	34,295	17,336	17,590	22,743	89.1	15,771	253,199	53.7	.660	35.42
1927	28,725	5,215	27,430	14,507	15,438	20,705	79.8	14,310	231,549	53.6	.666	35.68
1928	29,834	16,352	28,691	15,993	17,066	22,518	84.6	15,400	221,702	52.2	.684	35.70
1929	34,214	16,535	31,827	17,355	18,463	24,493	90.4	16,813	254,495	46.2	.685	31.67
1930	27,211	16,365	25,388	13,113	14,289	18,762	67.2	12,798	252,902	43.2	.686	29.66
1931	15,233	8,595	15,575	7,041	7,864	11,292	37.5	8,399	215,750	34.4	.690	23.74
1932	4,050	3,587	7,047	2,966	3,498	5,521	17.7	4,324	164,348	25.4	.614	15.58
1933	9,347	6,060	10,227	4,880	5,629	9,013	29.4	6,354	172,577	30.4	.596	18.14
1934	11,283	6,769	11,724	5,382	6,174	9,700	31.7	6,501	189,881	30.2	.705	21.26
1935	12,810	7,842	15,095	7,328	8,307	12,467	40.7	8,086	194,820	33.9	.731	24.77
1936	21,306	12,031	23,581	12,034	13,501	18,937	63.4	11,905	222,372	39.6	.737	29.16
1937	34,080	14,696	24,504	14,190	16,171	20,756	71.9	14,098	261,293	37.6	.864	32.51
1938	12,303	7,818	13,842	7,006	7,632	10,525	36.4	7,316	202,108	29.7	.902	26.80
1939	24,225	12,852	21,624	12,092	13,656	17,626	61.0	11,707	223,844	35.2	.897	31.59

1940	34,047	15,730	29,528	16,144	18,367	22,934	82.5	15,014	254,393	36.7	.898	32.97
1941	43,318	19,176	29,076	18,563	22,321	28,963	96.8	20,417	304,248	38.1	.994	37.91
1942	52,012	20,864	32,317	19,275	23,496	30,030	98.1	20,615	335,866	38.8	1.086	42.17
1943	51,649	19,478	29,046	19,028	23,660	30,540	97.8	20,148	340,498	42.2	1.159	48.94
1944	49,842	19,208	30,709	20,503	23,445	30,815	94.7	21,052	314,888	44.2	1.257	55.53
1945	47,655	19,030	27,622	18,341	19,648	26,479	82.0	18,410	279,274	42.0	1.287	54.03
1946	37,972	20,874	24,463	15,242	15,853	21,287	72.9	15,182	266,835	35.0	1.426	49.91
1947	47,434	24,827	29,639	20,806	21,511	28,570	96.7	20,242	286,316	38.5	1.550	59.64
1948	48,926	26,870	26,795	21,237	22,228	29,292	93.8	20,655	296,785	38.2	1.680	64.21

NOTE.—Production data, which are grouped in broad product classifications, include all production of the materials by the operating subsidiaries and exclude all materials purchased. The average weekly hours and average weekly earnings shown are based on the average monthly number of employees receiving pay. Average hourly and weekly earnings for 1948 exclude accruals for 1949 vacations. Prior to 1929, the full time equivalent rather than the actual number of employees is shown and, for those early years, the average weekly hours, hourly and weekly earnings have been partially estimated.

United States Steel's operating story, 1902–48—Continued

[Dollars in millions]

Year of operation	Products and services sold	Employment costs	Products and services bought	Wear and exhaustion	Interest and other costs on debt	Income and other taxes	Income or loss	Preferred stock dividend	Common stock dividend	Reinvested in the business	Percent income of sales
1902	423.1	120.5	160.8	27.8	21.3	2.4	90.3	35.7	20.3	34.3	21.3
1903	398.2	120.8	164.1	29.3	25.6	3.0	55.4	30.4	12.7	12.3	13.9
1904	324.9	101.0	142.3	18.2	30.1	3.1	30.2	25.2	----------	5.0	9.3
1905	409.2	128.1	151.1	28.0	29.8	3.6	68.6	25.2	----------	43.4	16.8
1906	484.0	147.8	168.7	35.6	29.4	4.4	98.1	25.2	10.2	62.7	20.3
1907	504.4	160.8	169.1	35.1	29.4	5.4	104.6	25.2	10.2	69.2	20.7
1908	331.6	120.5	104.9	23.8	31.3	5.4	45.7	25.2	10.2	10.3	13.8
1909	441.1	151.7	138.4	31.8	31.5	8.7	79.0	25.2	20.3	33.5	17.9
1910	491.8	175.0	157.1	32.5	30.6	9.2	87.4	25.2	25.4	36.8	17.8
1911	431.7	161.6	146.3	27.8	31.1	9.6	55.3	25.2	25.4	4.7	12.8
1912	533.9	189.6	214.3	33.4	32.6	9.8	54.2	25.2	25.4	3.6	10.2
1913	560.8	207.5	191.6	34.0	33.3	13.2	81.2	25.2	25.4	30.6	14.5
1914	412.2	162.7	153.7	26.6	33.2	12.6	23.4	25.2	15.2	[1] 17.0	5.7
1915	523.7	177.3	189.8	34.3	32.8	13.6	75.9	25.2	6.4	44.3	14.5
1916	902.3	263.9	265.3	43.0	32.0	26.6	271.5	25.2	44.5	201.8	30.1
1917	1,284.6	347.9	345.9	83.3	31.0	252.3	224.2	25.2	91.5	107.5	17.5
1918	1,344.6	453.0	339.2	98.8	30.7	297.6	125.3	25.2	71.2	28.9	9.3
1919	1,122.6	479.7	364.5	89.9	30.1	81.6	76.8	25.2	25.4	26.2	6.8
1920	1,290.6	581.8	413.6	80.0	29.3	76.2	109.7	25.2	25.4	59.1	8.5
1921	726.0	333.2	249.9	40.1	28.5	37.7	36.6	25.2	25.4	[1] 14.0	5.0
1922	809.0	323.4	334.7	47.1	28.4	35.8	39.6	25.2	25.4	[1] 11.0	4.9
1923	1,096.5	470.4	377.4	56.9	28.0	55.1	108.7	25.2	29.2	54.3	9.9
1924	921.4	443.6	266.9	53.2	27.3	45.3	85.1	25.2	35.6	24.3	9.2
1925	1,022.0	458.2	333.6	61.6	27.1	50.9	90.6	25.2	35.6	29.8	8.9
1926	1,082.3	469.3	346.7	70.4	26.8	52.4	116.7	25.2	35.6	55.9	10.8
1927	960.5	412.7	323.1	64.4	26.1	46.3	87.9	25.2	49.8	12.9	9.2
1928	1,005.3	402.9	338.4	73.2	25.7	51.0	114.1	25.2	49.8	39.1	11.4
1929	1,097.4	410.2	350.0	69.8	14.9	55.0	197.5	25.2	63.8	108.5	18.0
1930	828.4	371.7	234.8	63.8	5.6	48.1	104.4	25.2	60.4	18.8	12.6
1931	548.7	258.4	187.2	50.4	5.5	34.2	13.0	25.2	37.0	[1] 49.2	2.4
1932	287.7	138.5	141.8	41.6	5.3	31.7	[1] 71.2	20.7	----------	[1] 91.9	[1] 24.7
1933	375.0	167.9	161.4	45.3	5.2	31.7	[1] 36.5	7.2	----------	[1] 43.7	[1] 9.7
1934	420.9	214.8	140.5	46.4	5.1	35.8	[1] 21.7	7.2	----------	[1] 28.9	[1] 5.1
1935	539.4	253.9	191.2	49.8	5.0	38.4	1.1	7.2	----------	[1] 6.1	.2
1936	790.5	339.0	287.5	59.0	4.9	49.6	50.5	50.4	----------	.1	6.4
1937	1,028.4	447.1	342.6	64.1	5.1	74.6	94.9	58.5	8.7	27.7	9.2
1938	611.1	294.4	228.3	50.3	8.3	37.5	[1] 7.7	25.2	----------	[1] 32.9	[1] 1.3
1939	846.0	385.6	293.5	64.3	9.3	52.2	41.1	25.2	----------	15.9	4.9
1940	1,079.1	464.3	358.3	72.6	13.6	68.1	102.2	25.2	34.8	42.2	9.5
1941	1,622.3	628.3	604.6	98.6	6.0	168.6	116.2	25.2	34.8	56.2	7.2

1942	1,863.0	782.7	673.4	128.2	6.2	201.3	71.2	25.5	34.8	11.2	3.8
1943	1,972.3	912.9	730.6	134.0	6.3	125.9	62.6	25.2	34.8	2.6	3.2
1944	2,082.2	957.2	814.4	139.0	5.0	105.8	60.8	25.2	34.8	.8	2.9
1945	1,747.3	825.5	670.1	123.4	3.5	66.8	58.0	25.2	34.8	[1] 2.0	3.3
1946	1,496.1	704.5	560.4	68.7	4.8	69.1	88.6	25.2	34.8	28.6	5.9
1947	2,122.8	903.6	839.4	114.0	2.5	136.2	127.1	25.2	45.7	56.2	6.0
1948	2,481.5	1,035.7	1,008.9	146.0	2.4	158.9	129.6	25.2	52.2	52.2	5.2

[1] Denotes deficit.

NOTE.—The data are in some respects necessarily approximate, and are based on the yearly earnings reported annually to stockholders without adjustment for surplus charges and credits except that the years 1942 and 1943 reflect renegotiation settlements made in the succeeding years. For example, taxes are as accrued before adjustments.

Summary of 1948 financial operations

Additions to working capital:		
Income		$129,627,845
Add: Noncash costs in current year:		
Wear and exhaustion of facilities		145,986,681
Other		1,070,694
Proceeds from sales and salvage of plant and equipment		11,521,025
Total additions		288,206,245
Deductions from working capital:		
Expended for plant and equipment	$275,208,820	
Added to costs applicable to future periods	7,784,494	
Reduction in total long-term debt	5,587,047	
Miscellaneous deductions	1,329,356	
Dividends declared on preferred and common stocks	77,439,189	
Total deductions		367,348,906
Reduction in working capital		79,142,661
Working capital per consolidated statement of financial position:		
Dec. 31, 1948	$469,505,437	
Dec. 31, 1947	548,648,098	
Reduction		79,142,661

Consolidated statement of income

	1948	1947
Products and services sold	$2,481,508,535	$2,122,786,243
Costs:		
Employment costs:		
Wages and salaries	1,005,829,124	872,496,549
Social-security taxes	19,692,732	20,663,936
Payments for pensions (details on p. 107)	10,191,848	10,402,279
	1,035,713,704	903,562,764
Products and services bought	1,013,756,603	841,915,356
Wear and exhaustion of facilities	145,986,681	114,045,483
War costs included herein provided for in prior years, less associated Federal income tax adjustments	−4,858,545	−2,540,618
Interest and other costs on long-term debt	2,394,345	2,507,729
State, local, and miscellaneous taxes	49,887,902	45,197,381
Estimated Federal taxes on income	109,000,000	91,000,000
Total	2,351,880,690	1,995,688,095
Income	129,627,845	127,098,148
Dividends declared:		
On cumulative preferred stock ($7 per share)	25,219,677	25,219,677
On common stock ($6 per share 1948, $5.25 per share 1947)	52,219,512	45,692,073
Income reinvested in business	52,188,656	56,186,398

Consolidated statement of financial position

	Dec. 31, 1948	Dec. 31, 1947
Current assets:		
Cash	$225,351,809	$223,960,071
United States Government securities, at cost	213,842,725	303,011,034
Receivables, less estimated bad debts	195,991,522	148,785,736
Inventories (details on p. 35)	339,175,195	289,236,644
Total	974,361,251	964,993,485
Less: Current liabilities:		
Accounts payable	265,676,834	212,205,853
Accrued taxes	207,479,992	181,231,868
Dividends payable	25,887,237	17,183,985
Long-term debt due within 1 year	5,811,751	5,723,681
Total	504,855,814	416,345,387
Working capital	469,505,437	548,648,098
Miscellaneous investments, less estimated losses	21,410,571	[1] 21,645,480
U. S. Government securities set aside, at cost—		
For property additions and replacements	155,000,000	155,000,000
For expenditures arising out of war	21,000,000	26,000,000
Plant and equipment, less depreciation (details on p. 117)	1,300,816,762	[1] 914,186,342
Operating parts and supplies	41,944,280	39,604,436
Costs applicable to future periods	20,438,971	14,994,321
Intangibles	1	1
Total assets less current liabilities	2,030,116,022	[1] 1,720,078,678
Deduct:		
Long-term debt (details on p. 120)	71,554,196	77,229,313
Reserves (details on p. 119)—		
For estimated additional costs arising out of war	20,562,262	25,420,807
For insurance, contingencies, and miscellaneous expenses	104,939,571	106,557,221
Excess of assets over liabilities and reserves	1,833,059,993	[1] 1,510,871,337
Ownership evidenced by—		
Preferred stock, 7 percent cumulative, par value $100 (3,602,811 shares)	360,281,100	360,281,100
Common stock (8,703,252 shares)	1,472,778,893	[1] 1,150,590,237
Stated capital, $100 per share $870,325,200		
Income reinvested in business 602,453,693		
Total	1,833,059,993	[1] 1,510,871,337

[1] After reclassification of treasury stock and reserve for replacement of properties.

NOTES TO ACCOUNTS

Federal taxes on income.—The Bureau of Internal Revenue has not completed the audit of Federal income and excess profits tax returns for 1941 and subsequent years. It is believed that reasonable provision has been made for any additional taxes which may be levied.

Plant and equipment valuation.—The gross values at which plant and equipment are carried in the consolidated accounts have been determined from and based upon the findings of the United States Bureau of Corporations, and accepted by the Bureau of Internal Revenue of the Treasury Department, as at the initial date of organization of the corporation in 1901, plus actual cost of additions since, and less credits for the cost of properties sold or retired. The depreciated amount shown in the consolidated statement of financial position for plant and equipment represents that portion of the gross values which is a cost applicable to operations of future periods, and does not purport to be either a realizable or replacement value.

Reserve for estimated additional costs arising out of war.—Of the reserve for estimated additional costs arising out of war, provided during the war years, $4,858,545 was used in 1948 to cover the higher costs of replacing inventories depleted during the war. This charge and offsetting credit are included in the consolidated statement of income.

Insurance reserve.—The subsidiary companies are, for the most part, self-insurers of their assets against fire, windstorm, marine, and related losses. The balance of the insurance reserve is held available for absorbing possible losses of this character, and is considered adequate for this purpose.

Products and services sold.—Products and services sold includes interests, dividends, and other income of $8,365,733 in 1948 and $6,951,063 in 1947.

Wages and salaries.—Wages and salaries for 1948 totaled $1,029,250,393, including the accrual for estimated vacation payments to be made in 1949 explained on page 100. Of the total amount, $1,005,829,124 was included in costs of products and services sold and the balance was charged to construction and other accounts.

Products and services bought.—Products and services bought reflects the changes during the year in inventories and deferred costs. These items increased during 1948 by approximately $58,000,000.

Wear and exhaustion of facilities.—A method of accelerated depreciation on cost was adopted in 1948, as explained on pages 100 and 109 and was made retroactive to January 1, 1947. Wear and exhaustion of facilities in 1948 includes accelerated depreciation of $55,335,444, including a deficiency of $2,675,094 in the amount of $26,300,000 reported in 1947 as depreciation added to cover replacement cost. Such accelerated depreciation is not presently deductible for Federal income-tax purposes.

The accelerated depreciation is applicable to the cost of postwar facilities in the first few years of their lives, when the economic usefulness is greatest. The amount thereof is related to the excess of current operating rate over United States Steel's long-term peacetime average rate of 70 percent of capacity. The annual accelerated amount is 10 percent of the cost of facilities in the year in which the expenditures are made and 10 percent in the succeeding year, except that this amount is reduced ratably as the operating rate may drop, no acceleration being made at 70 percent or lower operations. The accelerated depreciation is in addition to the normal depreciation on such facilities but the total depreciation over their expected lives will not exceed the cost of the facilities.

Ownership evidenced by common stock.—The board of directors authorized, effective December 31, 1948, as explained on pages 100 and 101, certain changes in surplus and capital accounts. The effects of these changes are as follows:

	Stated capital	Capital in excess of stated amount	Income reinvested	Total
At Dec. 31, 1947	$652,743,900	[1] $38,462,801	$459,383,536	$1,150,590,237
Transfer from depreciation reserves			270,000,000	270,000,000
Increase in stated capital from $75 to $100 per share	217,581,300	−38,462,801	−179,118,499	
Income reinvested in 1948 (see p. 116)			52,188,656	52,188,656
At Dec. 31, 1948	870,325,200		602,453,693	1,472,778,893

[1] Before deducting cost of $111,158 for 2,766 shares of treasury stock reclassified as miscellaneous investments.

INDEPENDENT AUDITORS' REPORT

PRICE, WATERHOUSE & Co.,
New York 5.

To the Stockholders of United States Steel Corp.:

As independent auditors elected at the annual meeting of stockholders of United States Steel Corp. held on May 3, 1948, we have examined the consolidated statement of financial position of United States Steel Corp. and subsidiaries as at December 31, 1948, and the consolidated statement of income for the year 1948. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

During the year 1948 (as stated in the notes to the accounts) the corporation adopted a policy, which we approve, of accelerating depreciation on the cost of new facilities retroactive to January 1, 1947. Under this policy the accelerated depreciation for the year 1947 is $28,975,094 or $2,675,094 more than the amount reported for the year as depreciation added to cover replacement cost. The amount of $55,335,444 provided for accelerated depreciation in 1948 includes this adjustment of $2,675,094. In all other respects the accounting principles were applied during the year on a basis consistent with that of the preceding year.

In our opinion, the accompanying consolidated statement of financial position and related statement of income, together with the notes thereto, present fairly

the position of United States Steel Corp. and its subsidiaries at December 31, 1948, and the results of the year's operations in conformity with generally accepted accounting principles.

PRICE, WATERHOUSE & Co.

NEW YORK, *February 23, 1949.*

Details of items in accounts

Plant and equipment	Balance, Dec. 31, 1947	Additions	Deductions	Transfers	Balance, Dec. 31, 1948
Other than emergency facilities:					
Real estate	$73,376,967	$2,038,395	$2,171,710	−$1,951,914	$71,291,738
Plant, mineral, and manufacturing	1,992,912,451	232,754,693	51,364,382	1,951,914	2,176,254,676
Transportation	361,834,438	40,415,732	8,584,932		393,665,238
Emergency facilities	296,847,218		4,742,522		292,104,696
Total	2,724,971,074	275,208,820	66,863,546		2,933,316,348
Less: Reserves for—					
Depletion		6,713,467	6,713,467		
Depreciation:					
Plant and manufacturing properties	1,386,697,531	127,181,258	39,563,412	−253,199,138	1,221,116,239
Transportation properties	127,239,983	14,925,647	6,086,117	−16,800,862	119,278,651
Amortization of emergency facilities	296,847,218		4,742,522		292,104,696
Total	[1] 1,810,784,732	[2] 148,820,372	57,105,518	[3] 270,000,000	1,632,499,586
Net	914,186,342	126,388,448	[4] 9,758,028	−270,000,000	1,300,816,762

[1] Includes $26,300,000 reported in 1947 as reserve for replacement of properties.
[2] Wear and exhaustion of $145,986,681 shown in the consolidated statement of income includes depletion and depreciation of $148,820,372, less profit of $2,833,691 resulting from sales.
[3] Represents proceeds of $11,521,025, less profit of $2,833,691 resulting from sales, and amortization of $1,070,694 charged to income and credited directly to plant and equipment.
[4] Transfer to earned surplus.

Reserves for—	Balance Dec. 31, 1947	Additions charged income	Charges	Transfers	Balance Dec. 31, 1948
Estimated bad debts	$10,245,356	$483,600	$224,522	$877,472	$11,381,906
Estimated losses on investments	4,679,464	37,423	18,021	−877,472	3,821,394
Total deducted from assets	14,924,820	521,023	242,543		15,203,300
Estimated additional costs arising out of war	25,420,807		4,858,545		20,562,262
Insurance, contingencies, and miscellaneous expenses:					
Insurance	50,000,000	2,435,071	2,435,071		50,000,000
Contingencies	35,527,539			2,040,725	37,568,264
Replacement of ships lost	2,199,435		1,547,663	−651,772	
Accident and hospital expenses	9,589,254	7,533,255	7,533,255		9,589,254
Other expenses	9,240,993	2,456	72,443	−1,388,953	7,782,053
Total	106,557,221	9,970,782	11,588,432		104,939,571
Total reserves	146,902,848	10,491,805	16,689,520		140,705,133

Inventories	Dec. 31, 1948	Dec. 31, 1947
Ore, limestone, coal, and coke	$78,885,109	$69,458,127
Semifinished products	91,703,937	71,029,447
Nonferrous metals	13,614,769	10,860,797
Finished products	71,856,161	60,108,784
Supplies and sundry items	60,199,496	57,066,126
Cost (less billings) of contracts in progress	22,915,723	20,713,363
Total	339,175,195	289,236,644

The major portion of inventories is carried at cost as determined under the last-in, first-out method, and the remainder is carried at cost or market, whichever is lower.

Long-term debt

Titles of issues	Interest rate	Year of maturity	Outstanding Dec. 31, 1948	Reduction in year
Bessemer and Lake Erie R.R. Co.:	*Percent*			
Equipment Trust Certificates—1936	2½	1951	$1,360,000	$470,000
Equipment Trust—1939	2½	1949	570,000	570,000
Equipment Trust—1940	1	1950	800,000	400,000
Duluth, Missabe and Iron Range Ry Co.:				
First Mortgage Serial Bonds (callable)	[1]	1962	16,800,000	1,200,000
Equipment Trust—1940	1½	1950	300,000	150,000
Duluth, Missabe and Northern Ry. Equipment Trust	2½	1952	1,008,000	252,000
Elgin, Joliet and Eastern Ry. Co.:				
First Mortgage Series A (callable)	3¼	1970	17,175,000	242,000
Equipment Trust—1937	2½	1952	600,000	150,000
Equipment Trust—1939	2½	1949	425,000	425,000
Equipment Trust—1941	1	1951	870,000	290,000
Pittsburg, Bessemer and Lake Erie R. R. Co.: First Mortgage Series A (callable)	2¼	1996	11,748,000	125,000
Union Railroad Co.:				
First and Refunding Mortgage Series A (callable)	3	1996	7,743,000	80,000
Union Equipment Trust Certificates—1936	2½	1951	540,000	180,000
Union Railroad Equipment Trust—1937	2½	1951	510,000	170,000
Union Railroad Equipment Trust—1946	1¾	1956	1,200,000	150,000
Monongahela Southern R. R. Co.—First Mortgage [2]	5	1955	3,000,000	----------
Monongahela Southern R. R. Co.—Gen. Mortgage [2]	6	1955	2,500,000	----------
St. Clair Terminal Railroad Co.—Gen. Mortgage [2]	5	1950	1,129,000	----------
Real-estate Mortgages and Purchase-Money Obligations [3]	-------	-------	3,392,947	705,047
Total	-------	-------	71,670,947	5,559,047
Bonds Covered by Deposits with Trustees:				
Tennessee Coal, Iron and R. R. Co. General Mortgage [4]	5	1951	5,404,000	----------
U. S. Steel Corporation 50-Year Bonds	5	1951	262,000	1,000
Called or matured bonds unpresented	-------	-------	29,000	27,000
Total	-------	-------	5,695,000	28,000
Total Long-Term Debt	-------	-------	77,365,947	5,587,047
Less Amount Due Within One Year	-------	-------	5,811,751	[5] 88,070
Lomg-Term Debt Due After One Year	-------	-------	71,554,196	5,675,117

[1] Variable.
[2] Guaranteed by U. S. Steel Corporation.
[3] $2,860,882 guaranteed by U. S. Steel Corporation.
[4] $1,000,000 of this issue under nonassignable guarantee by U. S. Steel Corporation
[5] Increase in the year.

PARTIAL LIST OF PRODUCTS

Building and construction.—Structural shapes, plates and steel bearing piles for bridges, buildings, and similar structures. Steel sheet piling for retaining walls and coffer dams. Concrete reinforcing bars. Bridge flooring and cables. Culverts and sectional plates and corrugated or smooth sheets for culverts. Formed steel roofing and siding sheets for buildings. Hot and cold rolled strip and sheets for air conditioning ducts, furnaces and other heating equipment. Enameling sheets for porcelain enamel finish and trim. Stainless steel for architectural trim and related uses. Nails, spikes, staples, and tacks. Conduit, electrical wires and cables. Elevator, crane and shovel rope. Wire fabric for concrete and stucco reinforcement. Telephone and telegraph wire. Wire screen and hardware cloth. Chain link property protection fence. Aerial tramways. Seamless pipe piles for foundation and construction work. Pipe for plumbing and heating. Portland cement and special cements for buildings, highways, and other construction uses. Fabricated structural steel buildings, bridges, stadiums, tanks, towers, dam gates and valves, penstocks, and other structures. Manufactured homes.

Transportation.—Rails, switches, crossings and track accessories for railroad track construction. Locomotive side frames. Stainless and high strength steels and wheels and axles for railroad and street railway cars. Structural shapes, plates, sheets and strip for freight and passenger car construction. Electrical wires for control signals and lights. Spring wire, rail bonds and other wires and cables for railroad use. Seamless pipe for locomotive and train lines. Air brake and signal pipe. Cold-rolled strip and sheets for automobile bodies and parts. Carbon and alloy steel bars and special sections for automobile engines,

transmissions, chassis and other parts. Stainless steel for decorative trim. Springs and spring wire for automobile seats and mechanical uses. Axles, axle housings and torque tubes. Tubes for steering columns. Alloy steel bars and seamless alloy steel tubing for aircraft frames, engines and landing gear. Aircraft control cables and stitching wire. Plates, shapes and bars for all types of marine construction. Tubular masts, poles and booms. Railing and deck piping. Power piping, fuel lines, bilge and ballast lines. Lighters, barges, and hulls for dredges.

Petroleum.—Oil country goods in the form of drill pipe, casing and tubing. Large diameter expanded pipe. Line pipe and gathering lines for long-distance transportation of petroleum products. Structural shapes for oil field derricks. Plates for oil and gas storage tanks. Stainless steel for refinery vessels and equipment. Alloy steels for drilling tools. Wire rope for drilling and other oil field operations. Oil well cement. Storage tanks, liquefied petroleum gas cylinders and spheres, drilling engines and machinery, feed controls, hoists, traveling and crown blocks, sucker and pull rods, slush, oil and subsurface pumps, central pumping units for operating a number of wells from a single power source, portable pumps, swivels, packers, bits, slips, elevators, hoses, valves, and other specially designed equipment used in oil and gas fields.

Mining and quarrying.—Plates, shapes, bars, and sheets for mine tipples, hoists and fan houses. Steel timbers and jacks for mine roof supports. Light rails, steel ties and track accessories for mines and quarries. Mine cars. Plate linings and grinding balls for ball and tube mills. Wire rope and cable for hoisting and other mine and quarry uses. Heavy duty electrical wires, and cables for trolley wires. Pipe for pump and drain lines, processing and water supply.

Agriculture.—Carbon and alloy bars, shapes, plates, sheets and strip, pipe and tubing for agricultural machinery, such as harvesters, combines, plows, and other farm equipment. Water supply lines and well casing. Formed roofing and siding sheets for farm buildings. Galvanized sheets and strip for silos, grain bins, brooder houses and other farm structures. Wire bale and cotton ties. Woven wire fencing, netting, barbed wire, steel fence posts and gates. Welded fabric for pens. Diesel engines for farm use. Agricultural basic slag, limestone, and ammonium sulfate.

Machinery and industrial uses.—Bars, shapes, plates, sheets, and strip for electrical and other machinery. Plates for boilers and pressure vessels. Special alloy steels for machine tools and related industrial equipment. Stainless steel for food processing, chemical, paper and textile equipment and machinery. Electrical wires and cables for motors and turbines. Wire rope for cranes and hoists. Welded mesh for machine guards. Welding and strapping wire. Wire tying equipment. Chain link conveyor belting. Book binding and stitching wire. Mechanical tubing for machinery, tool parts and equipment. Superheater tubes, boiler tubes, condenser and heat-exchanger tubes. Still tubes and high pressure piping. Pressure vessels. Commercial forgings. Electric furnaces. Cement kilns. Coal chemicals for the plastic, solvent, synthetic rubber, wood preserving, and a number of other chemical industries.

Appliances and household equipment.—Enameling, stainless and other steel sheets for refrigerators, stoves, kitchen cabinets, washing machines, ironers, kitchenware, bathroom equipment, household, and office furniture and fixtures. Galvanized and black sheets for garbage cans, trash cans, wash tubs, pails, and other household ware. Spring wire for bed springs, mattresses and upholstered furniture. Garden tools. Wire clothes lines. Door springs. Steel tubing for various types of metal furniture. Pipe for awning frames and yard equipment. Seamless tubing for refrigerators and appliances. Bedstead tubing.

Containers.—Tin, terne and black plate for cans and closures. Sheets for shipping pails, steel barrels and drums. Slack and tight barrel hoops. Steel drums, containers, cylinders and shipping containers.

United States Steel Corp.—principal subsidiaries

Company and address	*President*
American Bridge Co., Frick Building, Pittsburgh 19, Pa	F. K. McDanel.
American Steel & Wire Co., Rockefeller Building, Cleveland 13, Ohio.	C. F. Hood.
Bessemer & Lake Erie Railroad Co., Union Trust Building, Pittsburgh 30, Pa.	F. I. Snyder.
Birmingham Southern Railroad Co., Brown-Marx Building, Birmingham 2, Ala.	H. E. Parker.

United States Steel Corp.—principal subsidiaries—Continued

Company and address	*President*
Bradley Transportation Co., Rogers City, Mich	Irvin L. Clymer.
Carnegie-Illinois Steel Corp., 434 Fifth Avenue, Pittsburgh 30, Pa.	C. R. Cox.
Carnegie Natural Gas Co., Frick Building, Pittsburgh 19, Pa.	Dan S. Keenan.
Columbia Steel Co., Russ Building, San Francisco 6, Calif.	Alden G. Roach.
Consolidated Western Steel Corp., Box 2015, Terminal Annex, Los Angeles 54, Calif.	Alden G. Roach.
Duluth, Missabe & Iron Range Railway Co., Wolvin Building, Duluth 2, Minn.	P. H. Van Hoven.
Elgin, Joliet & Eastern Railway Co., 208 So. La. Salle St., Chicago 4, Ill.	T. D. Beven.
H. C. Frick Coke Co., Frick Building, Pittsburgh 30, Pa	Harry M. Moses.
Geneva Steel Co., Box 269, Salt Lake City 8, Utah	Walther Mathesius.
Gerrard Steel Strapping Co., 2915 West 47th St., Chicago 32, Ill.	H. G. Walter.
Gunnison Homes, Inc., Charlestown Road, New Albany, Ind.	Foster Gunnison.
Isthmian Steamship Co., 71 Broadway, New York 6, N. Y	W. M. Wells.
Michigan Limestone & Chemical Co., Rogers City, Mich	Irvin L. Clymer.
National Tube Co., Frick Building, Pittsburgh 19, Pa	J. E. Goble.
Oil Well Supply Co., 2001 North Lamar St., Dallas 1, Tex	Fred F. Murray.
Oliver Iron Mining Co., Wolvin Building, Duluth 2, Minn	R. T. Elstad.
Pittsburgh & Conneaut Dock Co., Conneaut, Ohio	K. C. Stevens.
Pittsburgh Limestone Corp., Frick Building, Pittsburgh 30, Pa.	A. W. Worthington.
Pittsburgh Steamship Co., Rockefeller Building, Cleveland 13, Ohio.	W. C. Hemingway.
Tennessee Coal, Iron & Railroad Co., Brown-Marx Building, Birmingham 2, Ala.	Robert Gregg.
Union Railroad Co., Union Trust Building, Pittsburgh 30, Pa.	Fred W. Okie.
Union Supply Co., 1509 Muriel Street, Pittsburgh 3, Pa	F. R. Walton.
United States Coal & Coke Co., Frick Building, Pittsburgh 30, Pa.	Harry M. Moses.
United States Steel Corporation of Delaware, 436 Seventh Ave., Pittsburgh 30, Pa.	Benjamin F. Fairless.
United States Steel Export Co., 30 Church St., New York 8, N. Y.	George W. Wolf.
United States Steel Products Co., 30 Rockefeller Plaza, New York 20, N. Y.	John Hauerwaas.
United States Steel Supply Co., 208 So. La Salle St., Chicago 90, Ill.	L. B. Worthington.
Universal Atlas Cement Co., 135 East 42nd St., New York 17, N. Y.	Blaine S. Smith.
Virginia Bridge Co., Box 2201, Roanoke 9, Va	F. K. McDanel.

Mr. PATMAN. May I ask if they brought along certain information which the chairman requested, such as expenditures made under the business expense account, with particular reference to contributions to organizations registered with Congress under the Lobbying Act.

Mr. VOORHEES. Mr. Patman, I do not know of any contributions that we are making. I do not know who is a lobbyist or reported as such.

Mr. PATMAN. Under the Lobbying Act. In other words, contributions made to these individuals or groups or purchases made from them under business expense.

Mr. VOORHEES. I do not know.

Mr. PATMAN. You will cooperate with us if we submit direct questions on that?

Mr. VOORHEES. We will be very glad to.

The CHAIRMAN. Congressman Huber.

Mr. HUBER. This morning we had a discussion, Mr. Chairman, about the reduction of automobile prices, which I was not aware of. I had the staff check the auto manufacturers' association, which reports the following changes in prices of automobiles.

I might say that except for a few super de luxe station wagons that there was no reduction. Hudson, no change; Chrysler, no change; Studebaker, no change; Packard, no change except a minor transmission price; Plymouth, no change, Chevrolet, no change except for a de luxe station wagon; Ford constant from December 19 to January 16 when all models except custom de luxe six and two-door sedan and club coupe dropped from 5 cents to $1.50.

Mr. FAIRLESS. How about the Buick, may I ask?

Mr. HUBER. It does not show Buick here.

Mr. FAIRLESS. You see, I think perhaps the confusion there is that many of the new models have not been presented.

Mr. HUBER. That is right. Station wagon in the super convertible, and an estate wagon, whatever that is, dropped 290. That is the only thing shown on Buick.

Mr. FAIRLESS. I have not the details, except the announcement that was made in the papers.

Mr. BLOUGH. Senator, we have a statement with respect to the stockholder data which we will file.

The CHAIRMAN. It will be copied into the record at this point.

(The document above referred to follows:)

United States Steel Corp. stockholder data

	Average number of shares held—	
	Before stock split, Apr. 30, 1949	After stock split, Dec. 31, 1949
	Shares	*Shares*
Common stockholders	50.96	144.82
Preferred stockholders	47.23	47.35
All stockholders (net) [1]	53.08	123.23

[1] Adjusted for holders of both preferred and common shares.

	Median number of shares held—	
	Before stock split	After stock split
Common	15	45
Preferred	15	15

Largest individual holding as of Jan. 20, 1950:

Common shares	75,000
Preferred shares	8,000

Number of shares outstanding:

Common	26,109,756
Preferred	3,602,811

NOTE.—Approximately 240,000 stockholders as of this date.

EXTRACT FROM ANNUAL REPORT FOR 1948

Stockholders of United States Steel Corp. live in every State and Territory of the United States. Of the total preferred and common shares, it is estimated that more than 75 percent are held by or for individuals. No individual holds as much as 1 percent of the outstanding preferred or common stock. Of all stockholders—institutions, companies, estates, individuals, brokers, and others—only about 1 out of 10 owns as much as 100 shares of either common or preferred stock.

Mr. BLOUGH. We also have a statement made by Mr. David Austin, a statement of Mr. Wolf, and a statement of Mr. Reed, and a statement by Mr. Cooper. Will those all be included in the record?

The CHAIRMAN. They will be received.

(The documents above referred to follow:)

STATEMENT OF DAVID F. AUSTIN, VICE PRESIDENT, SALES, UNITED STATES STEEL CORP. OF DELAWARE

Much has been said and much has been written in recent years about the basic nature of the steel industry and its important relationship to the national economy. This may be a recently acquired concept for some but it is not new to those who today and yesterday were part of the steel industry which, along with the rest of our Nation, has grown to its present position unparalleled in the history of the world.

If an aura of mystery has been created concerning the operation and objectives of the steel industry, it is without foundation. We are converters of raw materials dug from the ground; and our function is to convert these materials into steel products that are usable. The extent to which our manufacturing processes may become complicated is the result of our customers' needs and wishes, not our own.

There is nothing fundamentally complicated about our pricing structure. At times it may appear complicated, but only because the multiplicity of sizes, grades, finishes, and chemistry required by the hundreds of thousands of different fabricating operations performed by our customers requires that we provide the essential information necessary for the calculation of the price of each item.

We fully realize how important we, as part of the steel industry, are to the fulfillment of plans for future national progress, and the vital role we play in maintaining the security of the country. It is the portion of our responsibilities pertaining to selling prices which today concerns this committee.

The commercial policy of United States Steel is to sell steel products of our manufacture at the lowest competitive price consistent with cost and a reasonable profit. We are constantly guided by the philosophy that the lower the price of the steel the more the needs and desires of the consuming public will be satisfied and the demand for steel stimulated. This is the essential commercial policy of any business enterprise if it is to grow, prosper, and fulfill its obligations to those who work for it, those who buy from it, those who own it, and to the public.

That United States Steel has adhered to this fundamental commercial policy of selling at the lowest competitive price consistent with cost and a reasonable profit is attested to by the fact that in World War I and again in World War II the United States Government, as a part of wartime national economic policy, used United States Corp. subsidiary companies' prices in determining the proper level at which to stabilize most steel prices. Likewise, in the period following each war, when the chaotic scramble for scarce materials made price an insignificant factor in the minds of steel consumers, continued adherence to this price policy by United States Steel constituted a curb on a potential wild upward revision of steel prices.

At no period since November 1946, when OPA price controls were abandoned, has our price for any product at any point of production been above the lowest prevailing price for that product.

The price change announced on December 16, 1949, by the steel-producing subsidiaries of United States Steel will increase our proceeds by an amount required to cover some of the increases in our cost of doing business. Adjustments were made in the base prices of some of our steel products. Changes were also made in some of our extra charges. Some of our export prices were revised.

The over-all effect of these adjustments was a weighted average steel-price increase of $3.82 per ton, or 4.05 percent. This weighted average increase was computed on the basis of our product mix for a past representative period, one which we consider typical of our recent, and probable future, experience. Because of the wide variety of special processes that go to produce a finished-steel product we examined customers' specifications for a period of approximately 1 year in order to determine the weighted average of our increase in extras.

The weighted average, however, does not connote an indiscriminate adjustment of our prices. No price—base price or extra—on any product was changed until a detailed analysis had been completed. Each individual price change was considered not alone in terms of the immediate effect, but also from a longer-term point of view. General commercial conditions were weighed in making our decisions. Only on the basis of all these considerations could prudent action be taken.

Commercial conditions abroad were the primary influence on our decision to adjust some of our export prices. Even after those revisions the export prices of certain steel products are still above our domestic prices. In no case do we have an export price at the mill lower than our domestic price for any product.

The conditions existing in world markets during World War II—and since the war's end—provided the basis for an export price level somewhat higher than our domestic level. At the end of World War II, the demand for steel in world markets was so great that price was not a factor. There was little foreign production, and what there was, sold at prices 50 to 100 percent higher than the domestic prices of American steel. Five years of accumulated requirement, reconstruction and rehabilitation needs—coupled with the inability of British and continental steel mills to meet the demand—caused all the world to look to the United States to meet its steel requirements. A program of essential foreign steel requirements to aid recovery was outlined by our Government and many of our steel products were continued under Federal allocation.

On November 10, 1946, steel prices were decontrolled. Free to establish its own price policy, United States Steel, nevertheless, made no attempt to exploit the situation existing in the world market for steel but continued to maintain nominal differentials.

It was our reasoning that if the export markets were to be supplied with certain steel products, as requested by the Department of Commerce, we should not exploit the market in terms of the world market price; but, on the other hand, should continue to maintain a price level which would not make our export business any less attractive than our domestic business even though there is an added cost of doing business in the export market.

As world supply more nearly matched demand in the early months of 1949, many who had been exploiting the short supply situation were the first to reduce their prices.

The trend toward lower export prices continued at an accelerated rate up to September of 1949 when the currency of many countries was devalued. Prices for British and continental steel products were drastically reduced in terms of hard currency. As a result, overnight, foreign competitors' prices were substantially under ours on many products.

When the full effects of the devaluation of foreign currency could be appraised, we made what we considered to be appropriate price adjustments, so that 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.

I have said that the average effect of our price changes of December 1949—both base prices and extras—amounted to an increase of $3.82 per ton.

It is natural for a steel man to talk in terms of "base price and extras," but I suspect there is not widespread understanding of these terms. This is particularly true in the case of extra charges which have sometimes incorrectly been associated with a sort of premium price.

Over the years, as more uses have been developed for steel products, more special characteristics have been demanded by steel consumers. These involve special chemistry, rolling and heat treatment, special finish or other deviation from the standard, or base, products. Such processes involve additional costs in production, and charges for such variations have come to be known as extras. These refinements of the base product are not extras in the same sense as an automobile accessory. These are extra qualities which the customer specifies to meet his particular need, and which can be provided only through additional

processing. Extra charges are published prices reflecting the costs of performing an operation in steel-mill manufacture beyond that involved in the production of the product covered by our announced base price.

Let me illustrate this "base" and "extra" method of pricing. We have an announced base price on hot-rolled sheets. The surface of these sheets carries a certain amount of iron oxide developed in the course of hot rolling. In this condition, the product is usable for numerous applications. However, if the iron oxide is detrimental for some particular application, the customer may specify that the surface be cleaned by the use of an acid bath process known as pickling. We have published extra charges for pickling. By the same method of proper costing, because there is more surface to be pickled in a ton of light-gage sheets than there is in a ton of heavy-gage sheets, the charge per ton for pickling the thin sheets is greater than the charge for pickling the thicker ones. These extra charges and the base price are combined to determine the total price for the more highly refined product.

Costs of the various operations on many different steel products have undergone considerable change in the past 10 years. During this period, relatively few extra charges have been adjusted to reflect these changed costs.

A practical explanation can, I believe, be found in the price controls that existed during the operation of OPA. During this period, most price adjustments were allowed on a horizontal basis which did not permit general adjustments of detailed extra charges. It is also a fact that during this same period our production was largely directed toward war requirements, which did not constitute a normal production on which to conduct realistic cost studies.

It is a part of our commercial policy to strive for a profit for each of our many products, whatever sizes, gages, and finishes, or other specifications may be required. After thorough study, that is what we have attempted to do now. We believe it is important that our customers be charged equitably for the actual cost of producing the steel covered by their individual specifications, and not on the basis of the average cost of producing many specifications. There is an inherent economy to both buyer and seller when the price properly reflects the cost of each operation performed. In all probability, our customers can perform certain of these operations more economically than we. Hence, realistic extra charges will result in these processes being undertaken, wherever they can be performed, at lower cost.

While many base prices and extras were adjusted last month, I want to make it clear that some extras were increased, some were decreased, and some were left unchanged.

Past experience indicates that the average increase of $3.82 per ton in the selling price will not materialize in full, because our customers, wherever possible, will revise their specifications in order to minimize extra charges. We hope they will do precisely this, for we have no wish to perform unnecessary operations, even though we are compensated for them.

While thus far I have emphasized that our action encompassed an analysis, product by product, this was not the sole basis on which our final decision rested. There were other factors that weighed heavily on our judgment.

In an effort to consider the effects of a price move by United States Steel, a study had to be made of the probable course of general business and of steel demand in the coming year. To prepare this forecast, three major steps were taken. First, the probable operation of our economy as a whole was examined to see what effect shifting patterns of consumer, Government, and business buying might have on industrial activity. Then, within this framework, the probable output of the major steel-consuming industries was determined. Finally, these estimates of production were translated into probable demand for specific steel products.

The forecast we obtained was checked against the opinions of our line sales force working close to the firing line in the market place, and with many in steel consuming industries whose opinions are well qualified by virtue of their many years of practical experience in such industries.

In summary, the picture of the future indicated that there will be about as much money—and that about as much money will be spent—this year as in the past 12 months. For the foreseeable future, it appeared to us that not much change in business activity is likely. In general, this picture of the business outlook during the coming months was not far different from the opinions that have been expressed recently here in Washington by your own expert technicians.

Thus, it appeared our economy is in a fundamentally strong position which would not be adversely affected by the moderate price increases that were necessary because of our increased costs.

The next step, in evaluating the effects of a price move by United States Steel, was to consider the impact of the increase on customers, on their probable volume of sales, and in relation to other cost factors which confront them individually and collectively. In our judgment, it was difficult to see how this moderate price increase for steel products could have any serious effect on our customers' volume of sales.

Let us examine—in terms of dollars and cents—what the increase in our steel prices amounts to when applied to some of the widely used articles of everyday commerce. For example, what effect does this price increase have on the cost of a new house? An analysis published recently describes a six-room house as using 3½ tons of steel products. This tonnage, I am certain, is far above the average, and reflects more nearly the amount of steel we would like to see used in the construction of a house than the quantity commonly consumed.

Two houses, apparently identical to the casual observer, might use widely varying quantities of steel, depending on whether they use metal lath or rock lath, or steel or wooden windows, to mention but two possibilities which would substantially alter the total amount of steel which might be used in a house. However, even in a house using 3½ tons of steel, the price of the nails, structural shapes, pipe, sheets, and other steel items included in the estimate, would increase the cost of a $9,000 to $10,000 house approximately $19.

Let us examine another example of what this price increase means. We are all concerned with the economic position of our farm population. During 1949 the average farmer purchased a little less than three-quarters of a ton of steel in the form of standard steel items, such as barbed wire and fence, or in the form of tractors, farm implements, and trucks. As a result of the recent price adjustment, the cost of this steel, in all its various forms, was raised $5. Taken as a group, farmers' total production expenses in 1949 would have been increased approximately sixteen one-hundredths of 1 percent; or stated another way, whereas production expenses on the average farm were $3,072 in 1949, with the price rise in our steel prices they would have amounted to $5 more.

An increase in the price of steel is often immediately associated with its effect on the price of an automobile. 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, or approximately six-tenths of 1 percent on the retail selling price of the car itself.

You may be interested in an examination of what this steel price increase means in terms of another typical steel item used by many millions of consumers. Consider an average 8-cubic-foot refrigerator which sells, as you probably know, for about $275. The cost of the several steel products used in manufacturing such a typical unit was increased 82 cents, or three-tenths of 1 percent of the selling price. We do not believe that an 82-cent increase in cost will cause a refrigerator manufacturer to change his forecast of the market for his product.

In conclusion, our commercial policy will continue to be one of trying to sell steel products of our manufacture at the lowest competitive price consistent with cost and a reasonable profit. Only by maintaining this policy will it be possible for us to make our maximum contribution to the growing volume of steel output so essential to a stable and expanding American economy.

STATEMENT OF GEORGE W. WOLF, PRESIDENT, UNITED STATES STEEL EXPORT CO.

GENERAL WORLD STEEL SITUATION

A brief summary of the historical record of prices as quoted by the United States Steel Export Co. has already been presented.

Such historical data in itself paints no picture of the economic atmosphere in various parts of the world, especially as to conditions existent in the time span under consideration. Nor does it interpret in terms of adequacy or inadequacy the question of raw materials, equipment, processes, distribution and currency difficulties, to mention but a few of the more important considerations necessary for a broad understanding of the world steel situation outside of the United States.

To visualize the world picture on steel let us go back to say the end of the Franco-Prussian War.

England was then at the zenith of her power, economically and politically. She led the world in the production of steel as she did in other industrial and commercial arts. From all parts of the earth her magnificent merchant marine, under the protecting wing of the British Fleet, transported to her shores raw materials of every sort, which her industrial machine converted into finished goods. These goods, in turn, had a continuous and ever-growing market not only in her colonies but also in every country in Europe and over the world. Small wonder that England was, in truth, the world's banker.

The Continent of Europe, at that time just emerging from feudalism, was at the threshold of a new era of industrial evolution. The continental leader in this industrial evolution was destined to be Germany—the new Germany—haughty, confident, and eager to push on and consolidate through industrial might the military might that had given her victory in the war with France. She now possessed that most fundamental raw material she previously lacked to become increasingly powerful militarily—the iron ore of Lorraine. The famous Lorraine Minette ore and the Ruhr coal and their juxtaposition were inherently so advantageous, if properly capitalized, to enable her to seriously challenge the industrial domination of England.

The discovery of the bessemer process in 1878 clinched Germany's opportunity. It enabled Germany's Lorraine high phosphorus bearing iron ore to become, through the medium of her Thomas steel process, an asset rather than a liability in the volume production of steel, at a then unbelievably low cost.

That Germany was quick to take advantage of her opportunity can no better be attested to than in the following figures, showing by countries European steel production in 1870, 1900, and 1914. American steel production in these same years is also shown. (Exhibit A.)

Then came the First World War. Germany was defeated and lost Alsace-Lorraine and with it her Lorraine iron ore.

A postwar working arrangement with France was arrived at by which Germany obtained continued access to Lorraine ore, and in the period between the world wars Swedish ore became increasingly the second bow to Germany's raw material fiddle.

Still vulnerable because of lack of iron ore of satisfactory quality and in sufficient quantities to meet her steel requirements in the event of war, Hitler spent billions at his now famous Reichswerke plant, then in the center of Germany, and now within sight of the Russian zone, in order to make the pitifully lean iron ore of Salzgitter sufficiently rich for smelting in the blast furnaces regardless of the economic price of so doing.

Even as Germany frantically sought to assure herself adequate and proper raw materials to maintain her economic power, so did England and other European countries.

England in the sixties had to look to Spain and Morocco for good iron ore. In the early thirties, she had all but exhausted the Spanish source. She absolutely depends on foreign ores—now principally Swedish. Belgium and Luxemborg are totally dependent on foreign iron ore, as is Italy. Only France and Russia, and of course, Sweden, have iron ore in quantities and of qualities sufficient to justify integrated steel-making facilities of any considerable size; France, Italy, and Sweden lack the other requisite—coal.

With such an interpretation of the historical background of European steel production, one can better understand the continuing and even accelerated urge of each European country for self-sufficiency in that most basic of all industries in today's industrial age, viz: steel. But to understand the urge is not to approve in one's mind its execution. Because in its execution each separate country attempts self-sufficiency in steel.

Each country, in order to attain minimum justifiable volumes of production, must plan on supplying markets outside of its own country. Thus export markets are calculated in market studies as many times as there are countries with integrated steel mills.

The penalty of the lack of integration in the over-all economy of Europe has been and, it is feared, will continue to be, constant trade warfare in one form or another, all of which restrict the free flow of goods and services throughout Europe and the world, and work against expanding world trade.

Out of such lack of wisdom stem uneconomic practices of every kind and sort, and in the final analysis do much to set up conditions that have in the past exploded from cold wars into hot wars.

In 1939 total world steel production amounted to 151,800,000 net tons, of which the United States produced 52,800,000 net tons or 35 percent.

At the close of World War II in 1945, American production had increased to 90,000,000 net tons and European and Japanese decreased to 21,000,000 net tons and 1,200,000 net tons respectively.

Today United States capacity to produce amounts to 99,400,000 net tons of ingots.

In the European countries capacity to produce is 52,000,000 net tons in ECA countries; 32,000,000 net tons in countries behind the iron curtain of which Russia accounts for an estimated 25,000,000 net tons, her satellites the rest.

All these figures are in ingot tons, and ingot tons mean little other than potential ability to produce the many forms of steel required for end use products of either war or peace, provided of course there exist adequate finishing facilities.

The last 25 years have witnessed a tremendous change—one could almost say a revolution not only in making of steel but likewise in the shaping and treating of steel.

To mention but a few of such revolutionary changes let us take as an example the continuous rolling of hot- and cold-rolled sheets, forced upon our steel industry by the ever pressing demand of our fabricating industries, such as the automobile, refrigerating, and container, expressing the insistent consumer desire of 150,000,000 Americans for the benefit of applied science in the enjoyment of the products that our unparalleled American industry, operating under our free individual enterprise system, in a never satisfied mass market, is capable of producing and anxious to produce and place within the economic reach of all.

Thus it is that American steel capacity is better balanced as to type, variety, and quantity of steel products than any other single country.

Thus it happened that, through ECA, funds were made available to various European countries to install steel shaping facilities to put them more in accord with the realities of modern steel product demand.

Notwithstanding such modernization costs, the European steel industry is still far behind that of the United States, product, quality, and cost wise.

As a result we are constant witnesses to a never-ending demand for certain of our products for which the ultimate end use counsels preponderant consideration of factors other than price per se. Quality, availability, and service after sale, as well as before sale, are factors in the United States supply of steel that more often than not determine the buyer's decision to specify American steel. In fact, the quality gap in favor of American steel is an ever-widening one, and contributes heavily in the seemingly never-ending so-called dollar gap.

In September 1949 England devalued the pound sterling, and coincidentally there were devalued many other currencies. The immediate effect of such devaluation was to make such countries' export steel prices not only competitive with but in many cases lower than American export steel prices.

Notwithstanding this, American source steel retains the competitive edge on the other factors of quality, adequacy for the end use intended, and service after as well as before sale, and thus it is that, from a standpoint of intrinsic value received, the purchaser is willing and the American seller is justified in a reasonable price premium over that of an inferior European product, as long as he can get it.

EXHIBIT A.—*World production of steel ingots and castings, 1870–1914*

[Millions of net tons]

	1870	1900	1914		1870	1900	1914
Austria	0.02	1.28	2.39	Russia	0.01	2.42	5.22
Belgium	-------	.71	1.53	Spain	-------	.13	(1)
France	.09	1.72	3.02				
Germany	.15	7.12	15.22	Total	.53	19.73	38.98
Italy	-------	.34	1.01	United States of America	.04	11.41	26.33
Luxemburg	-------	.20	1.25				
Sweden	.01	.32	.56	World	.57	31.17	66.63
United Kingdom	.25	5.49	8.78				

[1] Not available.

Source: British Iron and Steel Federation, Jan. 20, 1950.

Production of steel ingots and castings in Europe

[Millions of net tons]

ECA Countries	Production		Estimated current capacity
	1939	1945	
Austria	0.9	0.2	0.9
Belgium	3.4	.8	4.5
France	8.7	1.8	10.5
Germany	23.0	.3	10.5
Italy	2.5	.4	2.3
Luxemburg	1.9	.3	2.6
Netherlands	.1		.1
Saar	2.2		1.7
Sweden	1.3	1.3	1.3
United Kingdom	14.8	13.2	17.5
Turkey	.1	.1	.1
Total ECA	58.9	18.4	52.0
Spain	.6	.5	.7
Eastern Europe:			
Eastern Germany			[1] 4
Other countries (excluding U. S. S. R.)	5.6	2.0	[1] 6.6
U. S. S. R.	20.6	20.0	[1] 25.0
Total eastern Europe	26.2	22.0	32.0
Total Europe	85.7	40.9	84.7

[1] From ECE Geneva estimates based on best quarter production since the war, Jan. 20, 1950.

STATEMENT OF M. W. REED, VICE PRESIDENT, ENGINEERING, UNITED STATES STEEL CORP. OF DELAWARE

It is the purpose of this statement to inform you of some of the significant facts and problems of providing facilities and plants for the continuance of the business of U. S. Steel under today's conditions.

Facilities and plants are the long-lived tools which owners supply for production of goods for sale, whereby the employees make a living and the owners try for a profit. Unless such facilities and plants are maintained physically sound and of modern type, the constant over-all advance of competing technology will soon cause the enterprise to flounder. The policy in U. S. Steel is to replace and modernize in every respect as rapidly as funds are available to do so. This is the least that our customers and our competition will permit us to do. Efficient productive plants are necessary in both times of peace and war.

Today costs of replacement and modernization are very high compared with the past. This may be noted on the attached chart which shows (for example) that on the average, costs of replacement as experienced in U. S. Steel since 1901 (graph A) and as indicated by the index of construction costs, reported by Standard & Poor's Corp. since 1913 (graph C) are today about six times those of 1901, when U. S. Steel was organized about 2½ times those of 1925, and about double those of 1939.

Some examples of costs of replacing certain types of facilities are of interest. The following are representative of experience in U. S. Steel Corp.

	Percent increase 1949 over 1939
Buildings and structures	108
Excavating, foundations, and grading	69
Blast furnaces	132
Coke ovens	130
Rolling and tin mills	92
Cranes	105
Machine tools	84
Average experience—All construction	95

It requires a lot of rugged, heavy, and intricate machinery, furnaces, and other types of equipment to process the average steel product. Investment in

facilities in the steel industry approaches the highest of any major industry in relation to annual sales receipts. This fact, multiplied by the present high ratio of costs of replacement to original costs, gives us a serious handicap to overcome in comparison with most other industries. Opportunity to recover this high investment by way of adequate depreciation is of significant importance to a continuing and suitable replacement program during times of inflation, such as in recent years. As you know, present law and rules of the Bureau of Internal Revenue do not provide this opportunity.

In U. S. Steel, we have found it necessary to supplement our normal depreciation with accelerated depreciation which in 1948 amounted to over $55,000,000. This amount has not been allowed as a deduction in computing income taxes.

When I prepared the attached chart on which the previously mentioned cost graphs appear, I thought it would be interesting to show the over-all results in hourly earnings of employees in U. S. Steel, and in prices of steel products that have come from improvements in the many phases of technology and productivity during the past 50 years. We know that constantly improving and replacing equipment has been one of the larger factors in the remarkable increase of about 780 percent in hourly earnings of U. S. Steel employees, as is shown in graph B. Concurrently, as shown in graph D, there has been a relatively small increase in prices of iron and steel products as indicated by Bureau of Labor Statistics—Index of Wholesale Prices—since 1913. (Reported in Survey of Current Business by Department of Commerce.) About one-half of this small increase has occurred in the last 10 years.

The committee has requested data of U. S. Steel concerning its increase in capacities; its expenditures for plant and equipment other than current maintenance and repair, and for ore development—subdivided according to increased capacity, modernization and replacement of existing capacity, and expansion of fabricating facilities.

In order to answer the committee's inquiry concerning increases in capacity, I have selected 1943 as a starting point because in that year U. S. Steel's ownership of ingot capacity was at the maximum of any year prior to 1948.

Table I shows the ingot-producing capacity of U. S. Steel and of all other producers in the industry for each of the past 10 years.

TABLE I.—*U. S. Steel Corp. subsidiaries and other steel producing companies—Capacity of ingots*

Year	U. S. Steel subsidiaries	Other steel producing companies	Total industry	U. S. Steel, percent of industry
1941	29,915,956	55,242,544	85,158,500	35.13
1942	30,600,256	58,286,294	88,886,550	34.43
1943	[1] 31,206,892	59,347,698	90,589,190	34.45
1944	[2] 30,612,000	61,317,420	93,854,420	32.62
1945	[3] 30,412,000	63,198,280	95,505,280	31.84
1946	29,208,258	62,682,302	91,890,560	31.79
1947	29,547,200	61,694,050	91,241,250	32.38
1948	31,226,200	63,007,260	94,233,460	33.14
1949	31,277,500	64,843,430	96,120,930	32.54
1950	32,040,100	67,352,700	99,392,800	32.24

[1] Does not include 34,600 tons Government-owned capacity operated by U. S. Steel subsidiaries.
[2] Does not include 1,925,000 tons Government-owned capacity operated by U. S. Steel subsidiaries.
[3] Does not include 1,895,000 tons Government-owned capacity operated by U. S. Steel subsidiaries.

The percentage of capacity owned by United States Steel is also shown. It was about 35 percent in 1941 and has dropped to about 32 percent in 1950.

In the years since 1943, there has been a net increase of 800,000 tons in annual capacity for ingots in United States Steel.

During the same period of 1943 to date there has been a net reduction of 1,369,000 tons in our total annual finishing capacity for manufacture of products for sale. Details are shown in table II.

TABLE II.—*United States Steel Corp.—Changes in total capacities for manufacture of products for sale*

Products	Increases, 1943 to 1949	Decreases, 1943 to 1949
	Tons	*Tons*
Sheet and tin-plate bars		446,000
Skelp		620,000
Merchant bars, rods, etc		777,000
Heavy structural shapes and piling		35,000
Plates		1,903,000
Rails	123,000	
Car wheels, axles, tie plates, etc		44,000
Tubular goods	280,000	
Sheets and strip	2,778,000	
Tin-mill products	62,000	
Wire and wire products		581,000
Spikes, bolts, nuts, and rivets		154,000
Fabricated products	179,000	
Sundry iron and steel products		231,000
Total	3,422,000	4,791,000

While both decreases and increases appear substantial, it must be realized that there are changing demands for shapes and styles in steel products in the same way that there are changes in demand for shapes and styles of hats and clothes. For example, in the above table II you will note a large increase in capacity for sheets and strip and a large decrease in capacity for plates. The same basic equipment—hot sheet strip rolling mills—is involved in each case. We had been using these mills during the war, in large measure, for production of plates instead of for sheets and strip. A steel enterprise must continually adjust its finishing facilities and its manufacturing processes to provide continuance of outlet for its basic capacity for ingots.

In answer to the committee's inquiry concerning expenditures, in the years 1946 to 1949, inclusive, I have prepared table III to show expenditures for ingot capacity increase, ore development, and fabricating facilities, in comparison with expenditures for replacement and modernization, including product substitution.

TABLE III.—*United States Steel Corp.—Capital expenditures, 1946 through 1949 (first 3 quarters)*

	1946	1947	1948	9 months 1949	Total
A. For ingot capacity increase	$2,088,468	$2,356,668	$3,742,336	$4,903,285	$13,090,757
B. Ore development		135,856	2,152,361	3,999,623	6,287,840
C. For increase in fabricating facilities	5,134	294,754	11,532,271	3,292,259	15,124,418
D. Expenditures for replacement and modernization, including product substitution	198,926,487	203,774,598	257,781,852	122,944,904	783,427,841
Total capital expenditures	201,020,089	206,561,876	275,208,820	135,140,071	817,930,856

This table demonstrates that over the past 3¾ years 3.4 percent—about $28,000,000—of our total capital expenditures was for the purpose of increase in ingot capacity and for fabricating facilities.

In this same period we have had to spend $783,000,000 for replacement and modernization as against our recovery, through both normal and accelerated wear and exhaustion, of only $440,000,000. It also is important for the committee to realize that of this latter amount the accelerated depreciation of about $115,000,000 has not been allowed as a deduction for income-tax purposes.

The committee has also asked for an estimate of our capital expenditures for the years 1950, 1951, and 1952. Many factors determine capital expenditures, the primary one of which is whether or not the cash is available. Our best estimate of capital expenditures is between $150,000,000 and $225,000,000 in each of the next 3 years. At this time it is not practical to estimate the part that will be used for replacement and modernization, and that for other purposes. It is,

I think, obvious that by far the greater portion will have to be for replacement and modernization.

In conclusion, I should like to reemphasize the need of making funds available for replacements and modernization as well as for expansion when such is required. At present, as a direct result of the great increases in replacement costs which I have pointed out, normal depreciation allowances for income-tax purposes are inadequate. Under present regulations the inadequacy can be overcome only through earning about $1.65 before income taxes to have $1 to spend. Our corporation and heavy industry in general are constantly facing this serious handicap.

STATEMENT OF R. CONRAD COOPER, VICE PRESIDENT—INDUSTRIAL ENGINEERING, UNITED STATES STEEL CORP. OF DELAWARE

A question has been raised regarding the extent to which a modernization program in United States Steel since 1946 resulted in increased productivity per worker.

A study prepared in 1949 by United States Steel for the Steel Board appointed by the President, producing in United States Steel the principal conclusions that—

1. Current productivity in United States Steel, as measured by the results of 1948, is only slightly higher than in 1941, the earliest prior year of comparable business volume.

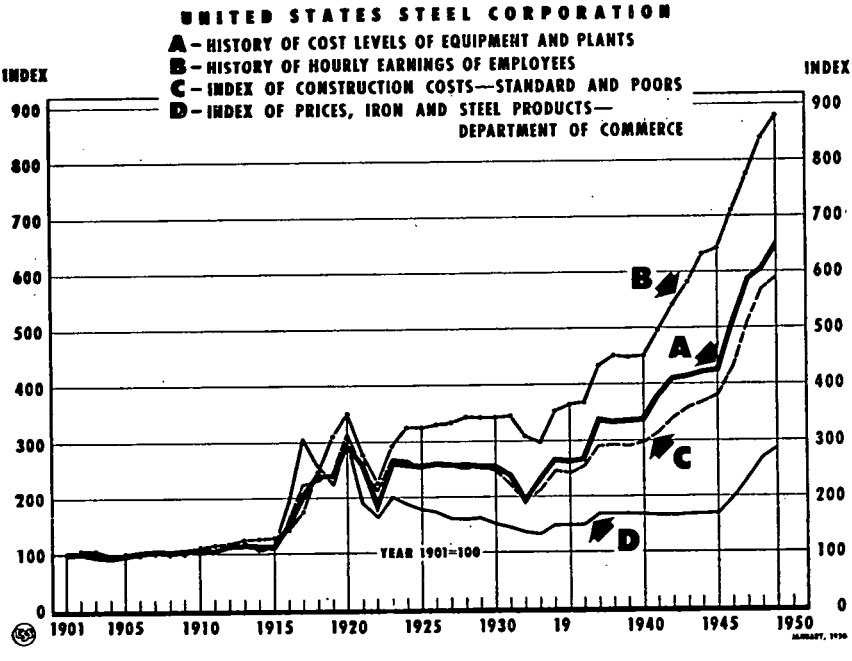
2. Such productivity gains as have been realized in recent years in United States Steel result from increased demand for steel, large capital investment in new and improved facilities, and managerial skill and ingenuity.

3. Productivity of the enterprise and the average rate at which employees perform the available work are two entirely different, although related, subjects.

4. The average employee performance rate, as judged on the total of plants where change of product output per man-hour reflects only this principal factor, was about 6 percent lower in 1948 than in 1941.

5. In 1948, without the benefits of improved tools of production and managerial skill, the product output per man-hour in the plants of the companies as a whole would have been 6 percent lower than in 1941.

6. In 1948 the benefits of improved tools of production and managerial skill in the plants of the companies as a whole were sufficient to offset the retrogression



in average employee performance rate and to produce a net gain of 4 percent in product output per man-hour over that of 1941.

The public shipment and man-hour figures from which those conclusions were drawn are as follows:

Year	Public shipments in tons [000 omitted]	Total man-hours [000 omitted]	Tons per 1,000 man-hours	Year	Public shipments in tons [000 omitted]	Total man-hours [000 omitted]	Tons per 1,000 man-hours
1934	6,501	198,006	32.8	1942	20,615	398,383	51.7
1935	8,086	228,920	35.3	1943	20,148	416,727	48.3
1936	11,905	309,823	38.4	1944	21,052	408,432	51.5
1937	14,098	340,613	41.4	1945	18,410	366,382	50.2
1938	7,316	195,820	37.4	1946	15,182	290,741	52.2
1939	11,707	262,830	44.5	1947	20,242	353,778	57.2
1940	15,014	306,650	49.0	1948	20,655	368,148	56.1
1941	20,417	378,763	53.9				

In considering such figures, it is to be noted that product output per man-hour in the production of steel is affected significantly by (1) volume and customer requirements; (2) capital improvements of facilities; (3) product variations as to grade of steel, size, shape, etc.; (4) improved methods and practices; (5) quality of raw materials; (6) quality of goods and services purchased; and (7) employee performance rates.

In the words of the United States Department of Labor, Bureau of Labor Statistics:

"Changes in the ratio between output and labor input reflect the joint effect of a large number of separate, though interrelated influences such as technical improvements, the rate of operations, the relative contributions to production of plants at different levels of efficiency, the flow of materials and components, the skill and effort of the work force, the efficiency of management, the state of labor relations, and many other factors" (Major Sources of Productivity Information, June 1949, p. 1, par. 2.)

Thus the most that can be learned from over-all figures of product output per man-hour is the long-term trend, possibly with some degree of information as to the principal factors of influence; namely, volume, tools of production, managerial skill, and employee performance, if there are sufficient cross comparisons of significant nature.

The period since 1946 is too short to disclose either a long-term trend or cross comparisons of significant nature.

The CHAIRMAN. Mr. Munson.

Mr. BLOUGH. Mr. Munson's statement will be incorporated as a part of the next presentation, and I would like to add this. You asked a question concerning the proposed integrated steel plant in New England. We have a statement on that, too.

The CHAIRMAN. It will be included in the record.

(The document above referred to follows:)

STATEMENT SUBMITTED BY BENJAMIN F. FAIRLESS, PRESIDENT, UNITED STATES STEEL CORP., CONCERNING THE PROPOSED INTEGRATED STEEL PLANT IN NEW ENGLAND

United States Steel continuously studies the changing markets for steel consumption and the economics of plant locations. A steel plant, to be successful, must be able to assemble advantageously the necessary raw materials for steel manufacture and should also be located near an adequate consuming market for its products.

For a number of years past, the advisability of constructing an integrated steel plant at a suitable location on the Atlantic seaboard has been an important part of our studies. In this connection, thoughtful attention has been given to the possibilities of New England as the location for such a plant.

At present, United States Steel has the following facilities in New England:

At Worcester, Mass: Open-hearth plant, capacity 250,000 ingot tons per year; blooming mill; rod-rolling mills; wire and wire-products plant; cold-rolled strip plant; electrical wire and cable plant.

At New Haven, Conn.: Wire-drawing plant, wire-rope plant.
At Boston, Mass.: Warehouse for steel products.

After a careful consideration of raw materials and the markets in relation to plant locations, we have concluded that if and when United States Steel constructs an integrated steel plant on the Atlantic seaboard, it should be located in the Philadelphia-Trenton-New York area. With this possibility in mind, United States Steel has recently acquired an acreage on the Delaware River near Morrisville, Pa., about 30 miles northeast of Philadelphia.

The annual ingot capacity of 250,000 tons which United States Steel now has at Worcester, Mass., and the additional ingot capacity of a new steel mill, if and when built at the newly acquired location on the Delaware River, would be adequate, in our opinion, to meet that portion of the New England market demand which we can expect to serve. If the new facilities are built near Morrisville, Pa., a portion of the steel products now being shipped to New England from other United States Steel plants more distantly located will undoubtedly be supplied from the new Morrisville plant.

We can understand the desire of steel consumers and others located in New England to have an integrated steel plant built in their territory. The residents of many other areas of the United States have a similar desire for local steel-making facilities. But markets, raw materials, and financial factors have to be weighed in each case; and it was our conclusion that the better location for us was the one indicated.

We want to make it clear that United States Steel is not opposed to the construction and operation of an integrated steel plant in New England or anywhere else when it is accomplished by private enterprise. We believe wholeheartedly in competitive, free private enterprise, and for that reason we cannot advocate the building or financing of new steel-making facilities with Federal or State Government funds, except possibly in an emergency during wartime.

We would like to point out that if a new integrated steel plant is built in New England, regardless of who builds it or how it is financed, we will continue our present policy of offering iron ore for sale within our capacity to produce and, under these conditions, we will be willing to supply such a plant with iron ore at regular market quotations.

It is our hope and expectation that, with our present facilities located in New England and at other places in the eastern United States, we can continue to furnish a satisfactory supply of steel to New England. We anticipate that if we build a new steel mill on the Delaware River we will be in a still better position to compete with other steel manufacturers for sales in New England.

Mr. WOLCOTT. Mr. Chairman, throughout these hearings there has been going through my mind the thought of an affiliation between these figures and cost in money and the value of the American dollar.

It seems to me that in order to get this full picture we have got to take into consideration and have somebody analyze the statements in terms of the dollar value as of these relative dates. I do not know whether it would be possible or not, but in the statement of profits, for example, there is an affiliation between the profits of the corporation and the changes in the value of the dollar.

We have decreased the value of the dollar, and as our dollar has been devalued I see a relationship somewhere between that and profits. I do not know just what the relationship is. If there is a relationship, I do not think we are going to be able to do too good a job here unless we have an analysis of it.

The CHAIRMAN. We will take that up with the staff, Congressman.

Mr. VOORHEES. We have certain analyses along that line ourselves, and that has been very important from a cash standpoint during this period, to know exactly where you are with respect to that.

The CHAIRMAN. Well, the usual method is to pick out a particular year and adjust as to the value of that year.

Mr. WOLCOTT. What I have in mind is in analyzing Mr. Voorhees' and Mr. Fairless' statements, trends in credits, trends in the value of

the dollar which influence these trends in costs of production and the necessity of building reserves against losses over long periods of time. I may be on the wrong track, but it seems to me that there is some affiliation there between the two subjects.

Mr. VOORHEES. I would say there is, too; very important.

Mr. FAIRLESS. Mr. Chairman, Mr. John Munson is vice president in charge of raw materials, and he will make the presentation for the benefit of you and your committee.

The CHAIRMAN. Thank you very much, sir. Take a seat, Mr. Munson, the most convenient place for you. You may proceed, Mr. Munson.

Mr. MUNSON. Thank you, Mr. Chairman.

STATEMENT OF JOHN G. MUNSON, VICE PRESIDENT, RAW MATERIALS, UNITED STATES STEEL CORP. OF DELAWARE

Mr. MUNSON. The future prosperity of the United States is linked to natural resources. Our standard of living and position in world affairs at this time stem from our preeminence as an industrial Nation, which in turn has been possible because of the extensive mineral wealth that nature has deposited in our portion of the earth's crust.

Most industrialists acknowledge that industry in this country faces grave problems in regard to raw materials essential to our expanding economy. This is particularly true of the steel industry and its requirements of coal and ore.

It is common knowledge as shown on the attached map, marked exhibit 1, that there is no shortage of coal reserves in the United States. Notwithstanding coal's availability, we face a future which includes pyramiding costs in investment and operation with consequent increases in cost of steel production.

The annual United States production of coal exceeds 600,000,000 net tons. Of this total, the steel industry consumes 15 percent or approximately 90,000,000 tons annually. The coal mining subsidiaries of the corporation annually produce approximately 5 percent of the total national production. To satisfy our requirements, we buy an additional 8 to 10 million tons in the open market.

The problems of the coal industry become problems of the steel industry as increased coal production costs become part of the cost of producing steel.

Due to the abnormally heavy demands of the recent war, our metallurgical coal reserves were depleted at an abnormal rate. We are now faced with a huge program of capital expenditures for the development of replacement mines, to bring our coal mining productive capacity back into normal balance with demand.

The estimated annual production of coal to supply the United States Steel Corp. requirements in its northern mills at 80 percent of steel capacity during the 20 year period—1950 to 1970, inclusive—is shown on the attached chart, marked exhibit 2. The top horizontal line indicates annual requirements of 25,440,000 tons of coal are necessary to support this operation. The solid line indicates the declining annual production from presently active mines. The broken line indicates the annual increased production that must come from projected new mines.

The critical nature of this problem from both a physical and a financial viewpoint is apparent when it is realized that approximately 50 percent of our daily requirements must originate at projected new mines as early as 10 years hence, in the year 1960.

The CHAIRMAN. Does this declining line reflect your estimate of the depletion of the resources?

Mr. MUNSON. That is correct, Senator.

Bituminous coal mining and processing have become an expensive and complicated business. This is apparent from the attached diagram, marked exhibit 3, which shows a pictorial flow of a gravity coal cleaning process such as we must now employ. We have come a long way from the old simple process of mining and shipping coal which required but little preparation.

The devastating effect of the restrictions in the use of our mining plants by work stoppages in 1949 is shown in the attached chart, marked exhibit 4. We had a memorial strike in March—a stabilization strike in June—the miners' vacation period in July—a strike over contract demands in September and October—and we were restricted to 3 days or less per week operation during the months of July, August, September, November, and December. Because of these work stoppages, we lost 11,000,000 tons of coal production. This loss had to be made up by purchasing an equivalent amount of coal in the open market. It is estimated that the loss of coal from the corporation's mines when added to the higher cost of purchased coal results in an increase in the over-all cost of coal consumed at an annual rate of $20,000,000. This figure does not take into account the increased cost resulting from the use of inferior quality purchased coal, where coal of desired quality was not available.

Truly, the problem facing our Nation's coal producers is grave.

The other extremely serious problem confronting the steel industry is brought about by the dwindling supply of high-grade iron ore in the United States. Since the early 1900's over 80 percent of the Nation's iron-ore supply came from the Lake Superior district. Most of these ores were shipped in their natural state, supplemented by concentrates from simple beneficiating processes. The drain on these reserves caused by the fighting of two world wars, as well as peacetime uses, has depleted them to a point where some experts say that in the not too distant future—in terms of the life of the steel industry—these reserves may be unable to fully meet the Nation's demand for ore. Therefore, it has become increasingly apparent that present high-grade reserves must be supplemented with ores from new sources in order that an adequate supply of ore may be available for at least the next half century.

On the attached map, marked "exhibit 5," are shown the remaining major domestic iron ore resources. These reserves are of such quality that they can be used largely in their natural state.

Individual steel companies are attacking this problem on two fronts, ever mindful that our security in times of emergency rests primarily on the beneficiation of low-grade taconite ores which are abundantly available within the borders of our own country.

Since the use of the taconite ores will result in higher cost, United States Steel and other consumers of ore deemed it essential to examine ore deposits in many foreign countries to ascertain whether or not

such ores can be used economically at our present consuming plants. The attached map, marked exhibit 6, reveals the world's known major resources of iron ore, excluding the United States.

As you will see, iron ore is not a scarce mineral, for large deposits are well scattered throughout the world. Most of this ore, however, is so located that it would be uneconomic to use it in the United States. The foreign iron ore deposits available for United States consumption are shown on the attached map, marked exhibit 7.

Since 1945, exploratory parties sent by United States Steel have visited Africa, Canada, Mexico, Cuba, Nicaragua, Venezuela, and other countries. Explorations of many of these areas proved not only costly but futile. However, two outstandingly large deposits of iron ore have been discovered which can be economically developed.

We have pictured these two areas on the attached map. One is the well-publicized field in Labrador known as the Hollinger-Hanna concession, shown in the upper center of the map marked exhibit 8. The other is the Venezuelan deposits discovered by our geologists—shown in the center of the lower portion of the same map.

Eastern Venezuela, shown on the map which is marked "exhibit 9," was explored in the late 1920's, and certain deposits of high grade ore were found, then believed to approximate 50 to 75 million tons. One of these reserves, El Pao, was obtained by another steel corporation, which is now developing it.

West of the Caroni River, which divides the map, was a vast unexplored land. From a study of the general topography of this part of Venezuela, our geologists knew that this area had been subjected to violent upheavals in the geological ages; they also knew that the possibilities were favorable for finding iron ore in the hills and mountains formed by these upheavals. Our company, after formal approval of the Venezuelan Government, made an aerial survey and photographed 10,500 square miles of this territory. Objectives, pinpointed on these photographs, after a study of the terrain, were examined by exploration parties traveling in planes, jeeps, and on foot. Magnetometer surveys showed strong magnetic indications in the areas of iron ore occurrences discovered by these parties. Diamond drills were hurried into the country to see if the magnetic indications were caused by a large depoit of high-grade iron ore or by a low-grade highly magnetic formation. Exploration tunnels were driven into the side of the Cerro Bolivar Mountain. From information derived from drilled samples and samples obtained from the tunnels, we knew we had found a large quantity of iron ore.

Recently a new subsidiary of United States Steel Corp. was organized, the Orinoco Mining Co., to undertake the development of this ore property in Venezuela.

Our problem in Venezuela does not concern quantity or quality of ore but is one of financing the development of the property itself and determining the best methods to be used in bringing the ore from the interior to the ocean shipping points. Possible routes are shown on the attached map which is marked exhibit 10.

Some idea of the size of the largest Venezuelan deposit known as Cerro Bolivar can be gained from exhibit 11, where its linear dimensions are superimposed on the outline of the famous Hull-Rust Mahoning group of mines on the Mesabi Range, from which iron ore was obtained to win two world wars.

As Mr. Fairless has told you, our discoveries in Venezuela are of sufficient size and quality to affect materially the iron ore supply of this country. As these Venezuelan deposits are developed to supplement our present domestic reserves, they will aid in assuring that there will be adequate competition in the future between iron ore from various sources, and they also will conserve our natural high grade domestic ores, thus increasing the security of this Nation and our good neighbors to the south.

I wish you could see the deposits which have been discovered in Venezuela so that you might better visualize the opportunities for their development.

The mountain, Cerro Bolivar, rises to a height of 2,000 feet above the surrounding terrain.

On the south side of the mountain will be located the mining plant and the town-site which will house the workers employed in the operation. So much for the discovery of the iron ore in Venezuela.

Now let's turn to the problem which will confront us as we proceed with the beneficiation of the low grade ores of the Lake Superior iron ranges. These ranges are shown on exhibit 12.

Taconite, of which the Lake Superior iron ranges were formed, is an iron formation, about one-third iron and two-thirds waste. The taconite of the Mesabi Range, the largest of the deposits, stretches across northern Minnesota in a solid formation, a hundred miles long and several miles wide. Sprinkled here and there, like raisins in a cake, are the ore pockets from which the present high grade ores are being mined. The location of some of these ore pockets is shown on the attached drawing, marked exhibit 13.

Also shown in the cross-section on the bottom of exhibit 13, are the hard solid taconite iron formations, which after the layer of glacial drift has been removed, will be quarried, taken to beneficiation plants for crushing and grinding to powder fineness. From every 4 tons of this powder, 1 ton of good usable iron ore will be recovered. This fine grade ore will then be reconstituted for furnace use into lumps, or pellets, analyzing about 60 percent iron. You can readily see in the diagram marked exhibit 14 that "manufactured" iron ore produced by this process results in a higher cost product as compared to the cost of today's readily mined high grade ore.

Much must be accomplished before we can start producing taconite ore in commercial quantities. Taconite concentration processes already have been developed for separating the magnetic portions of iron from the finely powdered taconite. A large laboratory has been installed by United States Steel in Duluth, and our research engineers are continuing their costly studies to determine methods of recovering the hematite or nonmagnetic portions of iron contained in the taconite rock as illustrated on exhibit 15.

We must continue an extensive drilling program to locate the taconite areas most favorable to concentration. Pilot plants must be erected to insure that the processes developed for concentrating the ore are the most economical possible, in order that the end price of a ton of steel will carry the minimum burden of high ore cost.

Now, each of these beneficiating processes presents technical problems and their solution costs money—money for research, money for capital investment, and money for higher operating costs. Estimates of the taconite-concentration program placed the capital investment

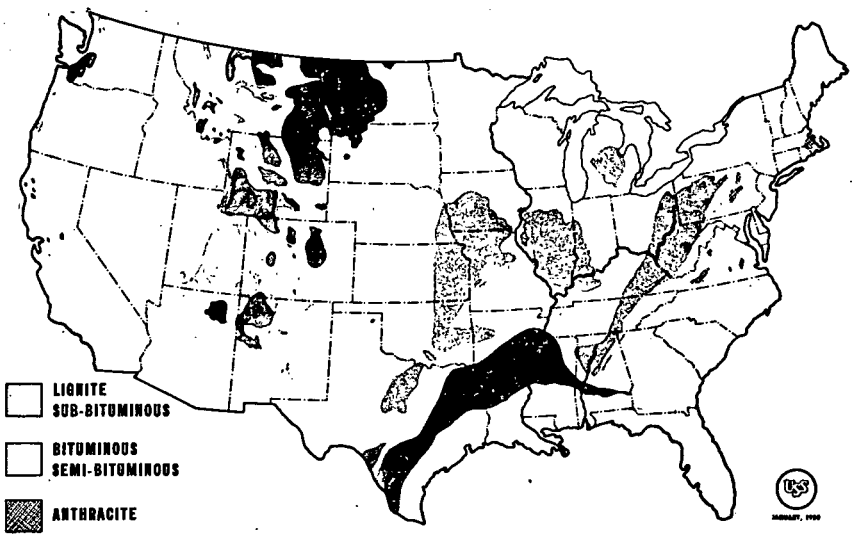
at approximately $15 to $20 per annual ton of iron ore produced. In other words, if the steel industry were to replace the present Lake Superior natural ore supply with a taconite supply alone, it would be faced with a capital investment in iron-ore facilities of between 1¼ and 1¾ billion dollars at today's prices.

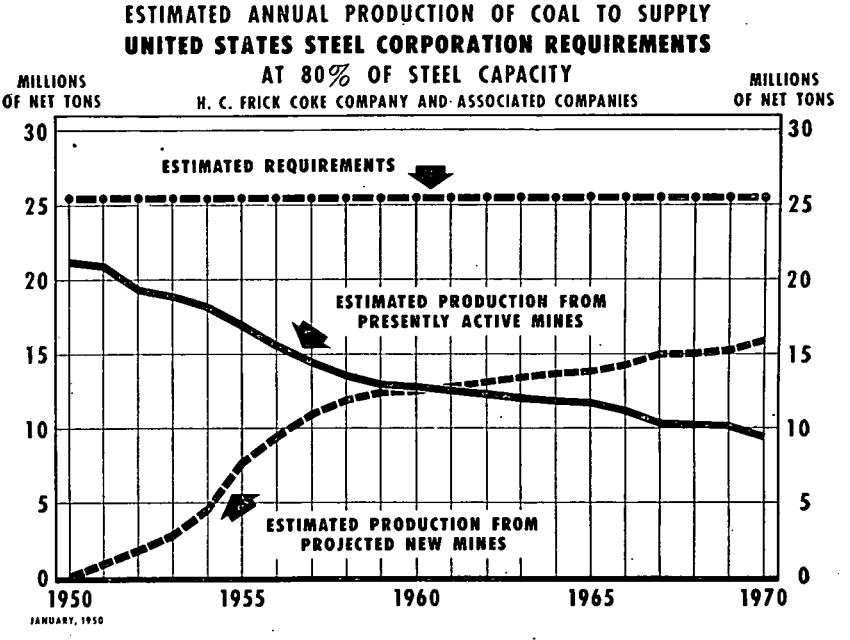
In planning a comprehensive iron-ore program to follow for the next 20 or more years, we now face the prospect of shrinking domestic reserves of natural ores, on the one hand, and the large capital investments and operating costs of developing a foreign ore and domestic taconite problem, on the other. Exhibit 16 presents an estimate of the probable sources of iron ore for the corporation's requirements during the next three decades. It is the aim of the corporation to so plan its development program that the minimum cost increase for iron ore will be necessary as the new sources are developed, while at the same time the maximum amount of "readily mineable" domestic natural ores is conserved for use during periods of national emergency.

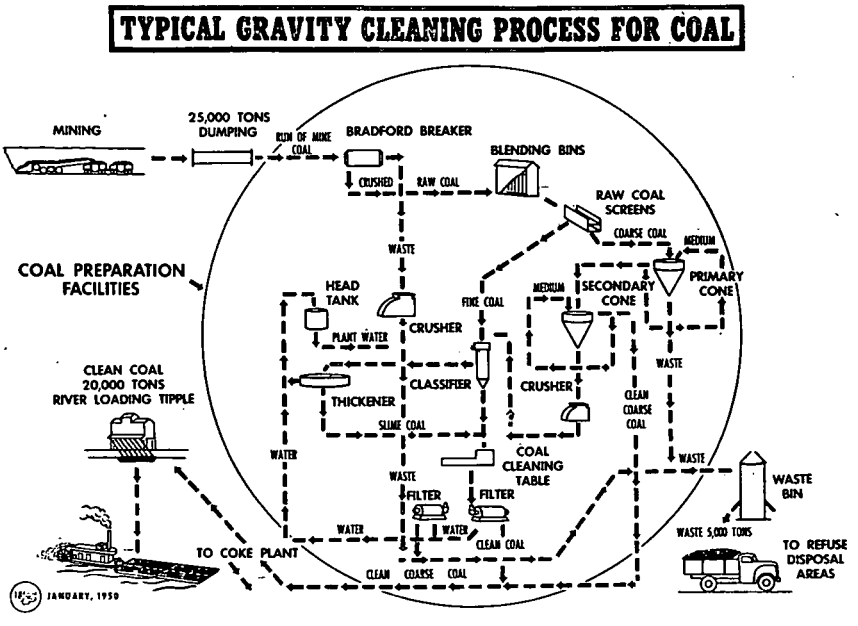
United States Steel Corp. recognizes that the raw material reserves of this Nation, thanks to the initiative inherent in our system of private competitive enterprise, are the true measures of our wealth and security. We must exercise foresight and prudence in the conservation of the remaining essential raw materials of the country. Conscious of such a responsibility, United States Steel is now embarking upon a program of raw-material development that calls for very large capital investments. While this will be an investment to insure our continued steel operations, it also represents, in a larger sense, our faith in and desire to protect the future of this Nation.

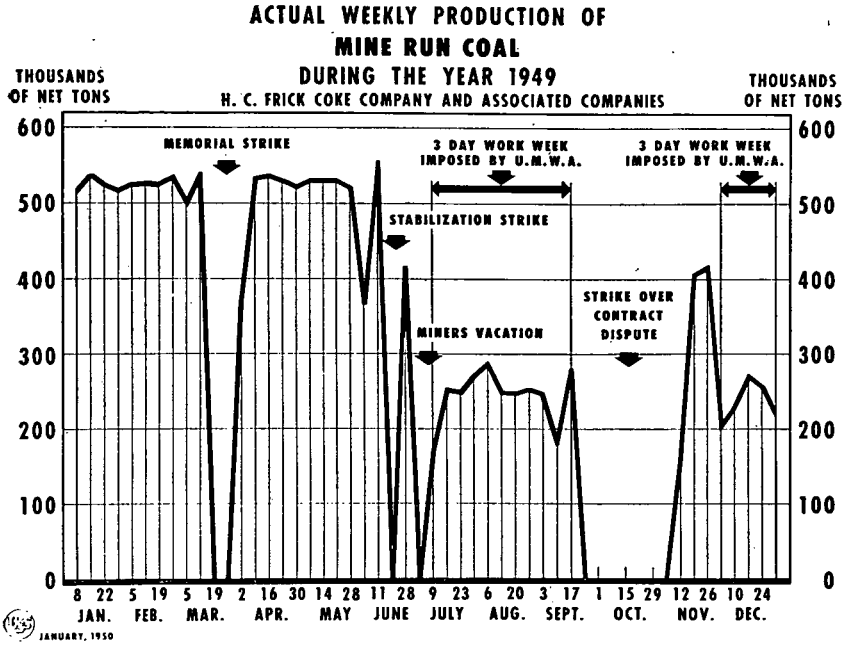
I thank you, Mr. Chairman.

COAL AREAS OF THE UNITED STATES

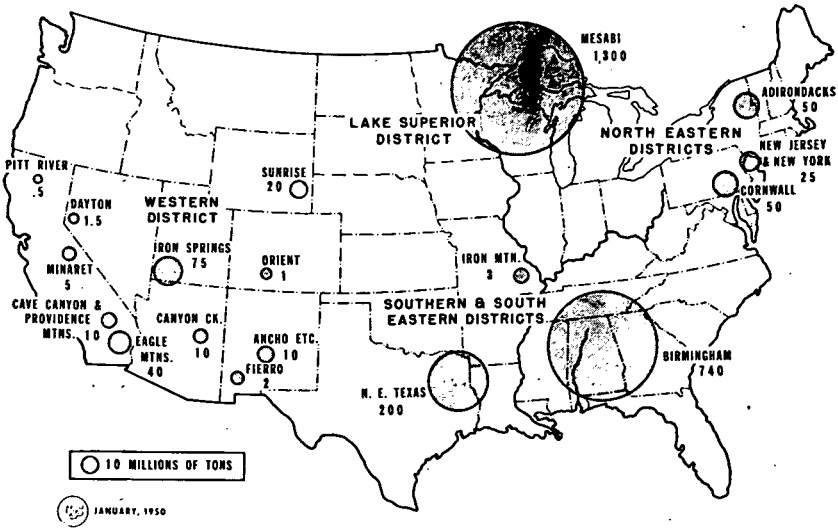


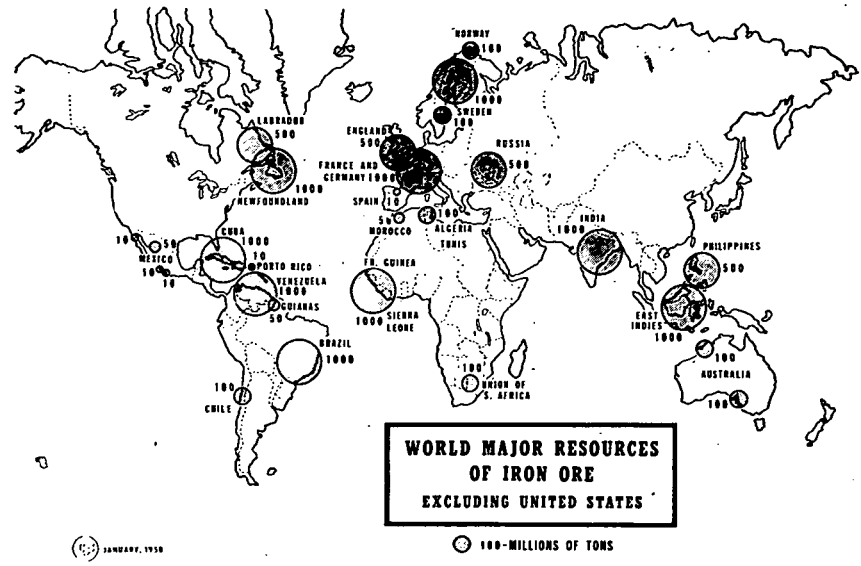

ESTIMATED ANNUAL PRODUCTION OF COAL TO SUPPLY
UNITED STATES STEEL CORPORATION REQUIREMENTS
AT 80% OF STEEL CAPACITY
H. C. FRICK COKE COMPANY AND ASSOCIATED COMPANIES
MILLIONS OF NET TONS
MILLIONS OF NET TONS
ESTIMATED REQUIREMENTS
ESTIMATED PRODUCTION FROM PRESENTLY ACTIVE MINES
ESTIMATED PRODUCTION FROM PROJECTED NEW MINES
30
25
20
15
10
5
0
1950
1955
1960
1965
1970
JANUARY, 1950


TYPICAL GRAVITY CLEANING PROCESS FOR COAL
MINING
25,000 TONS DUMPING
RUN OF MINE COAL
BRADFORD BREAKER
CRUSHED
RAW COAL
BLENDING BINS
RAW COAL SCREENS
COARSE COAL
MEDIUM
PRIMARY CONE
SECONDARY CONE
MEDIUM
FINE COAL
WASTE
HEAD TANK
PLANT WATER
CRUSHER
COAL PREPARATION FACILITIES
CLEAN COAL 20,000 TONS RIVER LOADING TIPPLE
THICKENER
CLASSIFIER
CRUSHER
CLEAN COARSE COAL
SLIME COAL
WATER
WASTE
COAL CLEANING TABLE
FILTER
FILTER
WASTE BIN
WASTE 5,000 TONS
TO REFUSE DISPOSAL AREAS
WATER
WATER
CLEAN COAL
TO COKE PLANT
CLEAN COARSE COAL
JANUARY, 1950



MAJOR IRON ORE RESOURCES OF THE UNITED STATES




NORWAY
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LABRADOR
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FRANCE AND
GERMANY 1000
RUSSIA
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PORTO RICO
VENEZUELA
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SIERRA
LEONE
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PHILIPPINES
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EAST
INDIES
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BRAZIL
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UNION OF
S. AFRICA
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AUSTRALIA
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CHILE
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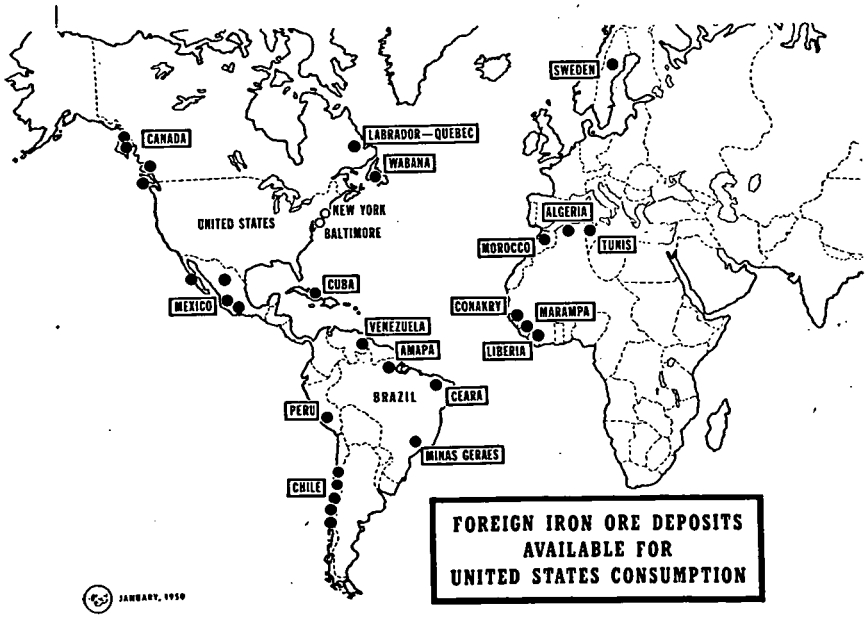
WORLD MAJOR RESOURCES
OF IRON ORE
EXCLUDING UNITED STATES
JANUARY, 1950
100-MILLIONS OF TONS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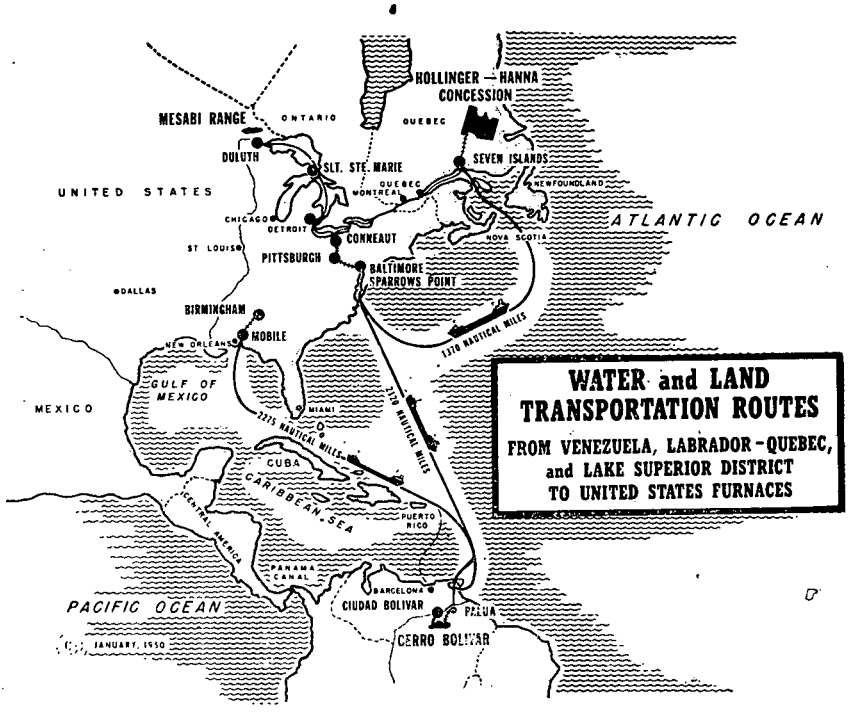
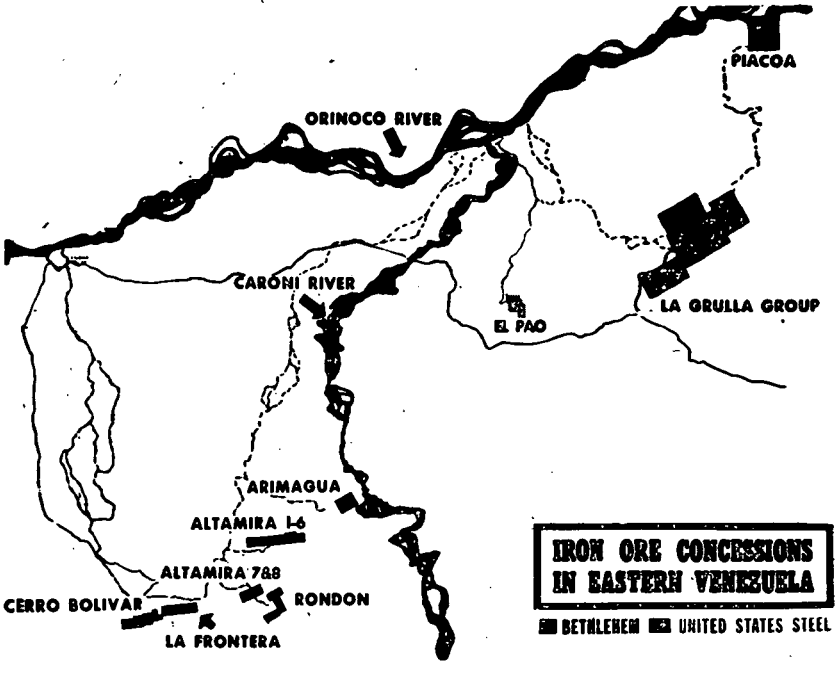
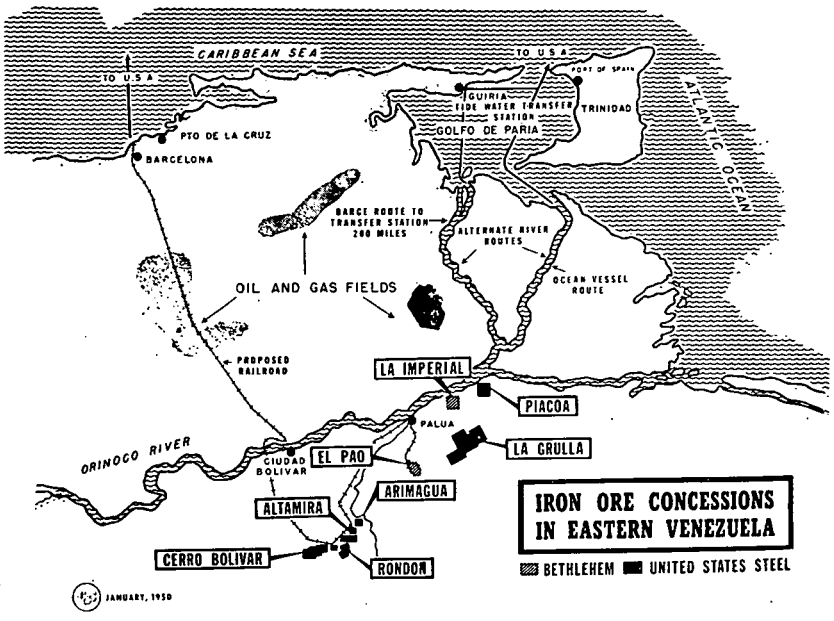
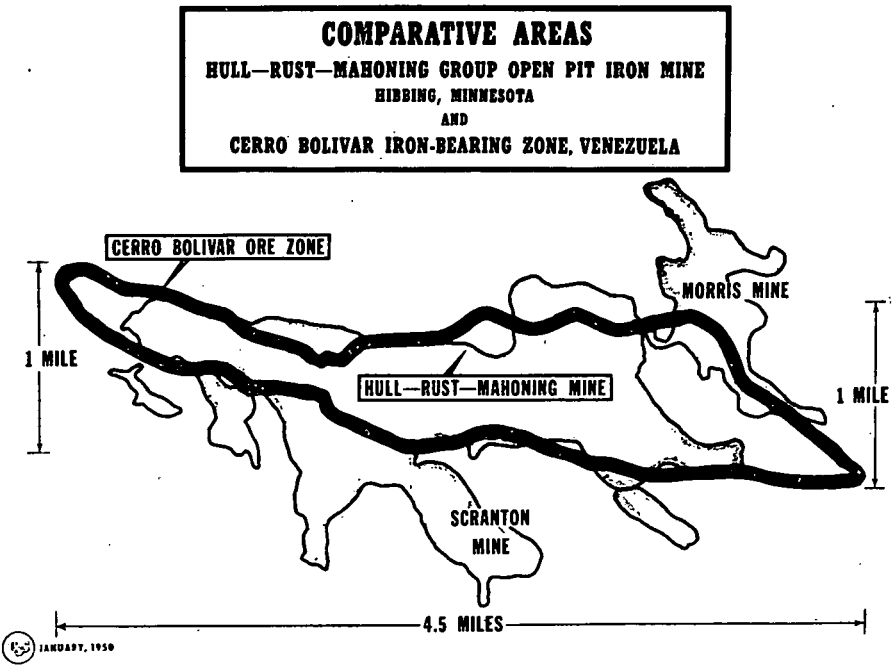
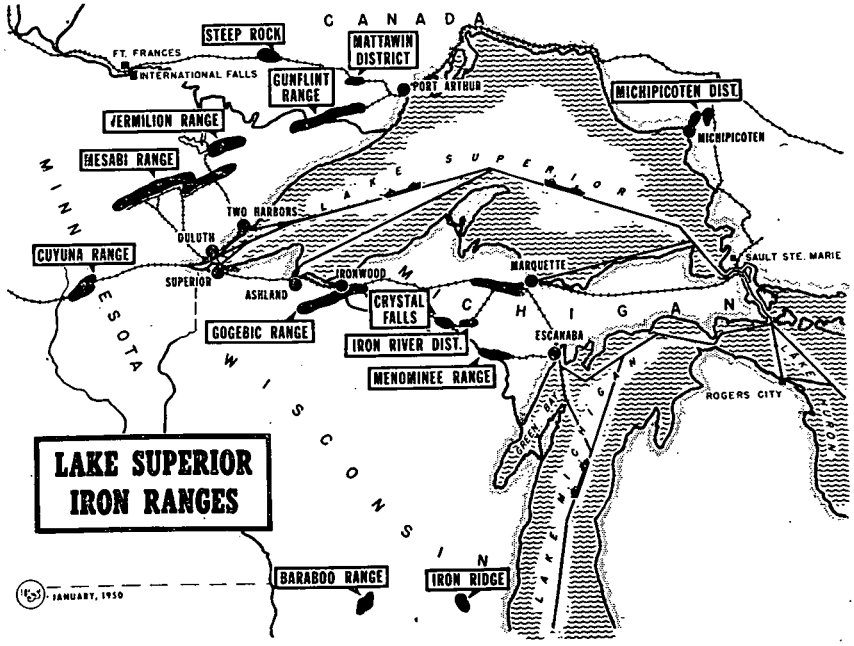
CONAKRY
MARAMPA
VENEZUELA
LIBERIA
AMAPA
BRAZIL
CEARA
PERU
MINAS GERAES
CHILE
FOREIGN IRON ORE DEPOSITS
AVAILABLE FOR
UNITED STATES CONSUMPTION
JANUARY, 1950

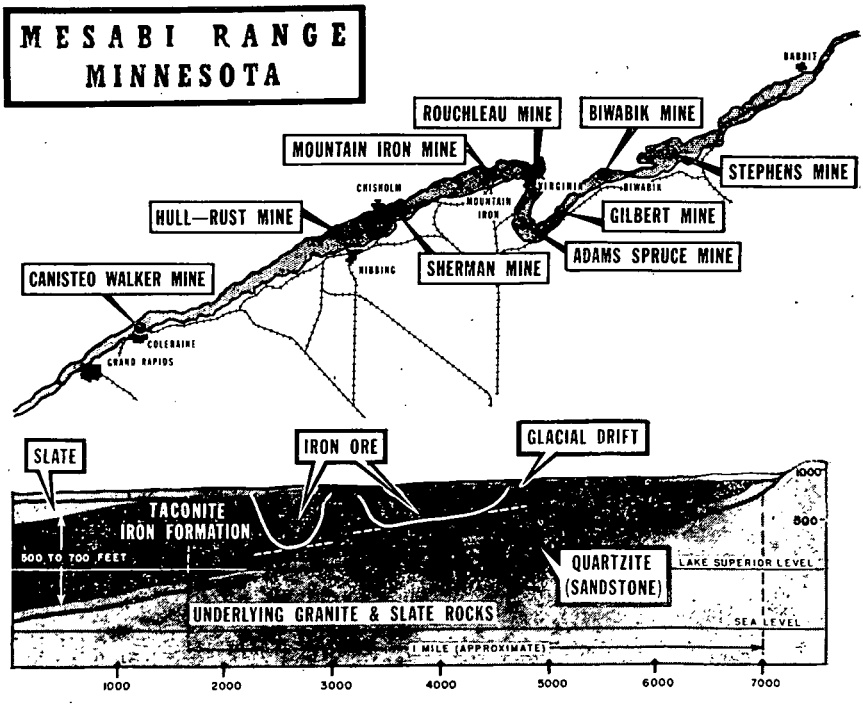

HOLLINGER — HANNA CONCESSION
MESABI RANGE
ONTARIO
QUEBEC
DULUTH
SLT. STE. MARIE
SEVEN ISLANDS
UNITED STATES
QUEBEC
MONTREAL
NEWFOUNDLAND
ATLANTIC OCEAN
CHICAGO
DETROIT
CONNEAUT
NOVA SCOTIA
ST LOUIS
PITTSBURGH
BALTIMORE
SPARROWS POINT
DALLAS
BIRMINGHAM
MOBILE
1370 NAUTICAL MILES
NEW ORLEANS
GULF OF MEXICO
MEXICO
MIAMI
1370 NAUTICAL MILES
2275 NAUTICAL MILES
CUBA
CARIBBEAN SEA
PUERTO RICO
CENTRAL AMERICA
PANAMA CANAL
BARCELONA
CIUDAD BOLIVAR
PACIFIC OCEAN
PALUA
CERRO BOLIVAR
JANUARY, 1950
WATER and LAND TRANSPORTATION ROUTES
FROM VENEZUELA, LABRADOR-QUEBEC, and LAKE SUPERIOR DISTRICT TO UNITED STATES FURNACES


PIACOA
ORINOCO RIVER
CARONI RIVER
EL PAO
LA ORULLA GROUP
ARIMAGUA
ALTAMIRA L-6
ALTAMIRA 7&8
CERRO BOLIVAR
RONDON
LA FRONTERA
IRON ORE CONCESSIONS IN EASTERN VENEZUELA
BETHLEHEM
UNITED STATES STEEL

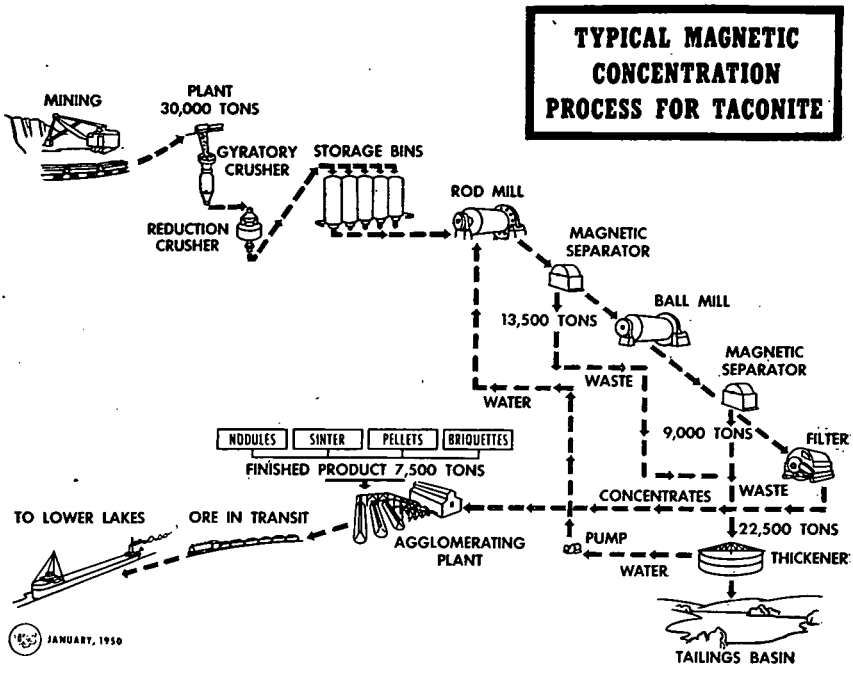

CARIBBEAN SEA
TO U.S.A.
TO U.S.A.
PORT OF SPAIN
GUIRIA
TIDE WATER TRANSFER STATION
TRINIDAD
ATLANTIC OCEAN
PTO DE LA CRUZ
BARCELONA
GOLFO DE PARIA
BARGE ROUTE TO TRANSFER STATION 200 MILES
ALTERNATE RIVER ROUTES
OCEAN VESSEL ROUTE
OIL AND GAS FIELDS
PROPOSED RAILROAD
LA IMPERIAL
PIACOA
PALUA
LA CRULLA
ORINOCO RIVER
CIUDAD BOLIVAR
EL PAO
ARIMAGUA
ALTAMIRA
CERRO BOLIVAR
RONDON
IRON ORE CONCESSIONS IN EASTERN VENEZUELA
BETHLEHEM
UNITED STATES STEEL
JANUARY, 1950

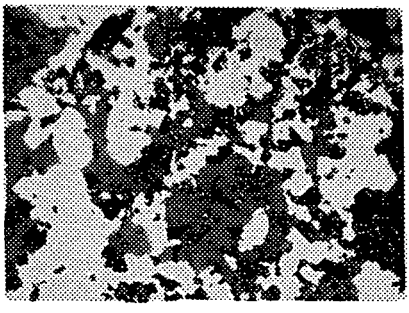

COMPARATIVE AREAS
HULL—RUST—MAHONING GROUP OPEN PIT IRON MINE
HIBBING, MINNESOTA
AND
CERRO BOLIVAR IRON-BEARING ZONE, VENEZUELA
CERRO BOLIVAR ORE ZONE
MORRIS MINE
1 MILE
HULL—RUST—MAHONING MINE
1 MILE
SCRANTON MINE
4.5 MILES
JANUARY, 1950


C A N A D A
STEEP ROCK
FT. FRANCES
INTERNATIONAL FALLS
MATTAWIN DISTRICT
GUNFLINT RANGE
PORT ARTHUR
MICHIPICOTEN DIST.
MICHIPICOTEN
VERMILION RANGE
MESABI RANGE
L A K E S U P E R I O R
TWO HARBORS
DULUTH
CUYUNA RANGE
SUPERIOR
ASHLAND
IRONWOOD
MARQUETTE
SAULT STE. MARIE
CRYSTAL FALLS
GOGEBIC RANGE
IRON RIVER DIST.
ESCANABA
MENOMINEE RANGE
ROGERS CITY
LAKE SUPERIOR IRON RANGES
BARABOO RANGE
IRON RIDGE
JANUARY, 1950


MESABI RANGE
MINNESOTA
RABBIT
ROUCHLEAU MINE
BIWABIK MINE
MOUNTAIN IRON MINE
STEPHENS MINE
CHISHOLM
VIRGINIA
BIWABIK
MOUNTAIN IRON
HULL—RUST MINE
GILBERT MINE
ADAMS SPRUCE MINE
CANISTEO WALKER MINE
HIBBING
SHERMAN MINE
COLERAINE
GRAND RAPIDS

SLATE
IRON ORE
GLACIAL DRIFT
TACONITE IRON FORMATION
500 TO 700 FEET
QUARTZITE (SANDSTONE)
LAKE SUPERIOR LEVEL
UNDERLYING GRANITE & SLATE ROCKS
SEA LEVEL
1 MILE (APPROXIMATE)
1000
500
1000
2000
3000
4000
5000
6000
7000



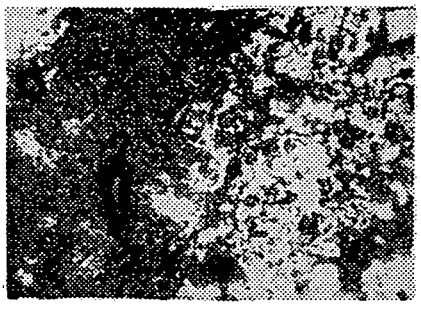


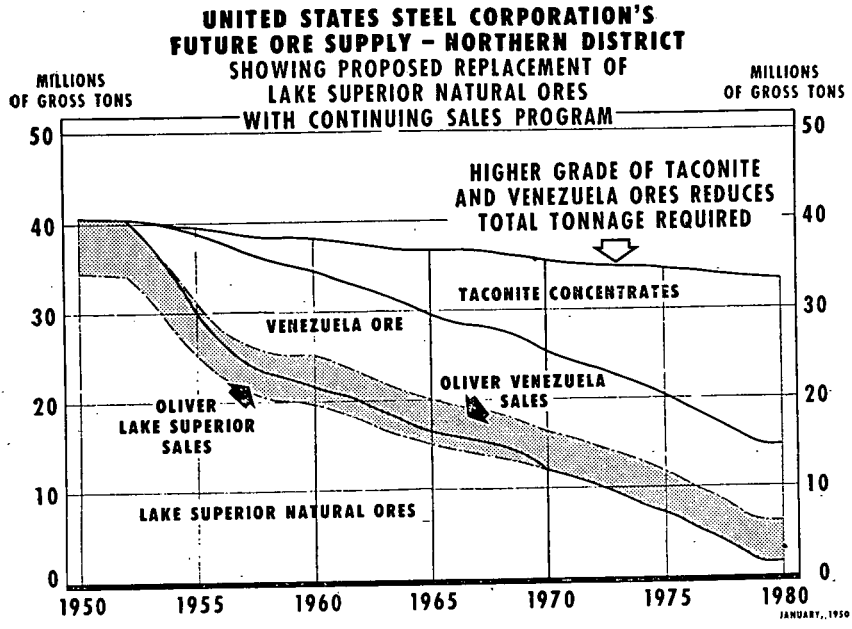
TACONITE—DESIRABLE TYPE

2/3 OF IRON AS MAGNETITE
CHARACTERIZED BY RELATIVELY COARSE CRYSTALS MAKING SEPARATION EASIER

TACONITE—COMPLEX TYPE

CHARACTERIZED BY FINE SIZE OF GRAINS AND PRESENCE OF COMPLEX MINERALS IN THE DARK BAND
VERY DIFFICULT TO CONCENTRATE





The CHAIRMAN. Thank you, Mr. Munson. Are there any questions?

Mr. PATMAN. What do you estimate the northeast Texas ore to be?

Mr. MUNSON. Two hundred million tons, sir.

Mr. PATMAN. That is rather conservative, is it not?

Mr. MUNSON. Well; I usually like to be very conservative in all my figures, Mr. Patman, because usually we have to produce in the raw-material department based on them.

Mr. PATMAN. It has been estimated up to a billion tons.

Mr. MUNSON. Well; it depends a good bit on what you do, whether you take it out of 40 percent, Mr. Patman, or whether you take it out and beneficiate it up to 55 percent. Maybe that explains the difference partially.

Mr. PATMAN. No doubt.

Mr. MUNSON. I am glad you asked that question. Put some good Venezuela ore with that, and you might have a good amount.

Mr. HUBER. Texas is bound to be a little larger.

Mr. MUNSON. Well; that is a long ways ahead, but if we do not protect our iron-ore supply and our coal supply, the things you have been talking about, intentions will not be worth while because somebody will take us over.

Thank you very much.

The CHAIRMAN. We appreciate your presentation very much.

Mr. MUNSON. It is a little long range, but it is good to start early, I find.

The CHAIRMAN. The meeting of the committee tomorrow will be held in room 362 of the Old House Office Building, and the witnesses will be Mr. H. G. Batcheller, chairman of the board, Allegheny Ludlum Steel Corp.; Admiral Ben Moreell, president, Jones & Laughlin Steel Corp.; Mr. Ernest T. Weir, chairman, National Steel Corp., Mr.

C. M. White, president, Republic Steel Corp; and Mr. W. H. Colvin, Jr., president, Crucible Steel Co. of America.

The committee is very grateful to the witnesses for United States Steel for their presentation here today.

Mr. BUCHANAN. One final word, Mr. Chairman. I hope as the determination of this hearing that the results will be the same as they were with a determination of the other hearings, lower steel prices instead of higher steel prices.

Mr. FAIRLESS. That is what we are all striving for. The way to accomplish that is, first, get our costs constant and then lower them.

The CHAIRMAN. The committee will stand in recess until 10 o'clock tomorrow morning.

(Whereupon, at 5:05 p. m., the hearing was adjourned to reconvene on Wednesday, January 25, 1950, at 10 a. m.)

DECEMBER 1949 STEEL PRICE INCREASES

WEDNESDAY, JANUARY 25, 1950

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

The joint committee met, pursuant to adjournment, at 10:15 a. m., in room 362, Old House Office Building, Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney, Sparkman, Douglas, Watkins; Representatives Patman, Huber, Buchanan, Rich, Wolcott, and Woodhouse.

Also present: Theodore J. Kreps, staff director, Grover W. Ensley, associate staff director, and Fred E. Berquist, of the joint committee staff.

The CHAIRMAN. The committee will please come to order.

The first witness this morning is Mr. H. G. Batcheller, chairman of the board of Allegheny Ludlum. Is Mr. Batcheller here? You may proceed at your convenience, sir. It is not necessary to stand.

STATEMENT OF H. G. BATCHELLER, CHAIRMAN OF THE BOARD; AND E. J. HANLEY, EXECUTIVE VICE PRESIDENT; ACCOMPANIED BY T. A. WHEELER, CONTROLLER, ALLEGHENY LUDLUM STEEL CORP.

Mr. BATCHELLER: Along with other representatives of the steel industry, I appeared before this committee in March 1948, and December 1948, to discuss steel prices and other closely related questions. Since that date, representatives of every major steel company in the country appeared before the steel fact-finding board appointed by the President to make recommendations as to whether steel should pay another yearly wage increase.

These statements have had little apparent effect in halting the upward movement of wages and related material cost increases with which the steel industry has been faced continuously in recent years. But because I feel it is essential that the facts be made clear, I am glad to appear before this committee again and to explain why Allegheny Ludlum has found it necessary to again increase its prices. Actually, Allegheny Ludlum's experience, particularly in the past year, represents probably as concrete a case history as one could find to illustrate, in the high alloy steel field, the impact of rising costs not only upon profits and the price structure, but as a brake upon the development of new and expanding products.

While steel companies have many problems in common, no one company is like any other company, nor can it speak for any other

company or for the industry as a whole. For example, the 1949 experience of producers whose products are predominantly in the alloy field has been in no way comparable to that of carbon steel producers. It is important that I rehearse very briefly our position in the industry. Allegheny Ludlum is neither large nor small. In the steel industry our 1948 sales of $126,000,000 ranked us eleventh. While we produce a substantial tonnage of carbon steel, we are not an integrated carbon-steel producer. Our prime interest has been directed to production of alloys, particularly stainless steel. In this alloy field we are a leading and long-experienced producer.

I should also like to summarize briefly my statements before this committee in December 1948. At that time I pointed out that Allegheny Ludlum had "held the line" on prices of its principal products during a long period of rapidly rising costs until the "third round" of wages in July 1948 threatened to wipe out our profits entirely and we had no choice but to advance our prices.

Secondly, I pointed out that our profits and those of all other steel companies should be considered in the light of the capacity operating rates then existing and now once more being experienced. I warned that the steel industry could not be expected to operate continuously at 100 percent of capacity for any extended period and that because of high fixed costs inherent in the tremendous plant and equipment requirements of the industry, profits could be expected to fall drastically when reduced operating rates occurred.

In addition, like many others who appeared before you, I atttempted to make clear that the so-called "excessive" profits of 1948 were, in reality, insufficient to finance the expansion, research, and improvement programs—programs so necessary to continue the tremendous advances in our standard of living made possible by the continuous new developments in this field.

It was my conclusion that the earning power and earnings prospects of steel companies generally were just not high enough to provide for continued research, improvement and expansion—that they certainly were not high enough to attract new capital funds into this field and that further cost increases could only result in increased prices.

That was a year ago. The clamor about high profits has continued. Yet the year 1949 demonstrated in no uncertain manner certain facts which the high volume operations of previous years had tended to obscure, namely, (1) that demand for steel products can change quickly and radically, and (2) that profit margins for certain segments of the industry are dangerously narrow and "break-even points" extremely high. At the very time of the hearings before the steel fact-finding board when Mr. Nathan was endeavoring to show that the break-even point of the steel industry was around 35 percent of capacity, this company at about 60 percent of capacity was operating actually in the red.

I believe that our 1949 experience is of great significance in indicating the magnitude and causes of the sharp changes which can occur in the earning power of even such long-experienced, well-established and low-cost manufacturing companies as Allegheny Ludlum. For that reason I think it would be of great value to you to examine and reconsider in more specific detail the important factors influencing 1949 profits so that you may judge for yourselves whether price increases would result in unconscionable or unreasonable profits. For

this purpose I introduce Mr. Edward J. Hanley, our executive vice president.

Mr. HANLEY. First, let us start with the blunt fact that our profits declined drastically during the past year from $6,833,000 in 1948 to an amount which is not expected to exceed one-third of that sum when final adjustments have been made and our books have been audited. During the third quarter of 1949 we actually operated at a loss.

The ratio of net profits to sales declined from 7.0 percent in 1940 to 5.4 percent in 1948 and dived further in 1949. Although we have continued to pay the moderate dividend of $2 per share on our common stock, which has not been increased in the past 9 years, we failed to earn it in 1949 by a substantial margin.

In order to understand the reason for the abrupt decline in our 1949 profits, one must review the effects of previous changes in costs, selling prices, and volume, and their reaction upon profit margins over the last few years. For this purpose I refer you to chart I, showing sales and profits before taxes for quarterly periods in recent years. The low profits of the first quarter of 1946 reflect the results of the strike which occurred in that period over the so-called first round of postwar wage increases.

The CHAIRMAN. May I interrupt to advise members of the committee that the charts which you have on the easel are all reproduced in the text before you.

Mr. HANLEY. They are. Simultaneously with this wage increase—the first round of postwar wage increases—the OPA price of carbon steel was raised $5 per ton.

The CHAIRMAN. Does this show the OPA price?

Mr. HANLEY. No; this just shows our total income. Other steels went up accordingly. As you may note from the chart, before-tax profits continued at about the 1946 level—that is, through the second, third, and fourth quarter of 1946 and first quarter of 1947.

The CHAIRMAN. You referred to before-tax profits. That is indicated on the chart as operating profits?

Mr. HANLEY. No; before-tax profits.

The CHAIRMAN. Thank you.

Mr. HANLEY. Before-tax profits continued at about the 1946 level until the second round of wage increases in April 1947 brought about the sharply diminished earnings of the third quarter. To maintain the market for our major product, we held the price line on stainless steel. As a result, although sales increased 12 percent for the year 1947, our profit declined 9 percent to $6,000,000 for the year.

Mr. RICH. How do you account for that?

Mr. HANLEY. Because we did not increase the selling prices on stainless steel in 1947, but we had the increased cost from increased wage rates and other material increases that followed.

Mr. RICH. You increased wages and increased production but your profits declined?

Mr. HANLEY. That is right, because we did not increase the prices on our principal product, stainless steel.

Mr. RICH. Your prices on stainless steel remained stationary or declined?

Mr. HANLEY. Through 1947 they remained stationary.

Senator WATKINS. Did you anticipate that result when you failed to increase your prices?

Mr. HANLEY. Yes; but we felt we should not increase the price of stainless steel at that time. We felt it was better to hold the price line at that time than to make a price increase.

Senator WATKINS. You think you could have raised your prices and still sold and operated at the same rate you had been operating?

Mr. HANLEY. I think we might have; yes.

Mr. RICH. Your principal increase in cost was labor?

Mr. HANLEY. Labor and then a consequent increase in material prices that followed as the labor increase went through our suppliers and some of our raw materials went up.

Mr. RICH. Did you have a strike that year?

Mr. HANLEY. No, we had no strike in——

Mr. RICH. Your production increased?

Mr. HANLEY. That was just increased sales volume, greater demand. Furthermore, by December 1947 our monthly earning rate had been about cut in half by the wage raise and the resulting high prices of raw materials and supplies. In July 1948 still another round of wage increases became effective and again caused an upward surge in the cost of materials. This total increase in costs of nearly $750,000 per month would have wiped out our entire earnings at 1947 sales levels. We had no choice at this time but to advance prices.

The CHAIRMAN. When you use the phrase "1947 sales levels," do you mean the price level or production level?

Mr. HANLEY. I mean the average level of the volume of sales that we had in the year 1947.

The CHAIRMAN. Is that in tons?

Mr. HANLEY. In tons. This action, and the rise in our sales to close to capacity levels in the last quarter of 1948, enabled us to increase profits by 14 percent to $6,833,000. It happens to be a record for the company for after-tax earnings.

Mr. RICH. What would that be per share on your capital stock?

Mr. HANLEY. I think the earnings were $4.68 a share, or something like that. Maybe they were $5.01 or $5.02. They were $5.05.

Senator WATKINS. But you did not pay out at that rate?

Mr. HANLEY. We paid $2.

Senator WATKINS. Why didn't you pay out at that rate?

Mr. HANLEY. We will show you as we go along.

Senator WATKINS. I will not ask you any more questions if you can show all that.

Mr. HANLEY. The most significant factor affecting earnings during the years 1946 through 1948 is one which was largely obscured by the steadily increasing volume of those years which benefited profits by spreading the large fixed costs of steel companies more lightly over a greater number of units. I refer to what is really a dangerous narrowing of profit margins. This becomes evident from further study of chart I, which shows that at the end of 1948, the last quarter of 1948, our monthly profit in dollars was almost identical with the average monthly profit of the last quarter of 1946—you will note those two lines are at about the same level—while our sales were 35 percent higher. For 1948, as a whole, sales were 33 percent over 1946 and profits were up only 3½ percent. Meanwhile, we had expanded our capacity and installed more cost-saving equipment, increasing our invested capital by approximately 50 percent.

Mr. RICH. You mean you put into your plant equipment 50 percent——

Mr. HANLEY. We began in 1946 putting new money into the plant and the new equipment that we bought cost a lot more, of course, than the equipment——

Mr. RICH. You increased your production 33 percent and yet your profits were only 3½ percent up?

Mr. HANLEY. That is correct.

Mr. RICH. Why were you unable to earn more on that expansion?

Mr. HANLEY. The reason really goes back to our holding the price line on stainless steel in 1947.

Mr. RICH. You were holding your price level——

Mr. HANLEY. When we held that price line, our cost selling price relationship became less favorable.

Mr. RICH. That was the only reason—your holding your price line was the only reason your profits did not increase?

Mr. HANLEY. Increasing costs with the price line held.

Mr. RICH. What increased your costs?

Mr. HANLEY. Labor, materials, and supplies.

Mr. BATCHELLER. That also will show very clearly, Congressman, on the chart here.

Mr. RICH. I would like to know what it was. What was it that increased your cost when you increased your sales 33 percent and the expansion of your plant, and then you could not make more profit. There must be a reason.

Mr. HANLEY. The reason is that profit margins had narrowed and they narrowed because price increases had not kept pace with the increase in operating costs.

Senator WATKINS. Did competition have something to do with maintaining your price level?

Mr. HANLEY. Yes; I would say so.

Senator WATKINS. What is the condition with respect to competition in this particular field of alloy steel?

Mr. HANLEY. Competition is very sharp in the entire steel business.

Senator WATKINS. How many manufacturers are there that turn out stainless steel?

Mr. HANLEY. I would say a dozen or 15.

Mr. BATCHELLER. Nearly 20.

Mr. RICH. We were told that you fellows got together and arranged your prices on steel and, in other words, you are in cahoots, and decided on the price that you should sell your steel. Is that a fact?

Mr. HANLEY. I do not know who told you that.

Mr. RICH. I just hear that by conversation.

Mr. HANLEY. Of course, that is not the case.

Mr. RICH. It is not the case?

Mr. HANLEY. No, sir.

Senator WATKINS. I was interested in your statement that you decided to maintain the price level and that is why I wondered if competition had anything to do with it. Did the rest of them decide to do the same thing about the same time?

Mr. HANLEY. I do not know. We did not attempt to raise our prices at that time. We have at times attempted to raise prices and have subsequently had to reduce them.

Senator WATKINS. Did any of the other manufacturers, when that round of wage increases went into effect, raise their prices?

Mr. HANLEY. I do not recall.

Mr. BATCHELLER. May I answer that, sir? There are several reasons why we did not. The principal one was we could have raised our prices without too much complaint from existing customers, I think. They would have paid more at the time.

Senator WATKINS. In other words, the demand would have justified a higher price?

Mr. BATCHELLER. The demand would have justified it, I think. The thing we must consider is that this business of ours, this high alloy steel business, is a rapidly expanding business with constantly new uses for these metals being engineered and coming in to broaden our market. Every time we are forced to raise a price it tends to discourage that.

I could give you one example. The use of very high alloy steels in television, in the manufacture of the cone for the television tube. The all-glass tube is now rapidly being replaced except for the lens itself, by a high alloy steel tube. The steel has the same coefficient of expansion as the glass lens, and when the steel and glass are welded together a gastight joint is made there with no leakage.

The advantage, of course, is a much lighter tube and elimination of breakage. We try, every way we can, not to discourage such applications, and every penny per pound we put on our steel tends to limit those.

Senator WATKINS. Your price, as I understand it, in this particular field, among your competitors, is practically the same for all of those?

Mr. BATCHELLER. It is practically the same, of course.

Senator WATKINS. How do your costs compare with these others?

Mr. BATCHELLER. I do not know. We think our cost on these steels is as favorable as probably any of them. We do not have access to their costs.

Senator WATKINS. I understand they are going to make them available here today and probably have at other hearings.

Mr. BATCHELLER. We think we are competitive with any of our competitors on these grades of steel.

Senator WATKINS. Aren't your production costs more or less fixed or standard?

Mr. BATCHELLER. They are constantly fluctuating.

Senator WATKINS. Whatever exists in your particular company, the same conditions probably exist in these other producing plants; is that right?

Mr. BATCHELLER. We think we have a little something on competition here and there and undoubtedly they have something on us. The processing of these steels is very intricate and there are many trade secrets, I have no doubt. We have some. We think we can do certain operations better than anybody else. I have no doubt that others have advantages, too. These operations are not stabilized, sir.

Mr. RICH. Were you to have increased your prices, you might have thrown yourself out of the market, the people who were using your product would have probably found a substitute?

Mr. BATCHELLER. 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 products, for new

metals, still lies ahead of us. We are trying to build a sound foundation and to hold our prices down to the lowest point where we can make a reasonable profit to pay out to our stockholders a modest amount to pay to them on their investment in our company, and at the same time provide from earnings a large portion, all that we can, for expansion and improvement and building this superstructure.

Mr. RICH. Then, after you invested the great amount of funds you did to increase your production and you increased your sales and you held your prices down, you feel that you, as the head of the corporation, and your associates have the right to determine whether you should increase the price of your product in view of the cost of labor and the cost of other things so that your company will not go into the red?

Mr. BATCHELLER. I certainly do.

Mr. RICH. You do not believe in going into the red like we do here in the Federal Government, do you?

Mr. BATCHELLER. I certainly do not. I am opposed to it.

Mr. HANLEY. The price increase of 1948 just about equaled the increased costs for that year alone and was sufficient only to restore the none-too-satisfactory margins to which profits had declined in 1947. It did nothing to make up for the drastic decline in our profit margins suffered in 1947.

Thus, we entered the year 1949 operating at almost capacity levels of volume but with profit margins for a comparable sales volume about half those of 1946.

With this background in mind, it is easy to understand what happened to our profits in 1949. As Mr. Batcheller warned this committee in December 1948, the steel industry just cannot be expected to operate at 100 percent of capacity year in and year out. After a period of exceptionally strong demand, a sharp change in buying sentiment on the part of our customers became evident in April 1949. In some instances, buyers who simply could see no limits to their requirements in March, informed us in April that they would need no more steel for the rest of the year. Others canceled orders while their expediters were still in our plants trying to find ways to get their orders filled even faster. This rush by customers to reduce inventories is always felt most severely by basic-material manufacturers such as ourselves who are farthest removed from consumer buying. Within 4 months after the end of 1948 our monthly rate of orders received had falled nearly 70 percent and remained at a very low level through June. Since that time, fortunately, there has been marked improvements and the immediate sales outlook is good. For the year 1949, however, the effect was to reduce our sales by about 16 percent from those of the previous year, but even this relatively slight decline in sales resulted in the drastic reduction in our earnings already mentioned.

Meanwhile, our profit margins in the year 1949 continued to narrow still further. The price of carbon steel scrap declined and this benefited our costs. We also sharply curtailed other expenses. These steps should have lowered our break-even point and widened our profit margins. Instead, overbalancing factors have caused our break-even point to rise somewhat further. Except for the much-publicized fall in the price of carbon-steel scrap, practically every one

of our major items of costs—wages, pig iron, nickel, ferroalloys, alloy scrap—remain at record high levels. (See charts II, III, IV, V.)

Chart II shows increase in labor through 1944 and in 1949 you can see a dip in here as our operations fell off, but as they built up again the average earning rate has gone up. That is the effect of overtime.

The CHAIRMAN. Do you have a chart showing the total earnings?

Mr. HANLEY. The total earnings?

The CHAIRMAN. This chart is on average hourly earnings.

Mr. HANLEY. I do not have one. It is possible to supply one, but we did not include such a chart in our presentation.

The CHAIRMAN. The only question was whether the graph would show any different climb if it were the total.

Mr. HANLEY. Yes; because when our operations dropped so low in the middle of the year, it was necessary to short-time many employees, so that total annual earnings of employees would fall in 1949.

The price of scrap back here in 1946 was $17.86 a net ton, went up to a high of practically $40 a net ton, fell to a low of $18.53, but stayed there for a very short time, and very little scrap was purchased at that price, climbed up to over $30 and is currently somewhere around $27 per net ton.

Our pig iron and semifinished steel show that continuously increasing trend, as you will note, from 1946 to the present. The same for pig iron and carbon-steel billets.

Mr. PATMAN. What is the price of pig iron now?

Mr. HANLEY. $41.07 a net ton.

Senator WATKINS. That is more or less stabilized now?

Mr. HANLEY. That has not changed since November 1948. Nickel and ferroalloys—you will note the only product in this group that dropped was nickel, and that reflects the change in the import duty in January of 1948. That was only temporary reduction and then the price went up higher.

Mr. RICH. Have the prices of most commodities that go into your manufacture decreased or increased in the last year?

Mr. HANLEY. Increased. I think carbon-steel scrap is the notable exception.

Mr. RICH. In 1949—well, in 1948 the prices of copper and lead and zinc and those metals were up high. Have they in your manufacture gone down?

Mr. HANLEY. Unfortunately, we do not use them—a slight amount of copper, but not very much.

The CHAIRMAN. May I ask you at this point, Mr. Hanley, if there is any reason of which you are aware why the price level of these basic commodities like nickel, ferrochrome, ferrosilicon, basic pig, and carbon billets seem not to vary as the price of scrap does?

Mr. HANLEY. Well, most of these are a fabricated—I mean they are products that come from the refining of ore, and the prices behave more or less as our steel price does.

The CHAIRMAN. The price of basic pig, for example, has been stable since October 1948 at an absolute level?

Mr. HANLEY. That is correct. I am not in a position to speak about the reasons why those prices would move or stay put.

The CHAIRMAN. The price of carbon-steel billets was stable without any fluctuation at all for an even longer period until the last month of 1949?

Mr. HANLEY. That is correct. These producers, of course, are faced with the same type of problem with which we are faced—rising material and labor costs.

The CHAIRMAN. What is the source from which you obtain basic pig and carbon-steel billets?

Mr. HANLEY. We buy pig iron from U. S. Steel Corp., we buy billets from the U. S. Steel Corp. and from others.

The CHAIRMAN. Then these two raw materials which you need come primarily from U. S. Steel?

Mr. HANLEY. That is right except that billets are now being purchased from another source.

The CHAIRMAN. Thank you.

Mr. HANLEY. At the beginning of 1950 our costs must now bear the additional payments required for pensions. The financial implications for our company over the longer term are still unknown. Even the immediate cost can only be roughly estimated at perhaps $1,200,000 per year which, after taxes, might amount to more than one-third of our entire net earnings in 1949.

Mr. RICH. You mean the cost of your pension system put into effect during the past year will cost you one-third of your income during the year 1949?

Mr. HANLEY. The amount of it would have reduced last year's income by a third. I do not know what it will be in 1950, because I do not know what 1950 income will be, but the expected increase would have been enough to have reduced the net income for last year by one-third.

Mr. RICH. You earned $5?

Mr. HANLEY. No. Last year's earnings are not available yet, but they will be somewhere on the order of probably 75 cents to $1.25, if I may use that big a range, per share.

Mr. RICH. $1.25 would be your top earning per share?

Mr. HANLEY. That is right. I pointed out to you what a terrific decrease we had in our earnings between the year 1948 and the year 1949.

Mr. RICH. Has anybody complained to you about prices that you are asking for your commodity when you can show that you have only earned $1.25 per share? Do you think anybody has any justification in criticizing you for that?

Mr. HANLEY. It does not seem so to me.

Mr. RICH. I would say if you don't watch out, the sheriff will get you.

Mr. BATCHELLER. The stockholders are complaining bitterly.

Senator WATKINS. Speaking of stockholders, is your stock widely held?

Mr. HANLEY. We have in excess of 13,000 stockholders, about 13,500.

Senator WATKINS. What would be the average number of shares?

Mr. HANLEY. We have 1,300,000 shares outstanding of common stock. That would be about a hundred shares, would it not?

The CHAIRMAN. One million what?

Mr. HANLEY. We have 1,300,000 for a round figure.

Mr. HUBER. Could you break that down in percentage of holdings by stockholders?

Mr. HANLEY. I do not have anything with me here.

Mr. HUBER. I mean to submit later.

Mr. HANLEY. We could, yes. You mean how many hold in excess of 10,000 shares?

Mr. HUBER. And 50,000.

Mr. BATCHELLER. Speaking generally, there is very little concentration of our stock. We do not have more than a half dozen, I would say, who own more than 5,000 shares. Of course, that does not include stock in street names.

The CHAIRMAN. Please file a statement with the committee.

Mr. PATMAN. May I suggest an additional statement? A few years ago we had such information by States, too, as well, and the companies have it by States, and I suggest that the United States Steel be notified to break theirs down by States and the other companies as well.

The CHAIRMAN. Very well, that will be done.

Mr. RICH. That may require a great deal of work.

Mr. BATCHELLER. No. We can do that.

Mr. HANLEY. It will not be much trouble, very little trouble.

(The information referred to above is as follows:)

Allegheny Ludlum Steel Corp., stockholder statistics of record at the close of business Jan. 31, 1950—Continued

COMMON STOCK

	Number of stockholders	Number of shares
State of—		
Alabama	72	4,522
Arizona	36	2,546
Arkansas	15	905
California	1,147	80,949
Colorado	103	14,808
Connecticut	280	15,249
Delaware	24	1,057
District of Columbia	129	8,761
Florida	246	19,793
Georgia	105	6,922
Idaho	14	650
Illinois	663	65,349
Indiana	164	12,557
Iowa	85	3,804
Kansas	45	8,356
Kentucky	58	3,790
Louisiana	66	4,128
Maine	96	3,849
Maryland	116	10,655
Massachusetts	661	36,997
Michigan	459	29,458
Minnesota	111	9,882
Mississippi	26	1,896
Missouri	247	16,565
Montana	22	1,061
Nebraska	32	1,335
Nevada	12	785
New Hampshire	90	4,217
New Jersey	673	51,490
New Mexico	18	884
New York	2,821	432,217
North Carolina	101	5,095
North Dakota	16	715
Ohio	474	27,549
Oklahoma	32	2,524
Oregon	61	3,191
Pennsylvania	2,680	307,558
Rhode Island	100	5,514
South Carolina	34	1,637
South Dakota	17	975
Tennessee	58	3,102
Texas	196	17,565
Utah	9	280
Vermont	50	2,400
Virginia	171	11,904
Washington	130	6,392
State of—Continued		
West Virginia	85	4,934
Wisconsin	181	10,443
Wyoming	7	670
Foreign	85	20,734
Total	13,123	1,288,619
Ludlum Steel Co. (stock not exchanged)		212
Grand total	13,123	1,288,831
Classification:		
Men	5,708	469,057
Women	5,087	322,382
Joint accounts	1,529	84,442
Brokers	173	212,244
Banks	10	1,450
Nominees	137	113,986
Fiduciaries	341	63,629
Insurance companies	8	3,752
Corporations—partnerships—companies	107	13,516
Institutions [1]	23	4,161
Total	13,123	1,288,619
Ludlum Steel Co. (stock not exchanged)		212
Grand total	13,123	1,288,831
Shares:		
50,000 or more	None	None
25,000 to 49,999	4	141,904
10,000 to 24,999	3	44,780
5,000 to 9,999	11	74,680
1,000 to 4,999	100	196,230
500 to 999	149	93,826
100 to 499	3,532	478,909
50 to 99	2,361	127,307
Under 50	6,963	130,983
Total	13,123	1,288,619
Ludlum Steel Co. (stock not exchanged)		212
Grand total	13,123	1,288,831

[1] Churches, hospitals, colleges, societies, etc.

Allegheny Ludlum Steel Corp., stockholder statistics of record at the close of business Jan. 31, 1950

$4.50 PREFERRED STOCK

	Number of stockholders	Number of shares
State of—		
Alabama	4	18
Arizona	3	26
California	154	2,410
Colorado	11	188
Connecticut	42	461
Delaware	3	3,026
District of Columbia	16	230
Florida	34	241
Georgia	16	121
Idaho	1	20
Illinois	111	3,890
Indiana	12	143
Iowa	9	74
Kansas	4	119
Kentucky	6	25
Louisiana	8	49
Maine	10	36
Maryland	21	371
Massachusetts	73	1,203
Michigan	53	1,281
Minnesota	15	2,188
Mississippi	2	4
Missouri	30	571
Montana	3	13
Nebraska	6	119
Nevada	2	16
New Hampshire	11	481
New Jersey	117	1,171
New Mexico	1	5
New York	521	17,787
North Carolina	14	142
North Dakota	4	14
Ohio	64	1,290
Oklahoma	6	58
Oregon	7	34
Pennsylvania	945	65,129
Rhode Island	18	382
South Carolina	5	17
South Dakota	2	4
Tennessee	20	188
State of—Continued		
Texas	18	765
Utah	3	5
Vermont	8	74
Virginia	18	140
Washington	15	73
West Virginia	8	82
Wisconsin	67	2,561
Wyoming	3	108
Canada	2	30
Total	2,526	107,383
Classification:		
Men	961	15,875
Women	923	13,008
Joint accounts	286	2,915
Brokers	47	2,388
Banks	2	150
Nominees	53	38,430
Fiduciaries	176	14,665
Insurance companies	21	10,838
Corporations—partnerships—companies	30	4,706
Institutions [1]	27	4,408
Total	2,526	107,383
Shares:		
50,000 or more	None	None
25,000 to 49,999	None	None
10,000 to 24,999	1	12,295
5,000 to 9,999	None	None
1,000 to 4,999	23	39,513
500 to 999	14	8,077
100 to 499	130	18,127
50 to 99	182	9,659
Under 50	2,176	19,712
Total	2,526	107,383

[1] Churches, hospitals, colleges, societies, etc.

Mr. HANLEY. This $1,200,000 for pensions represents merely the estimated immediate payments for the average of the next 5 years to be made for the benefit of workers who are expected to retire in that period.

Allegheny Ludlum's profit experience in 1949 demonstrated that profit margins were already far too low.

Senator WATKINS. When you were speaking of benefits of workers, you expected to retire in that period, what is your experience with respect to the length of time workers stay with you?

Mr. HANLEY. We do not know. We have not had a pension plan except for salaried employees. We have 484 employees now working whose ages exceed 65, and I think one is 84 years of age.

Senator WATKINS. Is your labor turn-over rather heavy?

Mr. HANLEY. I do not think that it is unusually heavy, no.

Senator WATKINS. That, of course, would have some bearing whether you are going to have people stay with you until they are 65 years of age.

Mr. HANLEY. The other thing that will have a bearing on this whole picture is the time at which our company grew. We were not always a 12,000-employee company.

Senator WATKINS. How long have you been at that stage?

Mr. HANLEY. Probably 10 years or less.

Mr. RICH. When your employees or the unions were demanding a pension system from you, did you present to them the picture of your earnings?

Mr. HANLEY. Yes, we did.

Mr. RICH. And they still demanded of you a pension system so that you only earn now $1.25 as of last year. Don't they realize that anything could happen to any good and well-regulated business—the same as your own, possibly—making so many demands, the first thing you know you would not be able to continue at all and not only lose your pension system but lose your jobs?

Mr. HANLEY. What you say is correct. We made a complete disclosure.

Senator WATKINS. I would like to ask this: Didn't the union representatives urge that you increase prices to take care of this increased cost?

Mr. HANLEY. I do not think in the last analysis that they cared very much what we did.

Senator WATKINS. Did they say anything about it? Did they point out to you that you could increase the costs and it would not actually hurt you any because you could make the consumers pay?

Mr. HANLEY. My recollection is that after Mr. Batcheller's presentation in New York, in a rebuttal, the union said that we had not said we wouldn't increase prices. We had pointed out pretty much in our statement to the Presidential Fact-Finding Board that we were in a position where it did not look like profits could absorb any increase in costs.

Senator WATKINS. Did they put it the other way and argue that you could give these pensions even without increasing the prices?

Mr. HANLEY. I do not think they did in our case.

Senator WATKINS. Did they show any concern in what prices might finally result?

Mr. HANLEY. I would not say so. I was not present at the hearings.

Mr. BATCHELLER. One comment was made that we could get the money by borrowing it, that our credit was good, but I think that was a wisecrack, so to speak. Their principal comment was that they had great faith in the future of the company and that we would find some way to meet the costs.

Mr. RICH. Leave it up to you to get the money to pay the wages and pay the pensions?

Mr. BATCHELLER. That is our responsibility.

Senator WATKINS. Was there any discussion between the company representatives and the union representatives on this question of increasing the prices to meet this new cost?

Mr. HANLEY. Mr. Wheeler was there. You made the presentation.

Mr. WHEELER. No; the question of prices was not mentioned. They did not bring it up, and I do not believe we did either.

Senator WATKINS. There have been some people who have said that the unions and the companies got together on that, knowing that they could pass it on to the public. There was some discussion.

Mr. HANLEY. I do not think so. I think there was an inference after our New York testimony where the union said we did not say we would not increase prices. We had demonstrated, I think, that we did not have the profits out of which to take these earnings, and they indicated we did not say we would not increase prices.

Allegheny Ludlum's profit experience in 1949 demonstrated that profit margins were already far too low. A further reduction in these profit margins by even another $1,200,000 per year would mean that our conservative dividend payments could be met only by prolonged operations at extremely high-volume levels. No company in our industry, furthermore, could operate long if it paid out all its earnings in dividends. Additional profits must be retained in the business if it is to remain in operation. These additional funds are needed for working capital to finance the larger inventories and accounts receivable necessary to carry a greater volume of business and they must provide for modernization and expansion of plant.

In our case, our postwar construction program called for the expenditure of more than $30,000,000, of which over $28,000,000 has been spent. For comparative purposes, it may be pointed out that the $30,000,000 is 50-percent greater than the total amount we were able to retain in the business after payment of dividends for the entire 10-year period 1939 through 1948, inclusive.

The financing of over $28,000,000 of expenditures under this program in the 4 years 1946 through 1949 is best illustrated in chart VI. As shown therein, such expenditures were possible only because our funds available from depreciation and retained earnings were supplemented by an additional $10,000,000 from the sale of preferred stock, the borrowing of $3,465,000, and depletion of our cash funds by some $3,350,000.

You will note in the period from 1946 to 1949 we had net income of $21,270,000. We sold an issue of preferred stock and received $10,395,000.

Mr. PATMAN. That is a pretty high interest rate of 4½ percent.

Mr. HANLEY. Four and one-half percent is a pretty high interest rate. We were told when we arranged to buy this money that the steel industry does not command very low rates for money.

The CHAIRMAN. At what price were you able to sell it?

Mr. HANLEY. It sold at $100, I believe. I think it sold at $100.

The CHAIRMAN. Did it make a hundred net for the company or was that——

Mr. HANLEY. No. We had to pay around $400,000 as our fee to the bankers for handling the issue. We did get a net of $10,395,000. We borrowed $3,465,000, our cash has been depleted by $3,350,000 since the first of 1946.

Now, during that period we paid $11,000,000 in dividends, that is, the $2 a share, plus the preferred dividend after the preferred stock was out, which was in April of 1948.

We increased our plant $28,262,000, less a depreciation of $5,467,000 since we started the program.

We have increased our inventory and other net working capital $4,575,000. So that is where the money came from and here is where it went.

Thus, the significant facts regarding our earnings in recent years have been shown to be that (1) profit margins have declined to unreasonably low levels; (2) profit margins in the fluctuating steel industry cannot safely be based upon peak levels of volume; and (3) earnings must be sufficiently large to assist in expansion and improvement programs and attract new capital. In view of these facts, I do

not see how anyone can fail to agree that by the end of 1949 immediate price relief was necessary to this company if we were not to jeopardize its safety and the welfare of our employees. These were the reasons which prompted us to raise the prices of certain of our carbon, silicon, and tool steel products within the past month. On a number of these individual products we incurred substantial losses in 1949. Yet the price adjustments which we have made thus far are estimated to be no more than sufficient to offset the immediate cost of our new pension program. They have done nothing to restore margins to the levels prevailing in 1946 or even 1948.

The price relief we have thus far obtained, therefore, is by no means enough and we are presently considering an increase in the price of stainless steel. We do so with great reluctance, yet such an increase may be forced upon us by mounting costs beyond our ability to absorb.

Mr. PATMAN. Was that preferred stock underwritten by some investment establishment?

Mr. BATCHELLER. I can answer that better than Mr. Hanley, because I conducted the negotiations, and I think the comments and circumstances are interesting.

The bankers whom we approached, two very well known firms, said, "Certainly, we can get you some additional capital on preferred stock." I said, "What will it cost us?" They said, "Five and one-half percent."

I nearly jumped through the roof, because I was aware of the fact that these same bankers had just prior to that date brought out two issues of preferred stock and they were for two other companies, not in the steel business, roughly of our size and comparable to us, and had brought it out on a 4-percent basis. So I said to them, "This is outrageous. How do you justify the fact that you propose to charge us 5½ percent and you brought these other issues on a 4-percent basis?"

They said, "There is one important difference. You are in the steel business." I said, "Are you serious about this?" They said, "Certainly, we are serious. Go and call your broker. You can buy the preferred stock of the two largest steel companies in this country on a 5- to 5½-percent basis right today. That is what the market thinks of it. And who do you think you are that you are entitled to a 4-percent basis and why?"

Our answer to that was that we are not in the steel business, we are in the new metals business, and we finally got this rate down to 4½ percent.

Mr. PATMAN. At that time Standard Oil was about 2¾ percent on comparable issues.

Mr. BATCHELLER. I would presume so. Of course, we do not pay anything like this for short-term borrowed money. We get that at 2½ percent.

Mr. RICH. Was it not a fact during the past year that the steel stocks, all of them, were way below their intrinsic value and selling on the market, that anything which would have had to have been floated 6 months ago would have had a hard time floating at a 7 or 8 percent basis?

Mr. BATCHELLER. Our common stock got down around $18 a share and is currently selling at $25. For many years we have maintained a $2-a-share dividend. That is an 8 percent basis. There is a very brief comment I would like to make, gentlemen, if you will permit me,

in closing of this, and I would first like to say something about profits.

In spite of all that has been said on this subject, there appears to be continued misunderstanding of steel company profits in relation not only to the needs of the industry today, but to the welfare of our entire economy. All too frequently it is implied that profits represent unjust enrichment of some small, wealthy, and unscrupulous group with the result that the people of this Nation are being led to the belief that our present system of free enterprise as practiced by the steel industry at least is evil and results in the enrichment of the few at the expense of the many. This lack of understanding is a dangerous omen for the future of our free economy and ultimately for our high standard of living, which it has made possible.

Yet it is only necessary to understand a simple case history such as that of our company to realize how distorted is this popular attitude toward profits. It should be obvious from our testimony that every dollar we have been able to retain from earnings after payment of a very modest dividend, or to secure as additional capital, has been devoted to research, improvements, and expansion and not to wine, women, and song. All this has resulted in a steady increase in employment at better and better rates of pay and steadily enlarging insurance and pension benefits for our employees. This company now provides nearly twice the number of jobs at more than twice the average rate of pay that it did 10 years ago.

Mr. RICH. Is it not a fact that anybody who wants to invest in your company can go on the market and, for the market price, buy a share of your stock and it would yield him today 8 percent if you continued to pay the same rate of dividends?

Mr. BATCHELLER. Yes; if we continued.

Mr. RICH. Anybody with a $25 bill can make an investment in your company and probably a lot of other steel companies and get the advantages?

Mr. BATCHELLER. Not many of them do it because we are in the steel business.

Mr. RICH. And he does not have to be a millionaire.

The CHAIRMAN. Do you have any of those $25 bills?

Mr. RICH. If I had $25, I would invest it in his business.

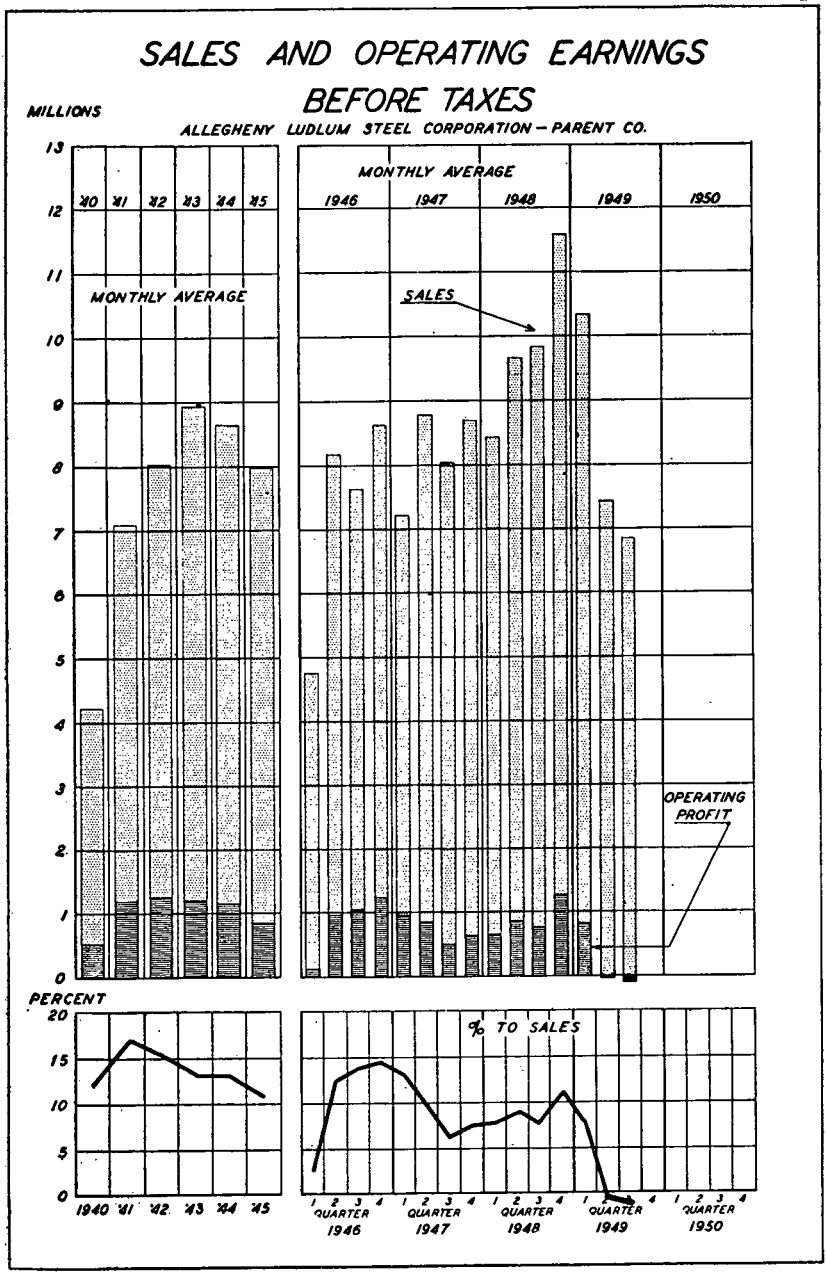
Mr. BATCHELLER. We would like to have you for a stockholder.

Despite the pressing nature of the plant improvements authorized under our present construction program, we have been forced by the decline in profits in the past year to postpone the completion of several millions of dollars of this program when we ought to be expanding it. Meanwhile, the need for still further costly plant expansions and improvements in our field becomes more urgent every day. We are currently reviewing our next construction program which will require many additional millions of dollars. This constant need for new funds is a natural characteristic in any industry like ours which is so rapidly developing new production methods, new products, and new uses for the superior metals demanded by engineering progress. Jet planes are a perfect example.

Finally, I wish to emphasize that in my opinion the facts with regard to earnings which have been presented here today are not peculiar to Allegheny Ludlum alone. Again I wish to repeat that we are not a marginal high-cost producer; if we were, we would not have

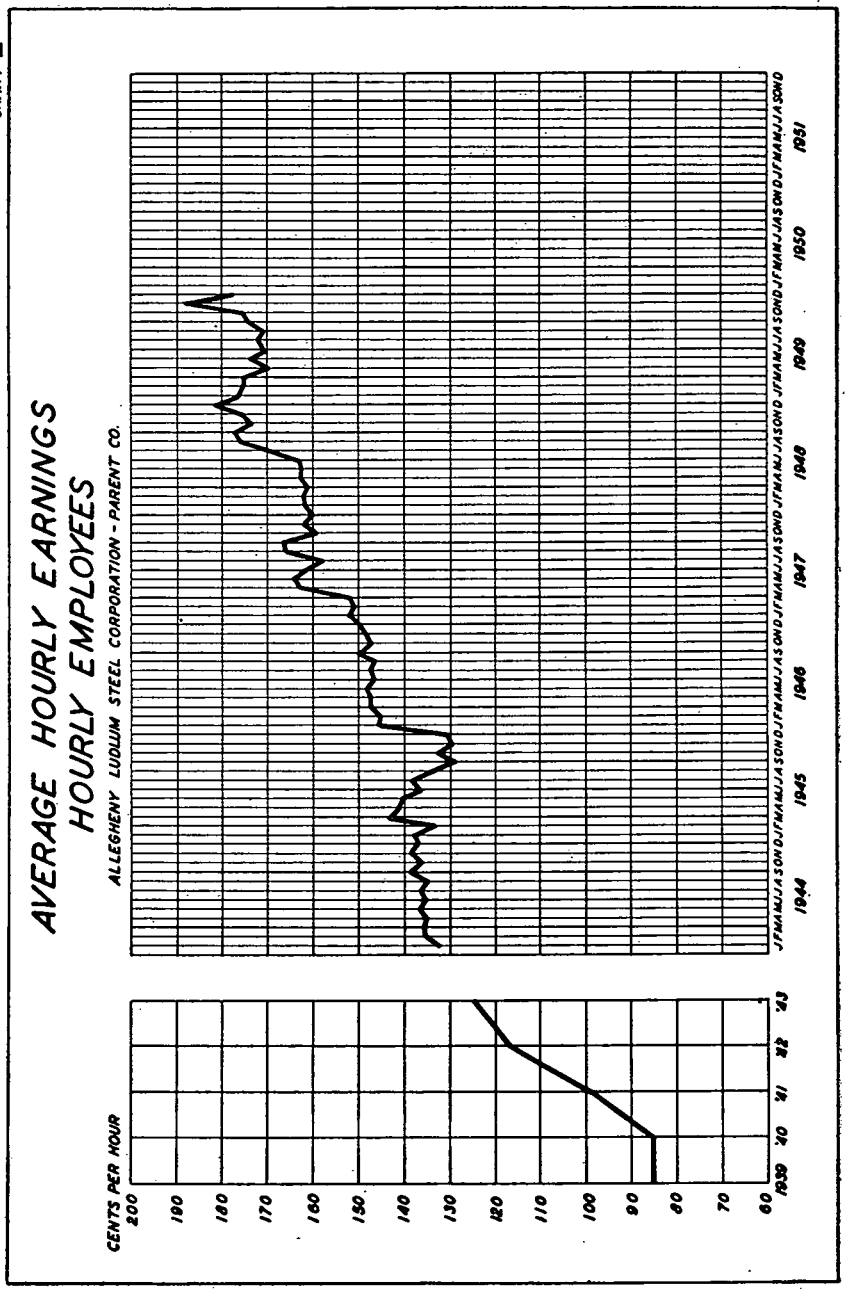
the nerve to come down here and talk about it. We have a history of experience and ability extending back many decades and during that period our growth has been favorable. In 1954 we will celebrate our one hundredth anniversary. As you have seen, furthermore, we are constantly spending millions of dollars to extend our research and

CHART I



our operations, thereby creating more jobs and benefiting all the consumers of our products.

I hope this committee will give weight to the completely sincere and frank explanation which we have given today. We have endeavored to make it that way. In this case, I think you will agree that the price increases which we have thus far made in the past month



and those which we may be forced to add in the immediate future are not only completely justified but are absolutely essential to preserve the financial resources of the company and achieve the progress toward a higher standard of living which we expect to be the ultimate result.

CHART III

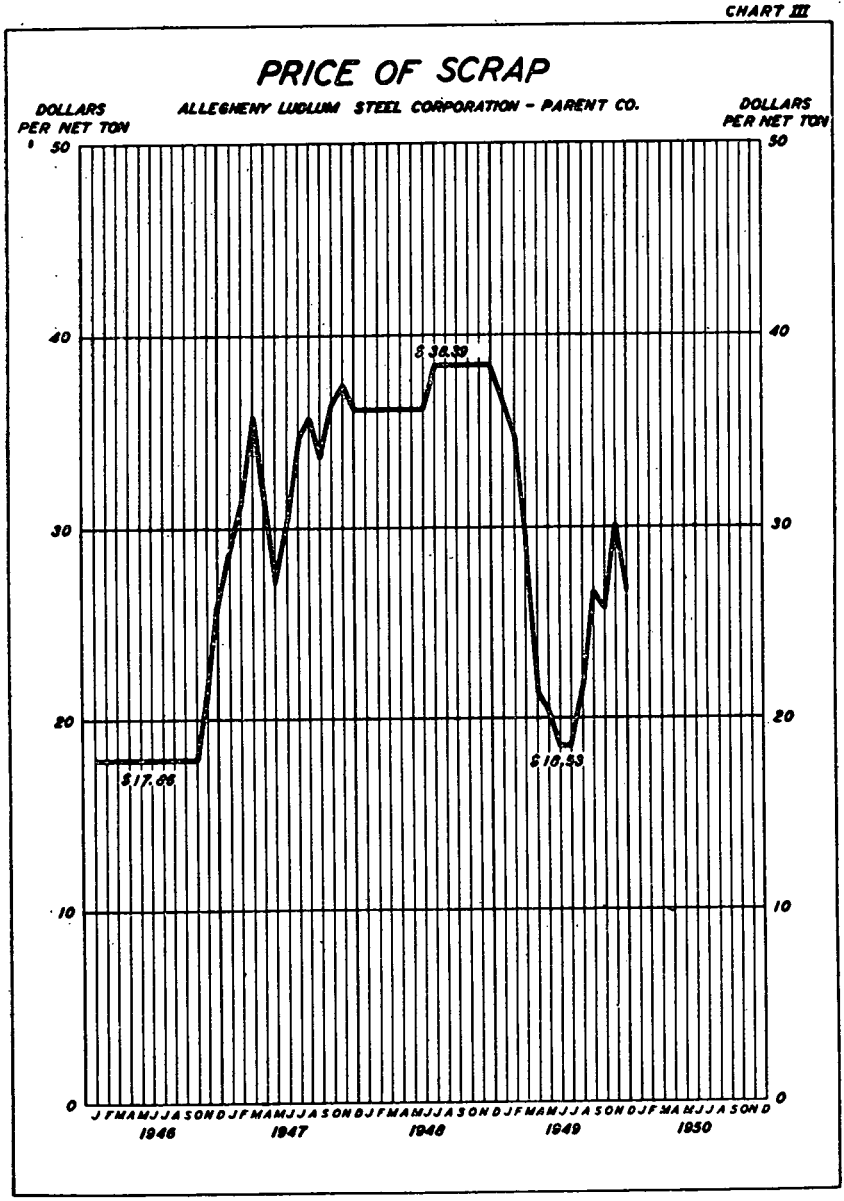
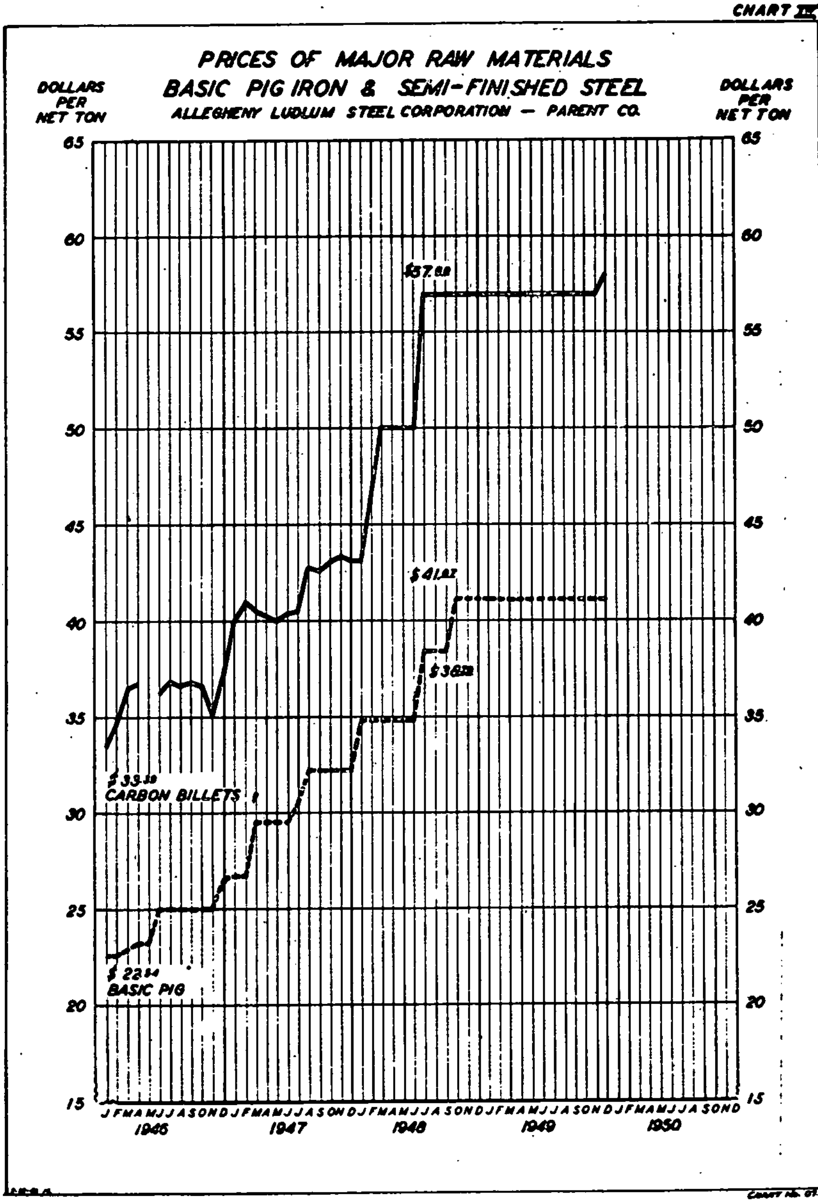


CHART IV


PRICES OF MAJOR RAW MATERIALS
BASIC PIG IRON & SEMI-FINISHED STEEL
ALLEGHENY LUDLUM STEEL CORPORATION — PARENT CO.
DOLLARS PER NET TON
DOLLARS PER NET TON
65
60
55
50
45
40
35
30
25
20
15
$57.00
$ 41
$ 38
$ 33
CARBON BILLETS
$ 22
BASIC PIG
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D
1946
1947
1948
1949
1950

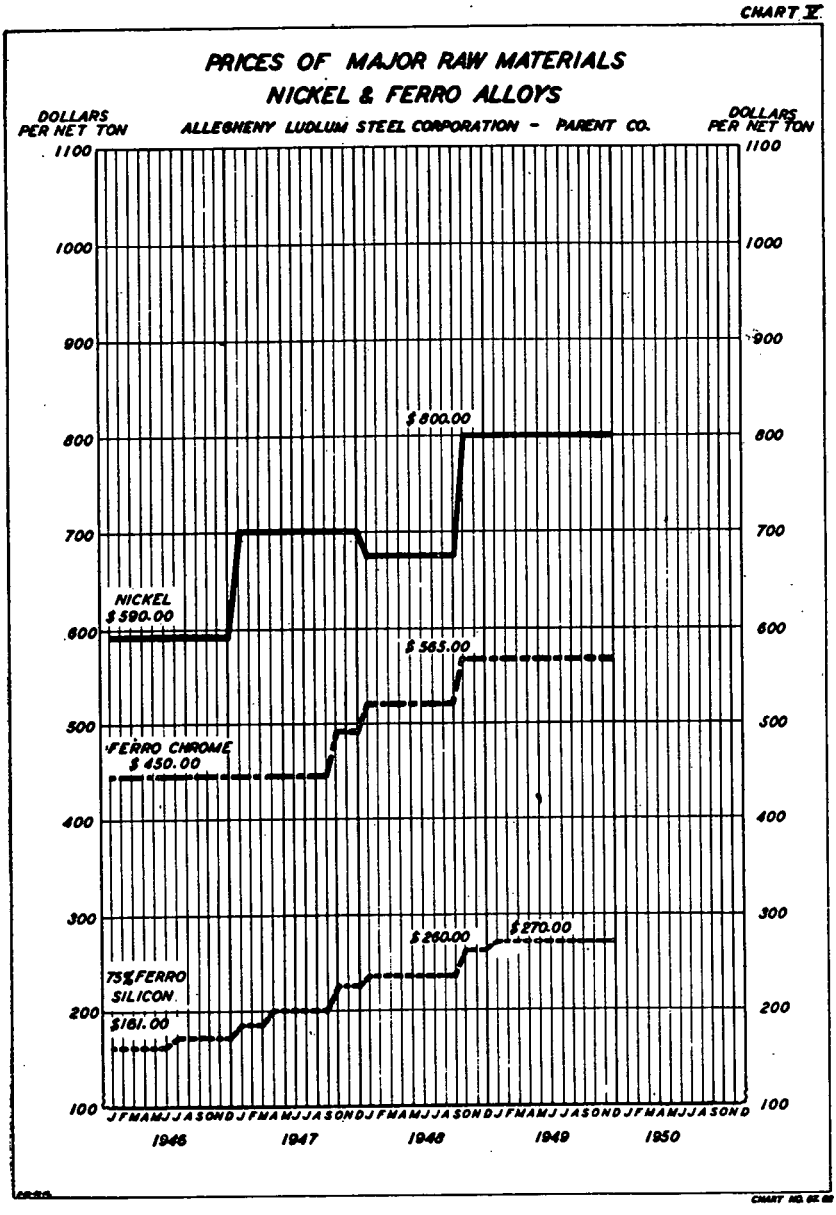
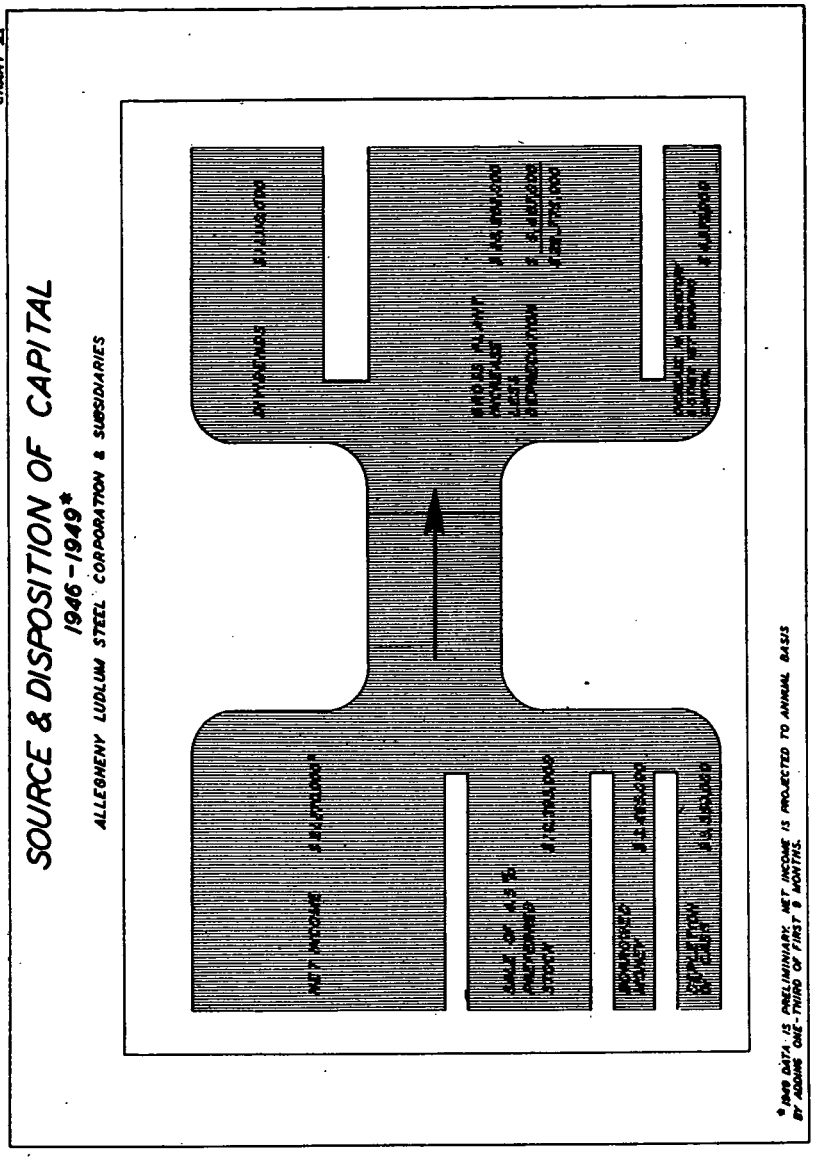


CHART V
PRICES OF MAJOR RAW MATERIALS
NICKEL & FERRO ALLOYS
ALLEGHENY LUDLUM STEEL CORPORATION - PARENT CO.
DOLLARS PER NET TON
DOLLARS PER NET TON
1100
1000
900
800
700
600
500
400
300
200
100
$800.00
NICKEL $590.00
$565.00
FERRO CHROME $450.00
$270.00
$260.00
75% FERRO SILICON
$161.00
J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D
1946
1947
1948
1949
1950
CHART NO. BC 88



Senator WATKINS. May I ask: Is the present situation, as you have outlined it, such as to encourage you in future expansion? If it is a dark picture, I cannot understand why you want to expand.

Mr. BATCHELLER. As I tried to explain, sir, we do not look upon our company as—we do not expect to get rich out of it and do not expect our children or grandchildren to get rich out of it, but we think, as I indicated, that we are doing a good job and building a foundation of something.

If I may give just one example, in the northern part of New York State there are many millions of tons of ore that are very rich in iron

and very rich in titanium. When concentrated the iron content runs up around 57 percent, iron oxide; the titanium content, oxide, 27 percent. Titanium, we think, will be one of the most valuable metals this country has ever seen when ways can be found to reduce it to the metallic state and build alloys out of it and bring it into commerce.

The means of doing that are not known today, they are just beginning; we are just beginning to learn how to take this most valuable metal and turn it from the oxide into the metallic state. It resists that, it persists in staying as an oxide, but we think we are finding the answer to that.

Recently, in conjunction with the National Lead Co., our company has undertaken the formation of a new company to do just that job, recover that iron and, as a byproduct of that, an entirely new metal weighing, in round figures, half as much as steel, with a corrosion resistance of platinum. It has the resistance to corrosion of the most noble metal, and we are going to push the development of titanium metal whether at the moment we make any money out of it or not, because of its future possibilities; and we are going to do it just as fast as we can get the funds to do it from retained earnings plus a conservative new capital program.

Mr. RICH. I think one of the finest contributions you have made to the hearings here is the fact that you are laying stress on the dissatisfaction and discontent that is being given in this administration and in this country of our day by creating the idea that labor and capital are not working together but that they are trying to do those things which create a greater breach between the two, and unless we try to let the people of his country know that capital and labor have a sincere desire to try to help each other, it is going to wreck this country, and I am very glad you brought that out because it is a very good contribution to what we need in this country today.

Mr. PATMAN. I would like to ask the witness a question, please.

You state there in your last paragraph—

* * * we may be forced to add in the immediate future * * *.

That is about increases. What do you have in mind there that will probably make it necessary for you to add more price increases?

Mr. BATCHELLER. I think that the full effect of this pension and insurance program——

Mr. PATMAN. Suppose you were to return to the basing-point system. Do you agree with Mr. Fairless, who testified yesterday, that the cost would be at least $1 a ton extra?

Mr. BATCHELLER. I did not hear Mr. Fairless, and I would not care to make that statement offhand.

Mr. PATMAN. He said it cost 80 cents a ton the last basing-point year they had in 1947 and said by reason of the increase in transportation charges, it would now be over a dollar. Do you agree that that would be approximate?

Mr. BATCHELLER. Well, sir, I am not expert enough in that field to make a statement of that character. I would be very glad to develop our thought on it for you.

Mr. PATMAN. You have not taken that into consideration, then, in the recent price increases and you do not have it in mind for future price increases, the basing-point system, the additional cost by reason of it, you do not have that in mind?

Mr. BATCHELLER. The basing-point system—I am not expert enough to comment on that.

Mr. PATMAN. I hope you will not be called upon to return to the basing-point system, but if you are, of course, that will be an additional charge for cross-hauling and things like that.

Mr. BATCHELLER. There are many things to be said on both sides of that subject, sir, and it is a long one. We do not have the money in our company to build the multiplicity of plants that the larger companies do to get close to their consumers, but I am far from expert on basing points.

Mr. PATMAN. You stated you were going to use retained earnings for your expansion program in the future.

Mr. BATCHELLER. Yes, sir.

Mr. PATMAN. What percent do you expect to get from retained earnings?

Mr. BATCHELLER. I wish I could look into the future and say what our earnings will be.

Mr. PATMAN. I thought your program contemplated a certain amount from retained earnings.

Mr. BATCHELLER. We expect to use in our improvement expansion program whatever our earnings may be after the continuation of our modest dividend to our stockholders, less, of course, what is necessary to increase inventories, and so on.

Mr. PATMAN. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Huber?

Mr. HUBER. No questions.

The CHAIRMAN. Senator Douglas?

Senator DOUGLAS. I have no questions except that I have before me a copy of a letter addressed by the chairman to Mr. Batcheller, asking him to come prepared to discuss the basing-point problem.

Mr. BATCHELLER. Mr. Hanley and Mr. King can discuss it at length with you. I personally am not a student of the basing-point.

Senator DOUGLAS. May I ask whether you expect your cost to be increased if Congress should legalize the basing-point system?

Mr. HANLEY. That again is a difficult question. I do not believe it can be answered "Yes" or "No."

The CHAIRMAN. Before you answer, Mr. Hanley, I think I ought to make it clear on the record that there is a complete disagreement between Congressman Patman and Senator Douglas, upon the one hand, and the chairman upon the other as to what the pending legislation would do.

The basing-point system means one thing to me and something else to these gentlemen, so far as this bill is concerned. The legislation before the Congress, as I see it, does not legalize the basing-point system, but it does make clear to all industry that freight absorption and delivered prices, when they are not part of any conspiracy or agreement, direct or implied, to restrain commerce, are not illegal.

Senator DOUGLAS. May I say something? I do not wish to enter into a feud with my very esteemed and beloved colleague, the chairman of this committee, and while I know that the witnesses probably take a great deal of pleasure in seeing members of the committee interrogate each other, nevertheless, I would like to point out that obviously the head of United States Steel thought that this new bill would legiti-

matize the basing-point because it was on that basis that he thought his cost would be increased.

Mr. RICH. Senator, you do not often find three Democrats that differ, do you? They are generally always together.

Mr. HUBER. Just so Mr. Patman will not be alone, I support his position.

Mr. PATMAN. I understand the Republicans differ a little bit, too.

Mr. RICH. We differ with the Democrats.

The CHAIRMAN. Which ones?

Mr. PATMAN. With all due respect to our distinguished chairman, we have had a basing-point system in this country. It resulted in identical pricing everywhere in the United States. Now, if this particular bill were to pass and become a law, there would be no collusion between the different concerns, they would not have to have any conversations, you could not prove conspiracy, it would be a kind of an unconversational understanding. They would just go right back to their old methods and you could not prove it at all. There would be no way to prove it. You would have to prove collusion, you would have to prove conspiracy, you would have to prove agreement under that new law, which you could not do.

Therefore, it would, in effect, cause another system that would cause identical pricing over the United States as heretofore. That is my view of it, Mr. Chairman.

The CHAIRMAN. And I think that Mr. Batcheller in his response to Congressman Rich a moment ago or to Senator Watkins, has explained the whole situation when he said that Allegheny Ludlum does not have the capital resources to enable it to construct a multiplicity of plants all over the United States in order to get to the market.

In my judgment—and when the proper time comes, I think I can demonstrate it—the pending bill is the best little business bill that has been presented to Congress in a long time.

Mr. PATMAN. I want to take issue with you.

Mr. BATCHELLER. If I were a Member of Congress, I would support that position. Are we excused, Senator?

Mr. HANLEY. Senator Watkins, I have one point, lest we leave too gloomy a picture here. I would like to point out that our volume at the moment is about all that we can handle—once more, and with it we will get a substantial increase in profits from the level of 1949 if this business volume were to continue.

But that still does not invalidate the fact that our basic cost-selling price relationship is too low.

Senator WATKINS. What I was interested in finding out—after listening to you, you have been losing money in 1949, and with this whole problem of steel profits falling way behind other industries, I wondered why you want to go and expand and increase the business if that is the kind of picture you have ahead of you.

Mr. HANLEY. We hope it will be better.

Mr. BATCHELLER. We are not ready to quit.

Senator WATKINS. You may be like the farmers who keep hoping that next year will be better.

Mr. HUBER. Where are your plants?

Mr. HANLEY. We have two in the Pittsburgh area, at Brackenridge and West Leechburg, Pa.; one at Dunkirk, N. Y.; one at Watervliet,

N. Y.; a subsidiary in Wallingford, Conn.; we have a fairly sizable operation in Detroit, Mich., and a subsidiary in Merengo, Ill. The Marengo, Ill., company is not a steel-making company. We have a foundry in Buffalo, and a small plant in Los Angeles.

The CHAIRMAN. May I ask a few questions, Mr. Batcheller and Mr. Hanley? I want to call your attention to the statement on page 2 of your opening presentation that you have been—

engaged in expansion, research, and improvement programs, which we deem to be necessary to continue the tremendous advances in our standard of living made possible by the continuous new developments in this field.

Then I should like to turn to page 4 in Mr. Hanley's statement where the statement is made that—

To maintain the market for our major product we held the price line on stainless steel. As a result, although sales increased 12 percent, our profit declined 9 percent to $6,000,000 for the year.

Then on page 5, at the top of the page, referring to the second wage increase:

We had no choice at this time but to advance prices. This action and the rise in our sales to close to capacity levels in the last quarter of 1948 enabled us to increase profits by 14 percent to $6,833,000.

Then on page 6, about the middle of the page:

Within 4 months after the end of 1948 our monthly rate of orders had fallen nearly 70 percent and remained at a very low level through June. Since that time, fortunately, there has been marked improvement and the immediate sales outlook is good.

Now, it seems to me that these quotations from your very complete statement presented by both of you gentlemen indicate clearly that in the first place the opportunity for Allegheny Ludlum, like that of many other businesses, lies in the fact that we do have a high standard of living and that when your sales increase, even after a second round of wage increases, your profit level increased likewise, and that now you are looking forward in 1950 to a good sales opportunity.

Does that not indicate that the essential to the future prosperity of your company and of other companies, little companies as well as big companies, is the building up of the purchasing power of the masses of the people, so that they may use the commodities which use your products?

Mr. BATCHELLER. I cannot build up the purchasing power of the people, Senator.

The CHAIRMAN. I am not asking you to all by yourself.

Mr. BATCHELLER. I understand that. I have been faced for years now with a steady increase in the cost of doing business, a rapid and steady rise in the cost of materials and labor.

The CHAIRMAN. That is clear.

Mr. BATCHELLER. At best, we cannot exactly bring our income and our costs into balance. As best we can, we endeavor to do that, so that after paying our bills—and we do not always know what they are going to be from week to week—but after paying our bills, we try to see that we have sufficient income left to do what I said: Pay a very modest dividend to our stockholders and provide the funds for the continuation of our business on an enlarging scale. The more we can hold our prices down the better, not only in maintaining present markets, but in encouraging the development of these new markets that are coming in almost every day.

But we also have to pay our bills at the end of every month, and we try to maintain that nice balance.

The CHAIRMAN. I do not think there are very many Members of Congress, if any, who would want to pursue a policy that would cut down your dividends, the proper dividends. I do not know of anybody in Congress who seeks to do away with the profit system, but what I am trying to develop here——

Mr. RICH. I have heard at lot of them that want to do away with the profit system and want the Government to run everything. A lot of Congressmen want that.

The CHAIRMAN. You serve in the House and I serve in the Senate.

Mr. RICH. And over in the Senate you have a lot of them, too.

Mr. PATMAN. I have not heard of one, and if we have one, I would like for the gentleman to name him.

Mr. HUBER. I would also like for him to name one.

Mr. BATCHELLER. We have to balance our budget and cannot resort to any deficit financing. We have to pay our bills out of what we take in.

The CHAIRMAN. I have noticed that some of the very large companies can get along with a deficit. But that is beside the point.

What I am trying to get at is the basic conclusion which can be drawn from the testimony which you have presented here, and may I say, Mr. Batcheller, you are the H. G. Batcheller, are you not, who served on the War Production Board?

Mr. BATCHELLER. I am; yes, sir.

The CHAIRMAN. I want to make it a matter of record that I am familiar with your service there. I complimented you at that time for the service you contributed toward the winning of the war. I think you did a marvelous job in helping to organize production in the United States.

My only purpose is to try to see if there is some way that we in Congress can help to organize production for peace, so that we can maintain this higher standard of living for the masses of the people, which you yourself, in your statement, indicate is the cause of the market which you have.

Mr. BATCHELLER. That is correct, sir.

The CHAIRMAN. So here on page 5 you say that after a second round of wage increases, this action—you had no choice then but to raise prices—this action and the rise in our sales to close to capacity levels in the last quarter of 1948, enabled us to increase profits by 14 percent to $6,833,000. As a result of the decline in 1947, you had gone down to $6,000,000, but here is your own testimony that when your market took the output of your capacity or approximately that output, your profits went up.

Mr. HANLEY. That is right. Senator, I would just like to toss this in.

The CHAIRMAN. Did you say that is right? You agree?

Mr. HANLEY. When we have top volume, we make top profits. I think that is axiomatic.

The CHAIRMAN. If we can keep that volume up, the better it will be for you?

Mr. HANLEY. But I would like to point out that I do not think economically you can keep it up to a hundred percent. I mean at the time when we operated at capacity we probably did not have one

satisfied customer on our books, because we could not make deliveries on time. Anybody who came in with an order was told that maybe we could give them something in 6 or 7 months. The only way we can give customers service is to have open capacity available on which to put an order when an order is received, which means that maximum capacity is not a reasonable operating condition. We must be back to 90 or 85 percent to be in a position to do a job for our customers.

On that account profit margins at a hundred percent capacity are temporary and do not mean too much.

The CHAIRMAN. They are temporary unless this purchasing power falls and your market disappears.

Mr. HANLEY. No; because any manufacturer who is trying to do a job will build his plant up to put himself in a position so that he can give his customer service so that a hundred percent capacity is not a normal situation for the manufacturer. He will expand plant to drop his volume back.

The CHAIRMAN. Very good, but you have been trying to expand your capacity and really I believe that you and Mr. Batcheller here are imitating Congressman Patman and myself, you are arguing with one another now.

Mr. HANLEY. No.

Mr. BATCHELLER. I do not think so.

The CHAIRMAN. You have held out your prophecy of an excellent outlook; you, Mr. Batcheller, told us there is a growing business here, that you are building a sound foundation, that you are in a new metals industry, you want to develop titanium—I hope you will come out to Wyoming and help to develop our titanium ore out there—but the only possibility of your being able to expand is to be found in the expansion of the market, is it not, the continued growth for which you are working, for which you are spending money on research, for which you are spending money on the expansion program?

Mr. BATCHELLER. I think you are saying the same thing we are trying to say in different words. We have spent all this money, $30,000,000—and that is not hay for a company like ours—not only to expand our operations, but to hold our costs down. We want to do everything within our power to get the cost and the selling price of our products down just as far as we can, but there are conditions over which we have no conrol that constantly come in and increase, and when we come in, we try to maintain a reasonable balance by adding enough to our selling prices so we can absorb this new element of cost. If I could cut in half the price of our product today, I would be pleased.

The CHAIRMAN. I got the same impression I think Senator Watkins got, thinking Mr. Hanley was drawing a picture of a gloomy outlook; whereas, you were drawing a picture of a rather good outlook.

Mr. RICH. Mr. Hanley was giving sound business facts pertaining to his own company, and if you could draw conclusions of that kind, certainly I cannot understand when the chairman said that he knew of corporations that were continually going into deficit spending—you tell me one corporation that is continually going into deficit spending, and I will get off the stand—making a success of his business. He said he knows of corporations doing deficit spending.

Name me one and I will leave the committee, because I cannot think it can be possible for anybody to do that.

The CHAIRMAN. Mr. Rich, I would not want you to leave the committee, and therefore I will not comply with your request.

Mr. RICH. Don't let these fellows put the words in your mouth.

The CHAIRMAN. What I am trying to determine is whether or not you do not agree in my amplification of your statement that it is the rising standard of living that creates the market into which you want to go and expand.

Mr. BATCHELLER. Absolutely. No question about it.

The CHAIRMAN. Now, of course, you do have costs, increased costs, you do have problems, and we are here to try to find out what adjustment can be made and the particular thing that we are trying to find out in this hearing is the effect upon your business of the pension increase, the cost of which you must now assume.

I am particularly concerned about the effect of that pension system, when borne by the companies themselves, what the effect will be upon the small company. I think that United States Steel can carry it. I wanted to ask you: In this new pension system on which Mr. Hanley made the estimate that the cost would be $1,200,000—I think you said that, Mr. Hanley.

Mr. HANLEY. Yes.

The CHAIRMAN. What system have you adopted? Yesterday Mr. Buck, speaking for United States Steel, mentioned four separate systems. Which one of the four have you adopted, or have you adopted some other system?

Mr. HANLEY. Senator, our plan is not entirely crystallized as yet. Mr. Buck happens to be our consulting actuary. The figures they have today have been based on the so-called Bethlehem plan whereby pensions are funded only at retirement.

The CHAIRMAN. But it has not been definitely determined?

Mr. HANLEY. Our stockholders will not act on this question until the end of April. Our agreement with the union provides that the pensions will be funded upon retirement only, and that we may fund them on the basis of the average amount of money required over 5 years.

Mr. BATCHELLER. The first 5 years.

Mr. HANLEY. The first 5 years, that is correct.

The CHAIRMAN. Now some suggestion has been made that perhaps society as a whole, through an act of Congress, should bear the cost of pensions. The Senate Committee on Finance at this moment is considering the social-security bill which was passed by the House in the last session, and there are some rather deep and difficult problems involved in that. Have you gentlemen made any conclusions on that score?

Mr. RICH. Mr. Chairman, with deficit spending we ought to be in pretty good shape to take care of all those expenses.

Mr. BATCHELLER. I have a very deep conviction on that point that you bring up. I think it is my responsibility to pay my employees a fair wage, a fair day's pay for a fair day's work, and then some, and to do everything I can to provide them with decent living conditions and some reasonable luxuries of life.

I do not think it is my responsibility to provide them entirely with their old-age security or their death security, and I think whoever said the steel strike was a strike against self-help, said something that

was really important, because if I take away from my employees any responsibility to provide, to be thrifty and to help me to help him provide for his old-age security and his death security, I think that that is a bad thing for the moral fiber of our people.

I am willing and anxious to help him all I can, but to pass the burden over on my shoulders and make it noncontributory on his part, or endeavor to do that, I think is wrong.

The CHAIRMAN. Now, then, what is the effect of the system upon your capacity to compete?

Mr. BATCHELLER. Oh, as Mr. Hanley says, regardless of the insurance—and by the way, we in our company gave the group insurance 2 or 3 years before this pension issue came up, but so far as the actuaries can approximately estimate for us the many problems there, the cost of the pension in the first year at least will be something in the neighborhood of $1,200,000. Well, our total earnings as of last year were only in the neighborhood of $2,000,000.

Mr. HANLEY. You have a tax effect in there, too.

Mr. BATCHELLER. The $1,200,000 will be before taxes, you see, so that will be approximately $700,000 after taxes. If conditions remained as of last year, and we had to absorb this new cost, there is only one way to do it. We have to put our prices up.

Mr. RICH. Do you lay up any money annually to take care of this pension system?

Mr. BATCHELLER. We never have in the past, of course, because we have not had it. Now as Mr. Hanley says, what we expect to do is to fund the actuarial life of all our employees from retirement day to their probable death——

Mr. RICH. Will you deposit a certain sum annually?

Mr. BATCHELLER. Yes, sir.

Mr. RICH. To take care of this retirement?

Mr. BATCHELLER. We now expect to do that rather than to handle it through an insurance company. We expect to set up a pension trust fund.

Mr. HANLEY. That is right.

Mr. RICH. And it will be an expense than to the company.

Mr. BATCHELLER. We will have to deposit each year in that fund what the actuaries tell us should be deposited to meet the expected life of an employee who may retire——

Mr. RICH. You will be compelled to do that then by this agreement you have made. Then you will pay less taxes to the Government to run the Government. We will get less taxes.

Mr. HANLEY. If we have earnings.

Mr. RICH. Is that not the case?

Mr. BATCHELLER. If we have earnings.

Mr. RICH. Yes; if you have earnings, so that this thing gets to be quite a problem, and the only people that can handle deficit spending is the Federal Government, these fellows that want to run the Government in the red all the time, so it is going to be a pretty big problem.

The CHAIRMAN. To what extent did Allegheny Ludlum follow the steel increase announced by United States Steel?

Mr. BATCHELLER. Oh, so many of our products are entirely different from theirs, Senator. Let me say the carbon steel, those grades of carbon steel that we make, that they make, we did increase.

Mr. HANLEY. That is right.

Mr. BATCHELLER. Silicon steels we did increase.

The CHAIRMAN. How about stainless steel?

Mr. HANLEY. Stainless steel is not increased.

Mr. BATCHELLER. We are just completing our study as to the necessity of increasing stainless steel. We hope that we will not have to do it, but we fear we will.

The CHAIRMAN. United States Steel did not increase the price of stainless steel, did they?

Mr. BATCHELLER. Not so far as I know; no, sir.

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 it seemed to me as though the Big Steel increase was putting the little fellow in a sort of a 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, but in answer to your first question, they do make stainless steel, but it is one of a thousand products with them, and it is our principal product.

Mr. RICH. Do you have competition with imports in steel?

Mr. BATCHELLER. Competition from imports?

Mr. RICH. Yes, sir.

Mr. BATCHELLER. We are beginning to get competition from imported steel now.

Mr. RICH. What is the cause of that?

Mr. BATCHELLER. Well, without going into the merits of the Marshall plan, I am not commenting on that, but we have supplied western Europe with steel-making equipment that I wish I had.

Mr. RICH. They are giving to those people over there, and you have to pay the bill for them to furnish the steel to manufacture steel at low wages and without a tariff, to come back and compete with you. Then when they compete with you, how are you going to keep your people busy?

Mr. BATCHELLER. Well, that is correct, but I am not commenting on the merits or demerits of that situation. I do not know enough about it.

Mr. RICH. If we keep on going, brother, you are going to have a hard time keeping your plant running. What I mean is, if we keep financing the people in foreign countries to manufacture steel, they are going to compete with you and you are going to have a hard job ahead of you.

Unless your labor takes advantage of the fact that they should come to this administration and ask for support to keep them in their jobs, it is only going to be 4 or 5 years until they will not have a job.

Mr. BATCHELLER. I have been at it since 1908, and I do not recall any extended period during that time when we did not have a hard job. It is a tough industry, but it is a lot of fun.

Senator WATKINS. From what countries are you getting this competitive steel?

Mr. BATCHELLER. The United Kingdom is beginning to send some high-grade steel over to this country. I do not know whether any has come in yet from Belgium or Sweden. Quite a lot of Swedish steel is coming into this country of the grades we make.

Senator WATKINS. What about from Germany?

Mr. BATCHELLER. I don't think Germany has yet, but it will be here. Those boys are pretty good steelmakers.

The CHAIRMAN. Well, Mr. Batcheller, we are very grateful to you.

Senator WATKINS. I have a question, Mr. Chairman. Going back to the statement that was made by the chairman that no one in Congress was against profits in business, I am wondering if the question here before us is involved in any way as to the amount of profits you may make. Can you give us any idea as to what would be a fair profit in your business? It seems we are all in favor of profits. I do not know what we are talking about unless it is to determine how much you are going to get.

Mr. BATCHELLER. I always felt under our system of economy that you cannot criticize a man for making a profit, no matter what it is.

Personally I do feel that the use to which he puts his profits may be subject or may not be subject to criticism. As I tried to point out—and I think this is really serious from the national viewpoint—any number of people have come to me and said, "Oh, you robber barons, you made $6,000,000 last year. It is outrageous," and without exception they seem to be laboring under the impression that I get this money or that our directors buy yachts and go to Monte Carlo and so on. I think that that is bad.

Unless something is done about it, that is going to spread and get worse. I think the 5 or 6 percent which we make is pretty common to the industry.

Senator WATKINS. You mean that is what you pay?

Mr. BATCHELLER. Percentage on sales, is inadequate.

Senator WATKINS. You do not pay that in dividends?

Mr. BATCHELLER. Oh, heavens no. We pay a small fraction of that in dividends. Out of our peak year, with earnings of $6,800,000, we paid dividends of $2,600,000 in round figures.

Senator WATKINS. If I understand it, what you are saying is if for instance you are making a high profit, you would be entitled to make a high profit if you turned it back into new plant and new developments?

Mr. BATCHELLER. Well, I think we are entitled to make it anyway, but I think we are free of criticism.

Senator WATKINS. Are you putting a test on whether the profit was too high or not by what you did with it?

Mr. BATCHELLER. We put it right back into our business after the payment of a very modest dividend, as we have endeavored to show you, sir.

Senator WATKINS. That seemed to be the crux of the situation here. I understand now everybody is in favor of a profit. Now just how much are you entitled to get? It seems to me that is one of the things in this investigation. Am I right, Mr. Chairman?

The CHAIRMAN. Well, it certainly is one aspect of this problem. The question was asked of United States Steel several times yesterday

when Mr. Fairless testified that for 20 years his company had not earned a fair return, just what he thought a fair return was, so I think your question is eminently appropriate.

Senator WATKINS. I wonder if there is anyone in the committee or in the Congress who thinks we ought to fix the rate of return in the free-enterprise system.

Mr. RICH. Do you think if they fix the rate, we ought to guarantee that they earn that amount? You have all the responsibility of trying to make that. If you do not make it, you are out.

Let me ask you this: In reference to the number of people who shared in that $6,000,000 that you earned, how many stockholders have you?

Mr. BATCHELLER. We have got in round figures 13,000 stockholders. In round figures we have got 13,000 employees.

Mr. RICH. You have got 13,000 stockholders and 13,000 employees?

Mr. BATCHELLER. Approximately.

Mr. RICH. That is 26,000 people who shared in the $6,000,000 earned?

Mr. BATCHELLER. They shared in the success of the company. In every one of the communities in which we operate, we are either the only employer or the principal employer.

Mr. RICH. Then if it were not for you having your plants in those localities and trying to help and aid and assist in the development of this country, it would be pretty bad for the country, would it not?

Mr. BATCHELLER. Well, it would be worse than that for 100,000 people or more. It would be terrible.

Mr. RICH. I congratulate you on the work you are doing. I think that you are getting along on a basis, if the statements that were made here are correct, of doing a wonderful thing for the country, and I wish you more success, and I hope that the administration will give you greater aid and assistance in trying to develop this country and make it so that the private-enterprise system will do more to help the people of this country in the future than it ever has in the past. To do that we have got to turn around from what we are doing now.

Mr. BATCHELLER. We are in a receptive mood.

The CHAIRMAN. Thank you very much, Mr. Batcheller. We are most appreciative of your presentation.

Admiral Moreell, if you will come forward, we will hear your original statement.

STATEMENT OF BEN MOREELL, CHAIRMAN OF THE BOARD AND PRESIDENT OF JONES & LAUGHLIN STEEL CORP.

Mr. MOREELL. Mr. Chairman, members of the committee, my name is Ben Moreell. I am chairman of the board and president of Jones & Laughlin Steel Corp., with headquarters in Pittsburgh. On behalf of the corporation I wish to thank you for this opportunity to state publicly how we stand on steel prices.

J. & L., the Nation's fourth largest steel company, is an integrated producer. We take coal, iron ore, and limestone from the ground and carry them through the necessary steps to make a wide variety of steel products.

Our company is owned by some 22,000 common and 6,500 preferred shareholders. More than 20,000 of these hold 50 shares or less. Our

bonds are held in a large measure by insurance companies representing the savings of many policyholders.

Some 44,000 employees carry out J. & L. operations.

The board of directors and officers of J. & L. have a direct responsibility to all these people and to our customers. And we recognize that, as leaders of a large corporation, we have responsibilities to the general public as well.

We feel that our chief responsibility to all these groups is to operate our business so that we make a fair profit, for without profit the corporation would wither and die, leaving employees without jobs, shareholders without dividends, customers without steel, and the Nation with one less bulwark of its economy and defense.

This committee is questioning whether the profits of the steel industry are too high.

J. & L. profits never were, and are not now, high by any reasonable standard. I wish to go further than that and lay before you the evidence that has convinced me, during the 3 years since I entered this industry, that 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.

I am happy to tell our story here because producers of steel, I regret, have so little contact with the public. Every American family is dependent upon us. Still we who supply a basic material for buildings, bridges, automobiles, refrigerators, and a thousand articles of daily use, seldom deal directly with the average American family. They buy from the grocer foods protected by our tinplate; they deal directly with automobile and refrigerator salesmen. They do not buy steel from our salesmen. As a result, the public is apt to understand the problems of other businesses better than those of the steel maker.

Too few people realize that the profits of the steel industry are materially less than those of most other industries that they deal with more directly and apparently understand better. Here are some figures from a survey of the National City Bank of New York. In 1948 the iron and steel industry earned a 14-percent return on net assets—the shareholders' investment. In the same year the household-appliance industry was enjoying a percentage return more than twice as great—27.8 percent. The automobile industry's return was 26 percent. The cotton-goods industry's return was 31.5 percent; the petroleum industry, 22.1 percent.

The story follows the same pattern when we consider the return on sales. The steel industry return was 6.7 percent. The petroleum and cotton industries each had over 12 percent—nearly double the percent of the steel industry. The automobile industry outstripped us with a 7.4-percent return, and household appliances with 7.6 percent. And in considering return on sales it must be remembered that the steel industry's total investment per dollar of sales is very high. In our case, for the year 1948 we had 85 cents invested in the business for each dollar of sales.

Now let us look particularly at the profit record of J. & L.

For 1947, 1948, and 1949, at least, J. & L. had substantial sums of money left after paying its charges and expenses—some $117,000,000.

Were these profits? From the point of view of the Bureau of Internal Revenue they were. Indeed, the Government took about 39 percent of this sum as income tax.

Still, this left us $71,000,000 earnings for the 3 years. Were these profits? They are commonly so called. But they are certainly not profits in the sense of cash pocketed by owners of the company, the shareholders. I will tell you presently what happened to these millions. Meanwhile let us look for a moment at J. & L. profits from the point of view of the shareholder and investor—dividends paid to them.

These dividends have been slim. Let us look at them since 1923, when the present corporation of J. & L. was formed. From 1923 through 1925 the common-share holder received no dividend. During the next 6 years he received an average of $5 per year. Thus, for these 9 years of ownership a shareholder received only 2.3 percent on the asset value of the stock on January 1, 1923—$143.

During the 1930's he fared even less well. From 1932 through 1940 the common-share holder received nothing. Then from 1941 to 1948 he collected an average of $2 per year on each share. Last year cash dividends amounted to $2.60 per share, and the shareholder also received a 5 percent dividend in stock. The cash dividend for last year amount to 3 percent of the asset value of J. & L. stock—$89 per share of stock outstanding on December 31, 1948.

Thus, during the 27 years from 1923, J. & L. has paid to a holder of a common share a return of 1.6 percent on the average asset value of his stock. And let me emphasize that I know of only one real kind of profit which a shareholder can get from his investment in a business; that is a return in hard cash.

A shareholder in J. & L. could have done better had he invested in Government bonds. They pay 2½ percent instead of the 1.6 percent he received. And along with this 2½ percent he would have had complete security in his principal.

Yes; J. & L. shareholders are sharply aware that their profits have not been large in the past. And what do they think of current profits and future prospects? The market price of our common stock tells that story. Today a share of our common stock sells for about $29. This is less than 40 cents on the dollar of investment or asset value and only 3.9 times the preliminary estimate of earnings for 1949.

We believe the public is wrong in not placing a higher value on our stock. We hope the public will do so in the future, and we believe they will. But the fact remains clear that the investing public does not feel our real profits, either current or potential, are high.

The investing public keeps a sharp eye on business. They know that we have had large apparent earnings, but they also know where those earnings must go. They know the war and postwar years strained our properties so that we have had to make huge outlays to keep our company a healthy going concern, able to compete.

J. & L. has used the great bulk of its earnings of the last 4 years to replace worn-out equipment and make our plant modern. During the 4 years ending December 31, 1949, we disbursed $147,000,000 in capital expenditures. This is $65,000,000 more than our entire net income for those years.

Nor is this the end. During the year 1950 J. & L. expects to spend about $50,000,000 more for necessary projects. Thereafter, there will still be much to do.

Little of this money is being spent to increase capacity. By the time the program is finished, J. & L. ingot capacity will be about 5,200,000 tons—only 3.5 percent more than it was at the end of the war. Our huge spending program is for the purpose of improving and replacing yesterday's tools so we can be in business tomorrow. We are pinched for money to do this. The tax laws have frozen the amounts we may write off from income to replace worn-out equipment. Meanwhile, prices of the services and things we use have been sweeping upward.

In 1939 it cost $653,000 to reline a large blast furnace. Today the cost is $1,416,000, an increase of about 117 percent. A turbo blower is up 105 percent. Other costs have swelled in proportion. A million dollars laid aside 10 years ago today is shrunk by half in its buying power. If we were free to follow what we consider sound business policy, we would write off far more of equipment costs in order to keep pace with the rise of prices. But the Federal tax laws, as they now stand, forbid this. Just 1 year ago today I made a proposal that the taxing system be revised to meet this reality of rising prices. Thus far, however, the Congress has not allowed the write-off of equipment costs to be speeded up and thus relieve this pinch.

What the tax laws now allow us to lay aside for depreciation, of course, falls far short of what we must pay to rehabilitate our plant. Of the $147,000,000 we have spent in the last 4 years, only $56,000,000 have come from this source. We have been forced to turn elsewhere for money. We have got large sums by borrowing. Thirty-two million dollars from bonds issued in 1947 have gone into plant improvement, and we have an arrangement with our banks whereby we can borrow an additional $40,000,000. Money borrowed must, of course, be paid back eventually from the earnings of our business.

It is indeed fortunate that our earnings in recent years were as large as they were, for we desperately needed the money. What was allowed us for depreciation plus our earnings did not begin to meet the needs of modernizing our plants. We have had to dip into our savings and borrow to meet these costs.

But are earnings used as we must use ours properly called profits? I consider the term illusory and deceptive. If funds must be retained and invested in plant and property to keep a business a healthy going concern, they are certainly not profits to be distributed to shareholders.

Today the cost of building an integrated steel business is at least $250 for each ton of annual ingot capacity. Some men who know this business will say the figure is $300. Our income in 1948 before deducting depreciation and income taxes was $67,338,000. If we were allowed to take depreciation on a replacement value basis of $250 per ingot ton of capacity at a rate of, say, 4 percent, our net income for 1948 would have been only $11,700,000 instead of the reported amount of $31,222,000. This would have amounted to only $4.13 per share on our common stock as compared to $12.01 which our published statement shows.

Under our present tax laws, however, if we had charged depreciation on a replacement-value basis our entire net income would have

been more than wiped out and we would not have shown any earnings on our stock, common or preferred.

This example makes very clear why we can distribute only a small part of our apparent earnings to shareholders and must retain the major part for modernization and improvement of our properties.

In the face of these figures it is hard to understand how anyone can say steel prices are too high. On the other hand, it is easy to see why investors think so little of the profits of steel stock and why I say we are giving away our assets in prices which are too low.

I believe that the public wants a privately owned steel industry controlled by free competition. But we cannot remain so if we cannot price our products so as to replace our equipment and give our investors a fair return.

But let us for the moment take the definition of profits given us by the Bureau of Internal Revenue and see if those profits are high. I have mentioned several specific examples from the National City Bank survey. Now let us look to some averages. Our profits are not high in comparison with the averages for 1,680 leading manufacturers as shown by that survey. In 1947 J. & L. net income represented a 9-percent return on shareholders' investment. The average for those in the bank's survey was 17.1 percent. In 1948 J. & L.'s return on investment was 14 percent. The average was 18.9 percent. Our return on sales was also lower than the average for the 1,680 firms. In 1947 ours was 5½ percent; the average, 7.1 percent. In 1948 our return on sales was 7 percent; the average, 7½ percent. And in 1948 J. & L. had by far the highest net income in its history. In that year, above all others, it should have shown a favorable comparison.

We do not have similar comparisons for 1949, but on the basis of our earnings, I feel sure our position is not improved. Our earnings for the first three quarters were $20,000,000—slightly less than the same period in 1948. Because of the strike in October and November we had negligible profits in the fourth quarter, so that our estimated earnings for the year are only about $21,000,000. This is about 8 percent on shareholders' investment and about 5 percent on our sales.

Now let us turn to the price rise of December, which averaged $4 per ton of steel products. You gentlemen are asking why it was made. As far as J. & L. is concerned, the answer can be made quite simply: We raised prices at that time because we could. We believe, as I have told you, that steel is priced too low.

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.

Please don't misunderstand me. I am not arguing against competition. We want more of it, for we are confident of our ability to hold our own. We believe individual freedom with a minimum of Government restraints is the driving force in these United States and, in fact, the hope of the world.

The last quarter of uninterrupted operations at our steel plants prior to the price increase in December was the third quarter of 1949. In that quarter we operated at 86 percent capacity and had a net income of only $4,870,000. For the reasons which I have already given, we do not consider this adequate.

Since then we have had material increases in our costs.

The prices we have had to pay for many of the materials we purchase have gone up, for example:

	Percent
Fuel oil	28
Open-hearth scrap	12
Blast-furnace scrap	28
Coal (spot purchases)	9
Refractories	8

The prices paid for certain other commodities have decreased, but these decreases are small compared with the increases referred to above, except in the case of pig tin. The decrease on this commodity has been material; but I call your attention to the fact that the price of tin plate has been substantially reduced.

In addition freight rates on iron ore from lower lake ports to Aliquippa and Pittsburgh were raised about 3.8 percent on September 1, 1949; the freight rates on coal and limestone from the districts which affect us were raised about 10 percent.

The rates on iron and steel products also went up on the 1st of September about 3.8 percent. We do not now have to pay the freight on these products, but we have every hope that the Congress will permit us to do so in order that we may compete in distant markets which are closer to some of our competitors.

Rising costs since the third quarter of 1949 had already brought pressure on us to increase prices, and our increased costs with the beginning of this year made them doubly necessary.

Higher social-security taxes will add about 15 cents per ton to our costs. Under our new contract with our steel union we now contribute 2½ cents per hour to a social-insurance program. This adds another 55 cents per ton to our costs.

The big new cost we have ahead of us, however, is pensions. We have had a liberal pension plan for some time, but our costs this year and for years to come will be several times what they have been in the past.

Our actuaries are now engaged in analyzing the cost of our pensions under the new plan. Preliminary estimates indicate they will add considerably to our costs over the next 5 years. There are also several other factors which may add further to our pension costs.

If wage rates continue to increase our pension costs will also climb. In addition, we are aiming for a more constant workweek and less turn-over in employment. But the nearer we come to these goals, the greater our pension costs will be. Employees will be earning more, thus gaining a larger base for the figuring of pensions. And greater numbers of employees will be staying with us until they reach retirement age.

With so many variables we are unable to say with any certainty what pensions will cost us even if we continued at full production. And the problem becomes further complicated if we consider what will happen to our costs if production drops while our pension liabilities remain the same.

Where does this leave us on our prospective earnings at current prices?

We are optimistic about the first quarter of 1950. Sales prospects are good. At our present costs and prices we expect our profit per ton for the first quarter of 1950 to be not greatly higher than during the third quarter of 1949 in spite of a substantially higher operating rate in the current period. We expect the profit in this quarter will be less than our profit per ton for the first 9 months of 1949.

By any measure or standard, the recent price changes were more than justified. In conclusion let me summarize.

We do not believe that steel prices are too high. We believe they should be still higher to keep a vital industry in step with our expanding economy.

Certainly J. & L. needs adequate prices in order to carry out our own program of rehabilitation and modernization. And what we are spending is not out of line with what is being spent by our competitors.

As to our profits past and present, they are low by the standard of the investor, by the standard of comparison with other industries, and by the standard of return on investment and on sales.

Our profits in the future are not likely to be higher because of this price rise for it is offset by increased costs of pensions and other employee benefits and by increased costs of materials.

The American public should understand that the profits of the steel industry as a whole have been so modest that any increase in costs must inevitably be reflected in increased prices, unless we—all of us—are content to liquidate the privately owned steel industry in this country.

With that, gentlemen, we rest our case.

Mr. PATMAN. Admiral, we will recess until 2:30. I presume it will be convenient for you to be available at that time for questioning.

Mr. MOREELL. Yes, sir.

Mr. PATMAN. The committee will stand in recess until 2:30 this afternoon, in this same room.

(Whereupon, at 12:15 p. m., the hearing recessed to reconvene at 2:30 p. m., this same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order, please.

Do you have any questions, Congressman Patman?

Mr. PATMAN. We had finished with Mr. Moreell's testimony. We had not questioned him yet. I wanted to ask him a question about the basing point.

STATEMENT OF BEN MOREELL (Resumed); ACCOMPANIED BY A. J. HAZLETT, VICE PRESIDENT, JONES & LAUGHLIN STEEL CORP.

Mr. PATMAN. Did you hear the testimony of Mr. Fairless yesterday, Admiral?

Mr. MOREELL. Yes, sir.

Mr. PATMAN. Do you agree with the statement he made that it probably would cost the steel company about a dollar a ton to return to the basing point?

Mr. MOREELL. Well, Congressman, that figure will vary with the company. In our own particular company we stated to the Presidential Steel Wage Board that it would cost us about $1.25 per ton.

Mr. PATMAN. About $1.25?

Mr. MOREELL. Yes, sir.

Mr. PATMAN. In other words, as Mr. Fairless has said, that gives you a right to compete in the market anywhere in the United States?

Mr. MOREELL. That is correct.

Mr. PATMAN. Now, of course, that sounds good and fair, but while it gives you the opportunity to compete in any market, it also gives you an opportunity, if you are big enough, to destroy a small competitor in any market in the United States, does it not?

Mr. MOREELL. I cannot agree with that, Congressman.

Mr. PATMAN. All right, let us say that there is a steel mill established out here in the State of our distinguished chairman, Mr. O'Mahoney, a small steel plant, and you decide you do not want that steel plant out there, and United States Steel decides that the plant is not wanted, they are interlopers, they are not invited into the steel fraternity, and then suppose they sell steel for X price, which is as low as they can sell steel for.

Well, now you can sell that same steel for a much lower price right there in that market along with United States Steel and other steel companies until you put his company out of business, can you not?

Mr. MOREELL. You can, but I believe it would be a violation of the Clayton Antitrust Act if you did it.

Mr. PATMAN. It would be a violation of the Clayton Act?

Mr. MOREELL. Yes, sir.

Mr. PATMAN. You see, this gives you a right to meet prices. Well, that does not mean identical prices. That means you could sell for a lower price.

Mr. MOREELL. That is exactly right, but if you did it you would be selling to the disadvantage of your local customer because you would be absorbing more than the cost of transportation. Now, I am not an attorney and I am not versed in the law, but I have discussed this question with our counsel, and I asked that very question. He informs me that that would be a violation of the Clayton Act and we would be liable.

Mr. PATMAN. Well, suppose you just meet his prices, just the identical prices, but you had better entry out there; they are old customers of yours, old customers of United States Steel, and you could get these old customers to trade with you and not trade with the Senator's company at all. Why, that would effectively put them out of business, and no law would be violated, would it?

Mr. MOREELL. Well, that is legitimate competition, Congressman. I believe in that.

Mr. PATMAN. Well, of course I know it is legitimate, but at the same time it is bigness throwing its weight around. Now, I do not object to bigness. It is perfectly all right. I remember what a great contribution they made toward winning the war, and I feel grateful to

them. I am not against them because they are big, but I do not think they ought to have these opportunities to destroy the little man.

Mr. MOREELL. I do not believe it would destroy him, Congressman. I think that there are certain economies that are possible in a small enterprise which would enable that enterprise to compete if they had efficient management.

By the same token, I do not believe that the American consumer should be penalized and have to pay higher prices for his product because the big industry is called upon to hold an umbrella over the small industry.

Mr. PATMAN. No; I do not want that; I do not want to hold an umbrella over inefficiency at all, but we know of cases, say, in cement, the State of North Dakota built a cement plant—did you know about that?

Mr. MOREELL. No, sir.

Mr. PATMAN. And the cement companies actually put them out of business that way. They could not avoid it. They could not meet that competition because they could sell much lower and make the customers elsewhere pay the bill.

The CHAIRMAN. May I interrupt to say, Congressman—and I should not do this because we are here for another purpose—if any company, big or small, undertakes to sell its product temporarily at discriminatory prices in order to drive a competitor out of business, it is violating the antitrust laws as they are now written, and nothing in the freight-absorption bill would modify that condemnation of the law.

Mr. PATMAN. Of course, I respectfully disagree with the chairman; but what good would it do, I will ask the distinguished chairman, if they violate the law and they go ahead and put you out of business, and then you get into court and you stay in the court 4 years, 8 years, 12 years? Where is your company in that time? They can whip you to death.

The CHAIRMAN. Well, you have got a case right here which probably will be discussed later in the day. You have got the situation in which United States Steel has purchased new land near Philadelphia for the purpose of erecting a plant for Carnegie Illinois Steel Co. The purpose of purchasing in that location——

Mr. RICH. Why don't you fellows take tonight off and do that, and let us go ahead with these witnesses.

The CHAIRMAN. The Congressman from Texas is a member of the committee on an equal status with the Congressman from Pennsylvania, and he asks that these questions be propounded.

So that United States Steel, the biggest enterprise in the steel business, will have a plant from which it can sell at f. o. b., and I would not be a bit surprised if I were to ask this question of Bethlehem Steel, which is the second in size, that Bethlehem would be worrying quite a little bit whether or not it could retain its present markets without freight absorption, and certainly I know that if anybody—certainly I would not be the one to do it because I cannot own a steel mill—were to attempt to establish a steel mill in the State of Wyoming, I know perfectly well that whatever money was invested in that would be utterly and completely lost unless if by freight absorption or delivered prices the managers of that mill could ship their product to the market, because there is not sufficient market within the delivery distance at f. o. b. prices of any spot in Wyoming at which the product could

be sold, so that the attitude, the argument which the Congressman from Texas takes, in my opinion, utterly destroys the opportunity of building up the West, and even the South. I doubt even if Texas could survive, big and glorious as it is.

Mr. RICH. Let the steel industry remain in Pennsylvania and go on with the questions.

Mr. PATMAN. The basing point means centralization. The outlawing of the basing point means decentralization.

Now I have one other observation, and I will not insist on this further, and I will yield to the gentleman from Pennsylvania to talk about the administration, if he wants to.

The Atlantic & Pacific Tea Co. admitted in the trial that 29 percent of their stores were selling at a loss at all times. Why? Obviously for the purpose of destroying competition, and they did; and the testimony further showed these little independents could last 2, 3, and 4 years after the squeeze was put on them. Now the antitrust laws did not protect them, so the antitrust laws are not sufficient today.

The CHAIRMAN. No. I agree with you in that, and I hope that you will support some of the legislation which I have introduced which would help to meet these questions.

Mr. PATMAN. I certainly will, and I hope you will support some that I have introduced, too.

I yield.

The CHAIRMAN. Congressman Buchanan.

Mr. BUCHANAN. Mr. Moreell, your premises conclude that steel is priced too low and the position of the J. & L. has not been improved.

In the face of the figures for 1947 and 1948 that you show on page 5, just what do you consider to be a fair return if in 1947 and 1948 your return on investment and sales in your opinion is not a fair return?

Mr. MOREELL. Congressman, the matter of a fair return depends on definition of return. If, for example, all of the earnings of our business were available for the payment of dividends or for other advantages to the owners of the business, that is, the shareholders, I would say that a fair return on investment, on the shareholders' investment, a return which would be sufficient to attract venture capital into the business would be around 8 percent.

Now, however, if you are talking about earnings as defined by the Internal Revenue Bureau, at the present time when we have to take a very large segment of those earnings and spend them to keep our plant healthy and in shape, we need a much greater so-called return on investment, because the money which is characterized as earnings by the Internal Revenue Bureau is not available for our shareholders, the owners of the business.

I have some calculations which I must admit are approximations. They indicate 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.

In between those two limits there are any number of possible variations depending upon the structure of the laws and how much they would permit you to charge off as cost when you had to spend that money to rehabilitate your plant and stay in a healthy condition.

Mr. BUCHANAN. That is 24 percent before taxes?

Mr. MOREELL. No, sir; that is 24 percent after taxes, and I would like to call your attention, Congressman, to the fact that there are certain industries now that have earnings on shareholders' investment which are of the magnitude that I have mentioned.

On page 2 of my statement I said there in 1948 the iron and steel industry earned a 14-percent return on net assets, the shareholders' investment. In the same year the household-appliance industry was enjoying a percentage return more than twice as great—27.8 percent. The automobile industry's return was 26 percent, the cotton-goods industry's return was 31½ percent, the petroleum industry 22.1 percent.

The CHAIRMAN. Congresswoman Woodhouse.

Mrs. WOODHOUSE. I have one question. Admiral Moreell, in New England there is a considerable market for steel products, and I would be very much interested in what you think of the potentialities of integrated steel mills there.

Mr. MOREELL. Well, Congresswoman, we made a study of that and I think I can best answer your question by reading very briefly a statement which we made as the result of that study.

The CHAIRMAN. Where was the statement made, Admiral, and to whom?

Mr. MOREELL. It was a statement made to myself, sir. I dictated it in order to have these facts before me, because I anticipated the question which the Congresswoman has asked.

Jones & Laughlin has studied most carefully the possibility of building an integrated steel plant in New England. We discussed this matter with representatives of the New England Council Steel Committee at their request.

We obtained from them all the information at their disposal. To this we added what we knew about the steel business and we made an appraisal of the proposed plant in the light of our own experience. Some of our executives spent considerable time over a period of several months studying the general conditions under which such a plant might be built and operated.

Raw materials were assumed to be cheap, readily available and of satisfactory quality. Plant facilities were studied to simplify all operations and to achieve the lowest operating costs. Utilities were assumed to be available.

The area of distribution for a plant located at New London, Conn., was assumed to be all of New England, all of New York City, and an area of lower New York State extending as far west as Albany. In addition, certain areas in northern New Jersey were included. It was considered that within this general area the entire output of the mill could be disposed of competitively. Briefly our findings were these:

First, we have assumed in New England an existing market which would yield a higher net mill return for our products than we can obtain in our present locations.

Second, we have assumed a competitive assembly cost of raw materials, ore, coal, and scrap taking advantage of a noncompetitive buyers' market, and without any capital investment therein on the part of the operating company.

We have designed the most efficient low-cost integrated steel plant we could conceive to convert these raw materials into rolled-steel products. We have assumed unusually low-cost financing of such a project with the backers assuming abnormal risks as a matter of regional interest and responsibility.

Under these conditions it might be supposed that a mill in New England could be built and operated at a profit. However, we believe that such a profit would involve a greater risk and yield a lower return than we could obtain by investing our available funds in the modernization of our existing plants.

In fact, Jones & Laughlin's first obligation must be the improvement of our present plants for the protection of our shareholders in their investment, to assure steady jobs for our employees and to assure our customers that we will continue to be a reliable source of supply for their steel requirements.

Mrs. WOODHOUSE. Would you care to state why it would be profitable to build a mill on the Atlantic seaboard in the neighborhood of Philadelphia, and not in New England?

Mr. MOREELL. Well, Congresswoman, I would have to leave the answer to that question to the United States Steel Corp. I have not studied their project.

Mrs. WOODHOUSE. Thank you.

Mr. PATMAN. Mr. Chairman, may I intrude just one more time on that point. Now, in your case of the construction of a steel mill in Wyoming, you state that you do not have the local demand to take care of the output. Therefore, you want to absorb freight so it can be in competition with the big steel companies.

Of course, a company like that would not have any chance at all, but in the case like this, here is an area where they have the raw materials, they have the market, they have everything, and if the big companies were not allowed to absorb freight, which is a form, according to my view, of unfair competition, that steel plant would be a success.

Now, you will have to admit, Admiral, if there is no basing point, on f. o. b. prices, a steel mill at New London, Conn., would be a paying proposition, would it not?

Mr. MOREELL. I will not admit that, Congressman, not for Jones & Laughlin. The reason is that there is too great a spread between the cost of constructing such a plant and the prices that you can get for steel in today's market.

Mr. PATMAN. Of course, there is a difference in a new mill going in, I mean new people going into the business, and you expanding your own facilities, because a large part of your expansion program, the money will come from retained earnings, which is costless capital to you. You got that by increasing prices. It did not cost you anything.

Therefore, a person starting from a scratch is at a disadvantage in competition with your organization, but I certainly believe that a steel mill in New England would be a paying proposition if the basing point is not returned. If it is returned, of course, you people have better entry to the market there than they have, and they would not have a chance.

Mr. MOREELL. I cannot admit that, Congressman. I do not believe it is correct.

Mr. PATMAN. All right, suppose you return this basing point and you state it is $1.25 a ton extra. Will you raise the price of steel to take care of that dollar and a quarter a ton?

Mr. MOREELL. Not for that purpose.

Mr. PATMAN. Not for that purpose?

Mr. MOREELL. No, sir.

Mr. PATMAN. I notice Mr. Fairless said "not for that purpose."

Mr. MOREELL. The reason we will not raise the price of steel if we absorb freight amounting to an average of $1.25 a ton, is because by being able to go any place in the United States and sell our products at competitive prices, we can stabilize the volume of production to such an extent that the avoidance of the peaks and valleys in the production curve will more than compensate us for the $1.25 which we have to absorb in the freight.

One of the great costs in this business, I have found out to my sorrow, is the shutting down and starting up of production facilities. If we can go any place in the United States where the business is, and compete for it, we find that we can stabilize the production of a particular product so that the variations in demand are reduced very materially, and we can then produce more cheaply.

Mr. PATMAN. What do you mean by the phrase "meet competition?" Do you mean to meet it exactly or to lower it?

Mr. MOREELL. We might go lower.

Mr. PATMAN. Do you ever go lower?

Mr. MOREELL. Oh, yes; we are lower now on some products.

Mr. PATMAN. Before the basing point was outlawed, you were always identical, were you not?

Mr. MOREELL. No, sir; we were lower in some instances, and higher in others.

The CHAIRMAN. Congressman Buchanan.

Mr. BUCHANAN. I have just two more questions, Mr. Moreell. How do you feel in regard to tariffs, the present tariffs affecting the steel industry. The American Iron and Steel Institute, I think, has taken a position recommending adequate safeguards. How does that affect you presently?

Mr. MOREELL. I must confess, Congressman, that I have not made a study of that, and I would prefer to pass that particular question.

Mr. BUCHANAN. Is there any provision in the Marshall plan that particularly affects your company?

Mr. MOREELL. No, sir.

Mr. BUCHANAN. How about the Pacific trade program?

Mr. MOREELL. I do not know that we are particularly affected by it at the moment, Congressman.

The CHAIRMAN. When was Jones & Laughlin established, Admiral?

Mr. MOREELL. The predecessor firm was established 97 years ago, Mr. Chairman. The present corporation was established in 1923.

The CHAIRMAN. What was the output of Jones & Laughlin as of 1923?

Mr. MOREELL. Our capacity as of 1923 was 3,337,600 ingot tons.

The CHAIRMAN. What is it now?

Mr. MOREELL. Today it is 4,816,500.

The CHAIRMAN. Have you computed the percentage increase?

Mr. MOREELL. It is approximately 1,500,000 ingot tons, but I would like to point this out, Mr. Chairman: that the greater part of that increase came in 1942 when we purchased the physical assets of the Otis Steel Co. That accounts for practically all of the increase in capacity.

As a matter of fact, it accounts for a little more than the increase. The capacity was increased by 1,700,000, and since then we have reduced our capacity.

The CHAIRMAN. Since when?

Mr. MOREELL. Since 1942.

The CHAIRMAN. Do you consider Jones & Laughlin to be competitive with United States Steel?

Mr. MOREELL. Yes, sir.

The CHAIRMAN. How long after the modification announced by United States Steel on December 16 did you announced your modification?

Mr. MOREELL. I will ask Mr. Hazlett, our vice president in charge of sales, to answer that.

Mr. HAZLETT. We announced it, I think, on the 19th or 20th, 3 or 4 days afterward.

The CHAIRMAN. Was that price announcement identical with that of United States Steel?

Mr. HAZLETT. I think not; not identical.

The CHAIRMAN. How much did it vary?

Mr. HAZLETT. The variance on an average with Jones & Laughlin was about $4 a ton. I think our actual calculation came out to $4 and 2 or 3 cents.

The CHAIRMAN. I do not know that I quite understand that. How much was the increase?

Mr. HAZLETT. Our increase was about $4 a ton.

The CHAIRMAN. How did it vary from United States Steel? Was that not United States Steel's increase?

Mr. HAZLETT. I thought you were asking us about the benefit accruing to us, and yesterday I heard them say $3.82 a ton.

The CHAIRMAN. I was asking in what degree, if any, your increase per ton varied from that of United States Steel.

Mr. HAZLETT. You are asking whether we made the same advances?

The CHAIRMAN. That is right.

Mr. HAZLETT. We did, with the exception of one product.

The CHAIRMAN. What was that product?

Mr. HAZLETT. Cold-drawn bars.

The CHAIRMAN. And in what degree did that price vary from the announcement of United States Steel?

Mr. HAZLETT. We have $1 a ton differential under United States Steel Corp.

The CHAIRMAN. You do have now?

Mr. HAZLETT. We did before the December 19 change. For approximately 6 months we had that differential.

The CHAIRMAN. How did you happen to make a differential on that particular product 6 months ago?

Mr. HAZLETT. Well, that is the force of competition again. When we were confronted with the marketing problem of the commodity that had much more production than consumption, that probably then led to adjusting our distribution in the light of our f. o. b. price policy. To protect the business we established a price of $1 a ton under the so-called market.

The CHAIRMAN. Do you have any export products?

Mr. MOREELL. Yes, sir.

The CHAIRMAN. Did you reduce your export prices as United States Steel did?

Mr. MOREELL. Yes, sir.

The CHAIRMAN. To what degree did your reduction vary from that of United States Steel?

Mr. HAZLETT. They were approximately the same.

The CHAIRMAN. Would it be too much to say that being approximately the same, the price increases and the price decreases of Jones & Laughlin were almost identical with those of United States Steel?

Mr. HAZLETT. They were.

Mr. MOREELL. I think that is correct, Mr. Chairman.

Mr. RICH. Would it not be just as well to say that in a competitive market if you can get the same price and you are looking for business and you have got the price from United States Steel, it does not make any difference if you do say it was the same?

Mr. HAZLETT. I think the simple point is that 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.

The CHAIRMAN. If United States Steel had not raised prices on domestic products and reduced prices on export products, would you have taken the initiative?

Mr. HAZLETT. No.

Mr. MOREELL. We could not get away with it, Mr. Chairman. I think I mentioned in my statement that back in 1948 we did increase some prices, but in 1949 when business fell off, we could not get away with it, so we had to lower our prices to meet competitive prices. We were afraid we would lose our customers.

Mr. RICH. If somebody wanted a hundred thousand tons of steel, he is not going to go to Jones & Laughlin and hand you that order on a silver platter unless he gets the prices from some other steel companies, is he?

Mr. MOREELL. Well, not unless there is something wrong with him mentally, Congressman.

The CHAIRMAN. Well, you know, following up that suggestion of Congressman Rich—let me ask you: Do you think that Jones & Laughlin would have lost any of its customers if, instead of following in the footsteps of United States Steel, it had maintained its own price? Might you not have won some new customers?

Mr. MOREELL. We might have, we probably would have, Mr. Chairman. The difficulty is, as I stressed in my prepared statement, that 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.

The CHAIRMAN. But you did have a fairly good profit last year, did you not, even at these unduly low prices?

Mr. MOREELL. No, sir. As I pointed out in my statement——

The CHAIRMAN. Well, I know that you do not think it was large enough.

Mr. RICH. You passed up a dividend, did you not?

Mr. MOREELL. No, sir.

Mr. RICH. Did you not defer a dividend? I know some of your stockholders who claim that you deferred the dividend.

Mr. MOREELL. We deferred it, Congressman, temporarily. We deferred action on it in order to see the outcome of the steel strike. Then we later declared the regular dividend. In 1949, Mr. Chairman, our profits were approximately $10,000,000 less than they were in 1948.

Mr. RICH. Let me read this statement, if I may:

A shareholder in Jones & Laughlin could have done better had he invested in Government bonds. They pay 2½ percent instead of the 1.6 percent he received, and along with this 2½ percent he would have had complete security in his principal.

I do not get that.

Mr. MOREELL. What I was trying to bring out there, Congressman, was that a shareholder who had an equity value of $143 for his share of stock in 1923 when the corporation was organized, has obtained over that span of 27 years or 26 years an average return on the value of his investment of 1.6 percent.

Now, the point that I was trying to bring out there is that the return to a risk taker in Jones & Laughlin—and I believe the same applies to the rest of the steel industry—is not sufficient to attract equity capital, risk capital to our industry.

Mr. RICH. I appreciate that. The only question that I was wondering about is if you balance your budget annually and you made that 1.6 percent, the chances are if you can keep that up, you will continue to pay 1.6 percent, but what I want to know is how the Government is going to pay 2½ percent on its bonds if it keeps running into a deficit of $5,000,000,000 a year.

Mr. MOREELL. I cannot answer that, sir.

Mr. RICH. You made the statement here that you have got complete security in the principal, and I disagree with you.

The CHAIRMAN. You see, Admiral, the Congressman wants argument. He does not want facts.

Mr. RICH. Well, we are going to get to the facts. Here is another question that concerns me in reference to your statement. You have got 22,000 common stockholders, 6,500 preferred stockholders, 44,000 employees, or 72,500 people who are directly interested in your business.

Mr. MOREELL. Yes, sir.

Mr. RICH. You are trying to operate that business for the security of the employees and for the stockholders.

With the increased costs that you have had to bear on your pension plan, and increased wages and increased cost of your materials, it is going to be necessary if you want to maintain jobs for your employees, to have steady employment and to make a profit, it is not?

Mr. MOREELL. Yes, sir.

Mr. RICH. Or you cannot exist.

Mr. MOREELL. That is correct, sir.

Mr. RICH. You will go out of business.

Mr. MOREELL. That is right.

Mr. RICH. With your expenses such as they were during the past year, from the statement that you just made here, and the amount that your stockholders received was 1.6 percent, was it necessary for you to raise your prices of steel to continue to pay your stockholders a dividend?

Mr. MOREELL. It was, sir.

Mr. RICH. Then, how do you explain this in your statement?

You gentlemen are asking why it was made—

talking about that $4-a-ton increase in price—

As far as Jones & Laughlin is concerned, the answer can be made quite simple. We raised prices at that time because we could.

Then you said that you raised them because steel prices are too low. Well, now is it not a fact that you were compelled to raise steel prices because you had to meet the conditions of the country, you had to meet the demands of your employees, and you had to pay your people a dividend?

Mr. MOREELL. Yes, sir.

Mr. RICH. I know that you deferred your dividend in the latter part of the year.

Mr. MOREELL. We deferred action on the dividend, yes, sir; but we finally declared that dividend so that it was not permanently deferred. We raised prices at that time because we could. I am referring back to the statement which I had made previously to the effect that we are not free agents in the matter of making prices, that competition is the great regulator of prices in American industry. If we could, Jones & Laughlin would raise prices even more.

Mr. RICH. Have you been able to get all the business during the past year that you needed in your industry?

Mr. MOREELL. No, sir.

Mr. RICH. A year ago this committee met and we had the President's chief economic advisers insisting that the Federal Government get at and build additional steel plants because we were unable to furnish the requirements of the people of this country. The committee signed a statement almost to the effect that we should do that.

They signed a statement to the effect that many things, prices, were going up, steel prices were going up, the price of lead, copper, and zinc and if you look at the hearing you will find out that that is all we did. All of that was completely wrong.

As I view it now, everything that we recommended pretty near in that report a year ago—of course, I did not sign it because I knew it was wrong at the time. It has proven to be one report that was completely wrong in practically every aspect.

Now, there is just one other question I want to ask you in reference to your statement:

This committee is questioning whether the profits of the steel industries are too high.

What committee are you talking about?

Mr. MOREELL. I am speaking of this committee, of which the Senator is chairman.

Mr. RICH. Who is questioning that?

Mr. MOREELL. Well, I assume that the purpose of our appearance here is to inquire into the question as to whether the prices of steel are too high, which means that the profits of steel companies are too high. That was my interpretation of the committee's action in inviting us to appear here.

Mr. RICH. Well, I never questioned it because I have always felt that you had a competitive industry. I know from my experience in buying steel, when I want to buy steel, or in any industry with which

I am associated or any people that I know in the contracting business, they will go to Jones & Laughlin and ask them for a price on steel, and if your price is $1 a ton higher than some other steel company, Jones & Laughlin is not going to get the business from any people that I know of.

Mr. MOREELL. That is correct, sir.

Mr. RICH. So that in your competitive industry, then, you fellows have got to reach a point where you make your prices right and reasonable, or you do not get the business.

Mr. MOREELL. That is correct, sir.

Mr. RICH. And how long would it take to drive yourself out of the business if you asked $4 a ton more than the other steel companies?

Mr. MOREELL. It would not take very long under present conditions, Congressman.

The CHAIRMAN. Admiral, the question just asked of you by Congressman Rich, to which you responded by saying that you assumed the committee had certain motives in mind when it invited the industry to appear, prompts me to say to you that the letter which I addressed to you and to all of the others, particularly after you asked for the opportunity to appear here, stated the whole story.

We had no motive to criticize your profits. We sought the facts, but I had, myself, this very definite feeling: That in an industry in which eight firms own almost 80 percent of the total capacity of a commodity which is basic to the whole economy of the United States, when price increases are ordered and these increases seem to be uniform—and you have just testified that Jones & Laughlin followed right along in the footsteps of United States Steel—it seemed to me that it was only fair that there should be a public hearing upon the matter, and that you should be invited here to tell the story publicly of the facts and the circumstances which prompted your action.

Now, that was the feeling of this committee not only this year but in the Eightieth Congress, when the majority of the committee was of the other political persuasion, so again I assure you, Admiral, I know of no member of this committee who is in search of anything but facts, except by Brother Rich, who, as I said, wants argument rather than facts.

Mr. RICH. I want to get these facts. I want you to get the facts. The reason we called a meeting a year ago was to try to build a new steel plant in this country and get the Government in the steel business. Now, you know that because they advocated it.

The CHAIRMAN. Oh, no.

Mr. RICH. Yes; they did.

The CHAIRMAN. You have forgotten that.

Mr. RICH. No; I have not forgotten. I have a good memory when it comes to things like that.

The CHAIRMAN. There is the record.

Mr. BUCHANAN. Is it not a fact the potential plant capacity was increased in 1949 as the result of the pressures, whatever the pressures happened to be, by some 3,000,000 tons?

Mr. MOREELL. That is correct; yes, sir.

The CHAIRMAN. Now I would like to ask you one or two questions in order to clear this up in my own mind. A moment ago you said in response to Congressman Rich's question as to whether or not you

are obtaining all the business that you desire, your answer was "No." Do you remember that?

Mr. MOREELL. That is correct, sir. He asked we whether in 1949— and I believe we operated at 97 percent of capacity in the first 9 months of 1949——

Mr. HAZLETT. We got down to 86 percent in the third quarter.

Mr. MOREELL. Eighty-six percent in the third quarter, 97 percent for the first 9 months. Of course, the last 3 months, the fourth quarter, were affected by the strike and we operated at 54 percent for the fourth quarter, which gave us a total for 1949 of 85 percent. Now, that left us considerably shy of our capacity and the business that we would like to have had.

The CHAIRMAN. So that your answer was "No," that you did not have as much business as you would like to have had?

Mr. MOREELL. That is correct, sir.

The CHAIRMAN. Now, my question is, would you not be more likely to get that business which you desire if, instead of following United States Steel upward in price, you were to maintain the price? Would that not draw more customers to you?

Mr. MOREELL. It would temporarily, Mr. Chairman. The chances are that our competition would meet the low prices and as I stated earlier, our prices were already too low. We are not making enough money to keep our business healthy.

The CHAIRMAN. Very well. Then, what, in your judgment, would be a fair return for the steel industry, and what would be a fair price? If you could raise the prices of Jones & Laughlin now, to what, in your judgment, they ought to be, what would be the prices and what would be your profit?

Mr. MOREELL. In answer to Congressman Buchanan's question, I stated that a fair return to Jones & Laughlin would depend upon the structure of the tax law. If we could charge off to current expense all of those expenditures which are necessary to rehabilitate our plant and keep our business healthy, I believe that a fair return on the shareholder's investment should be in the neighborhood of 8 percent.

In order to obtain that, Mr. Chairman, my rough calculations here indicate that we would have to raise our steel prices approximately $10 a ton.

If, however, we must operate under the existing tax laws where so-called profits are taxed even though we are not allowed to charge off adequate depreciation of our plant to current expense, we would have to increase our prices in the neighborhood of $17 a ton in order to make a proper return on the shareholders' investment, as I see it.

The CHAIRMAN. And what would be a proper return?

Mr. MOREELL. It would be about 8 percent, if we had freedom to charge off our rehabilitation costs to current expense.

The CHAIRMAN. Now on page 5 of your statement in the third paragraph you cite the profits of Jones & Laughlin for a period of years. In 1947 Jones & Laughlin net income represented a 9-percent return on the shareholders' investment.

Now when you say "the shareholders' investment," are you talking about the market price of the stock, the par value of the stock, or the appraised value of the plant?

Mr. MOREELL. I am talking about the total assets minus the total liabilities; that is what the shareholder owns.

The CHAIRMAN. So that when you speak of a 9-percent return, it was not 9 percent on the par value of the stock?

Mr. MOREELL. No, sir.

The CHAIRMAN. Nor was it 9 percent upon the market price of the stock?

Mr. MOREELL. No, sir.

The CHAIRMAN. And this 1$\frac{6}{10}$-percent return of which you spoke on page 3, when you compared the shareholders' return to the return of the owner of a Government bond, 1$\frac{6}{10}$ percent, you said, is what the shareholder received?

Mr. MOREELL. Yes, sir.

The CHAIRMAN. Is that on par or market or investment?

Mr. MOREELL. That is on asset value of the shareholders' stock, 1$\frac{6}{10}$ percent on the asset value calculated as I have indicated, total assets minus total liabilities.

The CHAIRMAN. What would that be on the market value of the stock, do you know?

Mr. MOREELL. Well, the stock is now selling at about 29, and we are paying a dividend—I am talking about common stock now—of $2.60, which is about 8½ percent.

The CHAIRMAN. Now, then, going back to page 5, you said these various percentages were the average of certain industrials, as announced by the National City Bank. In 1948, for example, you say Jones & Laughlin's return on investment was 14 percent. The average was 18.9.

As compared with that paragraph of yours, I should like to invite your attention to the statistics given out by the Bureau of Labor Statistics. That index for iron and steel shows that the prices in December 1949 stood at 165.4, as compared with 163.4 in November, and according to the chart I had yesterday, a much lower figure in 1940, and at 100 in 1926, but this same Bureau of Labor Statistics index showed that the price of all commodities in December 1949 was lower than that of iron and steel, namely, 151.6, so that according to that comparison with the whole field of all commodities, iron and steel is on the high side.

Mr. MOREELL. I am not familiar with those figures, Mr. Chairman, but I do believe that entirely too much importance has been attached to the comparative price rises in various products. The validity of the comparison depends on whether the prices which existed at the time of the base period were in proper relationship. I do not believe that we can say whether they were or not.

The fact of the matter is that I must appraise the condition of our business not on the increases in the prices of iron and steel products during a certain period as compared with other commodities, but on how much money we are making, how much is available for our shareholders, and how much we have to spend to rehabilitate our plant and keep ourselves in a healthy condition. The increases in the prices of iron and steel products as compared with other commodities to me are unimportant. Competition will take care of the proper relationship between commodity prices.

The CHAIRMAN. In this little booklet on basic facts on page 22 appears table 14 from which I quoted yesterday when Mr. Fairless was on the stand, showing the rates of return on stockholders' investment

for these principal steel companies, after provision for Federal and other income taxes.

With respect to Jones & Laughlin it seems to me that the figures which you have quoted on page 5, which we have just been discussing, correspond very closely with those given by the Federal Trade Commission, do they not?

Mr. MOREELL. I think they do, Senator. I have not had the chance to compare them in detail, but I believe they are about right.

The CHAIRMAN. Well, in 1948 the Federal Trade Commission says your return for the stockholders' investment after taxes was 13.07. You say 14?

Mr. MOREELL. Yes, sir.

The CHAIRMAN. And it goes on back. I cite this because the same computation by the Federal Trade Commission for United States Steel showed a much higher rate of profit by United States Steel, according to the computation of the Federal Trade Commission, than United States Steel was willing to acknowledge; but you accept the Federal Trade Commission's report as sufficiently accurate for your company?

Mr. MOREELL. I believe it is about right for us, yes, sir.

The CHAIRMAN. Now on page 3 of your statement you say that the great bulk of your earnings were used during the last 4 years to replace worn-out equipment and to make your plant modern. What have been the results of this expenditure? Has your break-even point been reduced, for example, and are you deriving any other benefits from this modernization?

Mr. MOREELL. We are succeeding in maintaining our competitive position, and I believe improving it somewhat. I hope that as we go along with our program we will materially improve our competitive position in the industry.

You will notice on the bottom of page 3 of my statement that we also anticipate a rather modest increase in capacity, amounting to 3½ percent when we finish our present program.

The CHAIRMAN. Well, does this modernization enable you to produce steel of better quality at a lower price?

Mr. MOREELL. Yes, sir, at a lower price, if other costs were stabilized. It so happens that our other costs have increased so much that they have overtaken the economies that we have made by this modernization program.

However, if it were not for the modernization program, we would be in a very bad way because our competitive position would be destroyed.

Mr. RICH. You would not be able to exist in business if you did not keep abreast with the times, with the other manufacturers. Your cost would go so high you would just throw yourself right out of the market, would you not?

Mr. MOREELL. That is exactly right, Congressman.

The CHAIRMAN. Modernization as far as Jones & Laughlin is concerned, has resulted in some increases of capacity, an improvement of operating efficiency so that you produce a better quality at a lower price.

Mr. MOREELL. That is correct, sir.

The CHAIRMAN. But of course, over-all, you still feel that the prices for the steel industry are not sufficient to enable it to earn the profit it ought to have. I understand that.

Mr. MOREELL. I would like to qualify my answer, Senator, with this statement: That we have actually suffered to date a decrease in capacity. The increase in capacity to which I refer on the bottom of page 3 will occur only when we have completed projects which we have just started now, but to date we have suffered a decrease in capacity in spite of the large sums which we have expended.

Mr. PATMAN. I would like to ask you a question about the first paragraph on page 3. You state the cash dividend for last year amounted to 3 percent of the asset value of Jones & Laughlin stock, $89 per share of stock outstanding, the 31st of December 1948. Now actually your stock was worth about one-third of that on the market.

Mr. MOREELL. It was worth about $29 or $30.

Mr. PATMAN. Just about a third.

Mr. MOREELL. That is right.

Mr. PATMAN. So on the actual value of the stock, your cash dividends amounted to 9 percent, did they not?

Mr. MOREELL. That is correct, sir.

Mr. PATMAN. So that does not exactly tell the story.

Mr. MOREELL. It is a little less than that, 8½ percent.

Mr. PATMAN. Between 8 and 9 percent.

Mr. MOREELL. That is correct.

Mr. PATMAN. On the actual market value. Now I want to ask you one or two more questions. I do not want to leave the record as it is about the New London steel mill. The survey that you read here a while ago indicates to me that you look with favor upon a steel mill there, were it not for your situation; that you believe you can expand existing facilities. It will be worth more to your company to put a new steel mill in there.

Mr. MOREELL. We looked at it entirely from the viewpoint of the interest of Jones & Laughlin. We were not looking at it from the viewpoint of the interest of New England.

Mr. PATMAN. That is right.

Mr. MOREELL. We were looking at it from our own interest.

Mr. PATMAN. Suppose you were not in the steel business at all, but you were interested in putting in a steel mill. You would look upon that as a good location, would you not?

Mr. MOREELL. I am not prepared to say, Congressman.

Mr. PATMAN. Well, the report you gave I thought was a very flattering one for the steel mill at New London.

Mr. MOREELL. It was not intended to be a flattering one. It was intended to be a factual statement.

Mr. PATMAN. All right. Now, then, suppose there is a steel mill there, how much freight advantage would that mill have over your mill, the nearest mill that you have?

Mr. MOREELL. It depends on the product. I will have to ask Mr. Hazlett.

Mr. PATMAN. The average product.

Mr. HAZLETT. The average would be about $4 a ton.

Mr. PATMAN. About $4 a ton advantage. I want the Congresswoman from Connecticut to listen to this.

If you had a steel mill at New London in the area there where they serve, where they have a freight advantage of $4, they can compete, I mean they have the advantage, they have the market. They would have some security, but if you returned to the basing-point system and you can absorb that $4 freight, in other words, you pay that to go into that territory, that mill probably would not have a chance, would it?

Mr. MOREELL. I do not know, Congressman, whether it would or not.

Mr. PATMAN. Do you think that the law should allow you to absorb that on your other customers and place your little competitor at a disadvantage?

Mr. MOREELL. That is competition.

Mr. PATMAN. But is it fair competition?

Mr. MOREELL. It is fair competition. I want to say this: That the New England mill, according to the assumptions that you made, would be able to realize $4 a ton more than Jones & Laughlin could realize for products shipped into that area.

Now I say that if they cannot live with this $4 a ton advantage over Jones & Laughlin, why they are not entitled to live.

Mr. PATMAN. I know, but suppose a big company like yourself, and a big company like United States Steel, and a big company like Bethlehem decided you just do not want it there, and you sell under them or just meet their competition, and you have their customers anyway because it is a new mill coming in. They would not have a chance, would they?

Mr. MOREELL. If we sold under them to put them out of business, we would be in violation of the antitrust laws, as the chairman has stated.

Mr. PATMAN. Well, I hope that is true, but I am not convinced that it is.

Mr. MOREELL. I am willing to take the chairman's word for it.

Mr. PATMAN. My conclusion is that if New England wants a steel mill, they had better fight against the restoration of the basing-point system, because if the basing-point system is restored, they have not got a Chinaman's chance.

Mr. MOREELL. I do not believe that there would be any particular advantage, any advantage to the New England area under the present system as against the restoration of the system which permits companies to absorb freight.

As a matter of fact, Congressman, I believe that New England would do much better if they were permitted to reach out into Jones & Laughlin's territory and into Bethlehem's territory and get some business.

Mr. PATMAN. They do not have to do it. They have their business right there close.

Mr. MOREELL. Well, they have to get into New York. We figured that they would have to go down to northern New Jersey, as I stated in my paper.

Mr. RICH. Is there any reason why anyone who wants to go into the steel business cannot start and build a steel mill in New England?

Mr. MOREELL. No, sir, none that I know of.

Mr. PATMAN. Several good reasons.

Mr. RICH. It is nearer New York from any place in New England than it is from Pittsburgh, is it not?

Mr. MOREELL. Yes, sir.

Mr. PATMAN. Now on this 24 percent that you said a while ago you needed net after taxes——

Mr. MOREELL. Under existing tax laws.

Mr. PATMAN. Under existing tax laws, to have a fair return. Now 8 percent of that will go to shareholders. Where will the other 16 percent go?

Mr. MOREELL. It will go to rehabilitation of our plant.

Mr. PATMAN. And expansion?

Mr. MOREELL. No, sir, not expansion, just maintaining the position that you have in the industry.

Mr. PATMAN. How much would that be approximately in dollars according to your 1949 business?

Mr. MOREELL. It would be approximately in dollars about $42,000,000.

Mr. PATMAN. About $42,000,000?

Mr. MOREELL. Yes, sir.

Mr. PATMAN. Now that capital will come to you. You do not borrow it in the market and pay interest on it. That is free capital. That is costless capital, so what chance has a little company to go out into the market and borrow their money and pay interest on it in competition with existing companies that have costless capital to go into competition with them?

Mr. MOREELL. That is capital that is obtained——

Mr. PATMAN. Through increase in price.

Mr. MOREELL. Through increase in price which is rigidly controlled by competition.

Mr. PATMAN. Costless capital, that is what it is, so the little man does not have a chance as long as the big fellows can get all the money they want for expansion through costless capital.

Mr. RICH. May I ask this question: What is the par of your common stock?

Mr. MOREELL. It has no par value, Congressman.

Mr. RICH. When the stock was subscribed for originally, what was paid in for that common stock?

Mr. MOREELL. Well, the corporation was organized in 1923, and I am not familiar with the financial arrangements that were made at that time.

It is my belief that they took the assets of the various subsidiaries and merged them into one corporation. I do not know whether anything was paid in or not.

Mr. RICH. What has been the highest price of your stock in the last 4 or 5 years?

Mr. MOREELL. The last 4 or 5 years, I would say it is about 53.

Mr. RICH. And now it is down to 29?

Mr. MOREELL. Twenty-nine.

Mr. RICH. So that anyone that buys your stock today at 29 can get in a business that has averaged 1$\frac{6}{10}$ percent over the past 10 or 15 years, and if you are able to maintain even that rate, it is a good buy for the fellow who wants to get in on it on that basis. It has been up as high as 58. That is probably twice the price that it is sold for today.

Mr. MOREELL. That is right.

Mr. PATMAN. That does not tell the whole story, Congressman, if you will permit me.

Mr. RICH. You have a good investment if you want to get into the steel business.

Mr. PATMAN. Yes; but he is talking about a different thing from what you are talking about.

Mr. RICH. You or any other citizen of the United States can take advantage of the price of steel stocks today and make a profit, so if some people want to invest in these steel companies, and they are making even the small profit that they are making per share——

Mr. PATMAN. They are not making——

Mr. RICH. Anybody in the United States can get in and buy that stock. If he only has $29 he can buy one share.

Mr. PATMAN. The Congressman failed to listen to the testimony of the admiral a while ago, I think. You know he is not talking about this stock at $29 a share. He is talking about stock at $89 per share when he said 3 percent of the asset value of the share based upon $89, so at the present price the stock will pay between 8 and 9 percent. It did last year. It is even better than what you said.

Mr. RICH. A better investment now if you spend $29 of your money and put it in that stock.

Mr. PATMAN. We are not here trying to sell stock.

The CHAIRMAN. Admiral, don't you have another engagement somewhere?

Mr. MOREELL. Yes, sir; I am trying to get back to Pittsburgh, Mr. Chairman.

Mr. RICH. I am through. I think he has got a good company and a good investment. More power to him.

The CHAIRMAN. Admiral, I had to leave this morning before you finished your testimony. Did you make any statement about the system which Jones & Laughlin has adopted to pay the pensions?

Mr. MOREELL. No, sir; I did not go into the details of that. The reason I did not, Mr. Chairman, is because Mr. Buck's company is making a study for us, and they have not come forth with their final recommendations. We expect that they will within the next week or 10 days, and at that time we will make a decision.

The CHAIRMAN. Well, thank you very much, Admiral. It reminds me of the old days when as an admiral in the Navy you appeared before the Appropriations Commtitee. Your answers at that time were always prompt, frank, and forthright, and I am glad to see that they still are.

Mr. MOREELL. Thank you very much, Mr. Chairman.

Mr. WOLCOTT. Admiral, you are not plowing any of your earnings back into capital that you are using for expansion. I think you said in your testimony you borrowed some money for expansion purposes. Did you have any experience in the equity-capital market recently?

Mr. MOREELL. Well, sir, we floated $60,000,000 worth of bonds in 1947. We used $28,000,000 to pay off old debt and $32,000,000 we plowed back into the company.

Now recently we have negotiated a short-term loan from a group of banks for $40,000,000 which we intend to take out this year.

Mr. WOLCOTT. That is a loan. You are not raising that through the issue of stock or bonds?

Mr. MOREELL. No, sir; that is a loan.

Mr. WOLCOTT. You have not had any recent experience in the equity market?

Mr. MOREELL. No, sir.

Mr. WOLCOTT. Do you know generally how successful equity issues have been recently?

Mr. MOREELL. I cannot tell you that, Congressman; no. I am sorry; I do not have that information.

Mr. WOLCOTT. Last year when we had these hearings the impression I got was because of the condition of the equity market it was necessary to plow a good share of earnings back into capital because there was little or no market for equity capital.

Mr. MOREELL. I would like to say this in regard to that point: That our bonded indebtedness is fairly high. There comes a time when it is imprudent to issue any more bonds, and at that time we would like to get some risk or equity capital.

We feel that at the moment we would have to sell our share at such bargain rates that it would dilute the equity of the existing shareholders to such an extent that it would not be fair to them.

The CHAIRMAN. Thank you very much.

The next witness will be Mr. Ernest Weir. Before Mr. Weir takes the stand I want to file in the record the statement of Mr. Clarence B. Randall, president of Inland Steel Co. Mr. Randall was one of those who sought opportunity to be heard by this committee, but at the last moment he found himself unable to come. He wired the chairman he would not be here, and requested that his statement be filed as part of the record.

Mr. PATMAN. Mr. Chairman, of course, I shall not object, but I assume that he will furnish the additional information that the chairman requested that he be in a position to furnish if he were here.

The CHAIRMAN. We will ask him to do that.

(The statement above referred to follows:)

STATEMENT OF CLARENCE B. RANDALL, PRESIDENT, INLAND STEEL CO.

Inland Steel Co. welcomes an opportunity to present to the Joint Committee on the Economic Report, and through the Congress to the people of the United States, a statement concerning the reasons why the company recently increased its steel prices.

Attached to this statement is a detailed analysis of the significance of this increase as it affects the consumer, labor, and the investor; a summary of the important cost factors that have made this action necessary; and supplemental data in support of the general considerations which I now wish to present.

It seems to me that the issue pending in this hearing is in reality quite simple. It is merely the question of whether public opinion in the United States believes in the perpetuation of private competitive enterprise. If that is the wish of our people, as I believe it is, the steel companies must be permitted to make sufficient profits to attract into the industry the capital which it requires for modernization and expansion of facilities.

That this need is not being satisfied today needs little documentation. It is common knowledge that there are various sections of the country in which basic steel plants are not presently located where public opinion urgently desires new plants to be constructed, but no groups within the area have been able to command sufficient capital to undertake the project.

The amount of capital now required to build a steel plant is enormous in comparison with what was necessary 10 years ago. As wage increase has been piled upon wage increase and security payment upon security payment, not only have the relative earnings of steel companies decreased, but the cost of building new facilities has pyramided to an impossible point. Inland Steel Co. is not large as steel companies go, having only 3,400,000 tons of ingot capacity, yet I would not even hazard a guess as to what it would cost to build the plant new today.

A blast furnace which in 1939 would have cost $10,800,000 would cost today about $21,700,000. A battery of 73 coke ovens has increased in cost from about $4,700,000 to approximately $7,700,000, and an open-hearth shop of 500,000 tons capacity costing $8,500,000 in 1939 would require now about $17,000,000.

Recently our company completed the construction of the largest steamer on the Great Lakes. It has been nearly 25 years since the company built what was then the largest and fastest ship on the Lakes. In 1926 that ship, the steamer *L. E. Block*, cost $1,200,000. The steamer *Wilfred Sykes*, completed last year, cost us over $5,000,000.

The problem is equally staggering in the field of raw material. The public in the Chicago area has been well served by the fact that Inland is an integrated company. We control our own coal, iron ore, limestone, fluorspar, and fleet. Great internal economies are effected in coordinated operations, and from the standpoint of attracting investment and security, the required stability can be had only when the company can back its steel-plant investment with large reserves of the essential raw materials.

But in that area both as to iron ore and coal, for example, quality is changing and enormous new expenditures are required. In coal, where mechanical means of mining bring economies of cost, quality deteriorates and all such coal now must be beneficiated.

Within the next 60 days Inland will bring into production one of the most modern coal-washing plants in the country, the cost of which has been very great. In iron ore, although the supply of high-grade ore in the Lake Superior district, in my judgment, is substantial, Inland is undertaking large new projects to protect its plants with further reserves, both of high-grade ore and of low-grade ore that will have to be beneficiated.

A ready index of what this has meant to Inland is afforded by the simple fact that since the war our company has committed itself to a program of capital expenditures amounting to more than $125,000,000 for modernization and expansion. We have borrowed on the properties of the company all that prudent management ought to borrow, and the only resources for further expansion are the profits that can be retained in the business, the cash that can be recovered through depletion and depreciation, and new equity capital.

It was only a short time ago that many important Members of Congress urged in the most vigorous language that steel companies expand their facilities. Obviously, however, Congress cannot have it both ways. They cannot on the one hand ask us to risk new capital and on the other deny us the earnings by which such capital can be attracted.

I submit that the steel industry has served the Nation well; that its earnings have been at a level substantially below that of other basic industries such as petroleum, automotive, and electric; that the price increases recently made were altogether reasonable in the light of the vastly increased cost burden placed upon industry both directly and indirectly through mounting labor costs.

ECONOMIC FACTORS RELATING TO THE INCREASE IN FINISHED STEEL PRICES ANNOUNCED BY INLAND STEEL CO. ON DECEMBER 23, 1949

Our company on December 23, 1949, announced an increase in prices of certain steel products effective December 27, 1949. This action was taken in order to compensate for the substantially higher cost of a broad and comprehensive program of pension and welfare benefits granted to the steel workers in November 1949 following a 6-weeks' strike, and also to reimburse the company for higher costs with specific reference to raw materials, transportation charges, depreciation, and an increase in fixed charges per ton during the past year and 6 months.

Since the increase in steel prices was announced, charges have been made that steel profits are excessive, that prices are exorbitant, and that any additional costs involved in the granting of pensions and welfare benefits may be absorbed from current earnings. It is our purpose in this presentation to submit evidence and data showing that profits have not been and are not excessive; that prices have been held at low and favorable levels in relation to those applicable to other major commodities during and since the war; and that in large part the added burden resulting from the recently granted demands of labor makes necessary a further price adjustment at this time.

Before presenting the data we should like to direct special emphasis to a particular and important principle. Americans may well take pride in their accomplishments over the short period of their existence, for in this brief period of time they have, by their own efforts. achieved a standard of living which far surpasses that of any other nation in the world. Important in this growth has

been the free-enterprise system of "profit" system which through the incentives offered to the individual has resulted in the broadest development and use of the resources available to our people. Unparalleled progress has been made in scientific and technological accomplishments.

Competition has played an important part in this growth. In order to stimulate production, however, it is essential that the price be sufficient to provide a fair opportunity for a reasonable profit. In the proper functioning of this system it is also implicit that the price structure afford the opportunity to profit sufficiently so that from the fruits of productive effort may spring also the seeds of future growth and progress. It is not sufficient that there be a distribution to labor and to the consumer in fair proportion: There must also be a fair return to the investor and enough to cover reasonable needs for further expansion and improvement, for the development of new processes, improved mechanization, and technological advancement to the end that costs may be lowered and more of the essential goods necessary may be produced to raise further the standard of living of the American people.

Failure to respect this important principle is all too clearly evident in the present predicament in England where technological advancement since World War I has been stultified and discouraged by price fixing, quota restrictions, and cartels until their economy is no longer able to compete in supplying a fair portion of the economic needs of the world without outside assistance.

American industry must continue to progress and the American people in future years must continue to enjoy a greatly improved standard of living. We emphasize the importance of this principle, and in the pages following it will be our purpose to trace the distributive shares of the sales dollar available to labor, capital, and the consumer, and to show to what extent and how in our company funds have been provided for further development, the benefits from which will accrue to all.

Under the stimulus of World War II the steel industry during the past decade has passed through a period of high industrial activity. As was to be expected, the price and cost structure within the industry was subject to great stress. Prices were frozen during the period of the war at the approximate level of the 1938 recession, but wages during the entire period of the war continued to advance under pressures exerted by unions.

Because of the large investment in capital assets, the steel industry's substantial overhead is a heavy burden in times of normal production. During the war years, however, when significantly greater tonnages of steel were produced, overhead charges per ton were lessened and profit margins before taxes were correspondingly greater. The steel industry, however, retained but little of its wartime profits because of the excess-profits tax and the renegotiation of Government contracts. Wage increases granted during the war had little effect on profits retained by the companies, for with an excess-profits tax ranging from 90 to 95 percent, by far the greater portion of the wage increases were paid by the Government in the form of decreased tax revenue.

Except for nominal adjustments in steel prices during the war period and the price increase authorized by OPA in February 1946 when a wage increase of 18½ cents per hour was granted the steel workers, steel prices to June 1946, when Government controls were removed, remained at the approximate levels which prevailed during the year 1938.

All of the distortions that were caused by the war have not yet been removed. The steel industry has continued to operate at a high level during the postwar years, and the price structure must still be corrected to reflect the substantially higher overhead costs which must be absorbed when the industry returns to a lower and a more normal rate of operations.

In giving consideration to profit levels within the steel industry, the nature of the industry itself must also be considered. All are aware of the fact that the steel industry is known as the "prince and pauper" industry, and because of the wide swings in industrial activity within the business cycle, it must profit sufficiently during good times to compensate for the extreme losses suffered during bad times.

In reviewing the figures submitted herewith, due consideration must be given to the inflationary conditions and the extreme loss in the purchasing power of the dollar brought about by the war and the significance of expanded capacities on earnings comparisons.

Inland today, for instance has a capacity of 50 percent greater than in the prewar year 1936 when earnings were 12.8 million dollars. In 1948, our highest profit year, we manufactured and processed in finished steel almost twice the tonnage produced in 1936. It is not surprising therefore that profits should be

proportionately greater. There is, however, another and a most important reason. The purchasing value of the dollar for wholesale commodities is only about 50 percent of the value of the 1935–39 dollar. Adjustments for these two significant factors alone, and disregarding completely the fact that Inland since 1936 has acquired subsidiaries engaged in the further manufacture and sale of sheet steel products, will clearly indicate that the company's 1948 profit of 38.6 million dollars in terms of "real" earnings was significantly less than it was in prewar years.

At no time during the war or since the war has the company earned a rate on net sales as high as during the prewar years 1936 through 1939. A comparison of these percentages is set forth in the following tabulation:

Year	Rate of operations	Percent of net income to net sales	Year	Rate of operations	Percent of net income to net sales
1936	92.7	12.9	1942	102.3	5.65
1937	74.9	11.4	1943	107.4	5.30
1938	54.0	6.6	1944	108.4	4.63
1939	77.8	9.5	1945	103.2	4.54
			1946	82.7	7.14
Average	74.5	10.3	1947	97.0	9.49
1940	94.0	10.2	1948	103.9	9.83
1941	104.5	7.31	1949	88.8	[1] 7.60

[1] Estimate.

Included in postwar income was also a significant amount of a nonrecurring nature. Had our operations been limited only to the productive facilities of our own furnaces, our profits would have been substantially less. Many of our customers, however, had acquired ingots and semifinished steel from producers who did not have available the necessary rolling facilities for processing. Because of the extreme demand for steel during the past 3 years we agreed to make our rolling facilities available for the further processing of such steel to the extent that our rolling schedules would permit. It was possible for us to do this because our rolling capacity exceeds our capacity to produce ingots. In normal times the demand for steel shifts from product to product and the integrated producer must always have available the rolling facilities to meet the changing demand, even though this means some idle equipment at all times.

These arrangements proved highly satisfactory to our customers who were thus enabled to maintain a high level of production, and many finished products which would otherwise have been in short supply were thus made available at an earlier date to meet an extremely urgent consumer demand. Although the prices which the company received for the steel so processed were the same as for similar products made from our own company's ingots, the arrangement was profitable to the extent that the high overhead charges of the company were allocated over the greater number of tons produced, which had the effect of reduring appreciably the over-all average cost per ton. The availability of conversion steel enabled us to ship finished steel products at a computed rate of capacity in terms of ingot equivalent as high as 134.5 percent.

During the war period too there was also a stronger market for second-grade products, and the company was able to avoid losses which are usually sustained under normal market conditions.

The accumulated demand for steel arising from the war has been fully satisfied. This fact was first evident early in April 1949 when steel mills started shutting down their furnaces for lack of orders.

Industry-wide production as reported by Iron Age dropped from 101.5 percent during the first quarter of 1949 to 80 percent by the end of June 1949.

Full information concerning the earnings in the steel industry was presented to the Steel Industry Board appointed by the President July 15, 1949, and that Board in its report made the following statement with reference to the profits of the industry during the war and postwar period.

"The rates of profit—the dollar amounts of these profits figured as percentages or net worth—must be substantially discounted, however, for we are now considering 1948 and 1949 dollars which are considerably less valuable than those of 1939 or 1941, whereas a large part of the capital assets in the net worth is in terms of dollars of higher value.

"The profits of the industry stated as a percentage of sales are also substantial for the year 1948 and the first quarter of 1949 (6.3 percent and 6.8 percent, re-

spectively); but are not out of line with comparable prewar years like 1940 and 1941 when the percentages were 8.2 and 6.1.

"In evaluating the amount of profits in any given year like 1948 or 1949, to determine whether the workers have received a fair share thereof, it is necessary also to consider the low level of profits or lack of profits in other years of the business cycle. The prosperity of a volatile industry like steel and its ability to pay should be judged over a longer range."

It has thus been clearly established that the steel companies have not realized excessive profits during the past decade. Since volume was extremely high during this period of time, it becomes equally evident that the higher profit margins which otherwise would have accrued to capital must have been yielded to labor in the form of higher wages or to the consumer in the form of lower prices. The following comparison indicates that the consumer was one of the chief beneficiaries.

	Prices		
	Wholesale [1]	Retail [2]	Steel [1]
Average 1936–39	80.7	100.6	95.1
1949	155.3	188.2	165.6
Increase	74.6	87.6	70.5
Per unit—percent	92.2	87.1	74.1

[1] U. S. Bureau of Labor Statistics.
[2] U. S. Department of Commerce.

The report of the Steel Industry Board appointed by the President with reference to labor and capital clearly states their findings in this respect:

"Therefore, the steel workers' rise of 14 percent in real average hourly earnings during this decade is fairly consonant with the apparent rise in labor productivity in the whole economy during the same period and reflects no inequity in that regard.

"When years of similar operation rates are compared, there is no substantiation of the union's claim that labor has been receiving a continually smaller share, or that ownership equity has been receiving an increasingly larger share of the industry's sales dollar. If the share of ownership be defined in terms of dividends, its rate of return becomes very low, for the total dollar amounts of dividends, when paid, have consistently been only minor fractions of profits after taxes." In order to further emphasize the diminishing share of industry's sales dollar received by the investor we should like to submit for your consideration a comparison of the distribution of personal income for the years 1929, 1939, and 1948 as reported by the United States Department of Commerce.

Distribution of personal income

[Millions of dollars]

	1929		1939		1948	
	Amount	Percent	Amount	Percent	Amount	Percent
Total personal income	85,127	100.0	72,607	100.0	211,900	100.0
Wages and salaries	50,023	58.8	45,149	62.2	133,108	62.8
Other labor income	520	.6	535	.7	1,983	.9
Total	50,543	59.4	45,684	62.9	135,091	63.8
Income of self-employed	13,927	16.4	11,282	15.5	42,848	20.2
Total labor payments	64,470	75.7	56,966	78.4	177,939	84.0
Interest, dividends, and rent, total	19,158	22.5	12,678	17.5	22,847	10.8
Interest	7,524	8.8	5,417	7.5	8,267	3.9
Dividends	5,823	6.8	3,796	5.2	7,932	3.8
Rent	5,811	6.8	3,465	4.8	6,648	3.1
Transfer payments	1,499	1.8	2,963	4.1	11,114	5.2
Total	85,127	100.0	72,607	100.0	211,900	100.0

NOTE.—Details will not necessarily add to totals because of rounding.
Source: July 1949 Survey of Current Business, U. S. Department of Commerce (national-income number).

This tabulation emphasizes two things: First, that labor has shared well in the distribution of personal income, and secondly that the forgotten man is the stockholder who is receiving only a fraction of what he must if the use of risk capital is to be encouraged.

Here also is emphasized the reason why equity capital is unavailable for the expansion and development of new enterprise and why companies in need of funds must in large degree utilize borrowed capital. It emphasizes also why companies today must retain earnings in order to secure the funds needed for further expansion and growth.

Inland, like all other companies, confronted with the inflation which has taken place during the last 10 years has not only found it necessary to borrow substantial amounts but also to retain a considerable part of its earnings for business purposes. All of us know well that it costs much more for services and goods which to us as individuals were much lower in price before the war. No one, however, has given much consideration to the effect that this same postwar inflation had had on the cost of living of an industrial enterprise. As a matter of fact, the wholesale dollar will now buy much less than the consumer's dollar. The 4 years ended in 1949 were separately and in the aggregate the most profitable in our history when measured merely by the number of dollars of net earnings.

Only 44 percent of these earnings, however, was available to the stockholders in the form of dividends. Most of it, or about $53,000,000, was retained for use in the business. Why was it retained? For one thing, for working capital purposes. As of December 31, 1949, approximately $37,000,000 more was invested in higher receivables and inventories than in 1945. Also after the war the company embarked on a modernization and improvement program costing $125,000,000. This program contemplates an increase in the company's ingot capacity from 3,400,000 tons to about 4,000,000 tons. It also made possible a 50-percent increase in the production of tin plate and other tin mill products as well as a 40-percent increase in processing and finishing cold-rolled sheets. Modernization, however, is not limited to the steel-producing plant but includes also development of iron ore and coal properties adequate to meet the needs for greater production. Transportation must also be provided and the company has already completed the largest, fastest, and most modern ore carrier for use on the Great Lakes.

A total of $96,000,000 had been spent at the close of 1949. The earnings retained were of course not sufficient to carry out this program, and the company borrowed in addition from insurance companies the substantial amounts of $5,000,000 and $20,000,000 in the years 1946 and 1948, respectively. Previous bonds outstanding of $22,000,000 were liquidated.

This borrowed money which must be paid back in future years is not being spent solely for the benefit of Inland's stockholders, the majority of whom are small shareholders from all walks of life. It is being spent for the purpose of maintaining the competitive efficiency of the plant so that steel can be produced at lower cost and sold at lower prices for the benefit of all consumers. It is being spent for the benefit of our workers to give better assurance of continued employment and in order that they may enjoy and experience a greater sense of security. It is being spent also to expand capacities and provide more jobs and better working conditions.

In making these expenditures the company does so with the full knowledge that it is contributing to the general prosperity of our Nation. As long as capital expenditures remain high, generally prosperous conditions will prevail. When capital expenditures fall, this is usually a forerunner of a decline in business activity.

The expenditure of these amounts for capital purposes, however, means higher book values for the future as these expenditures are reflected in present-day dollars, and the end of the extremely low book values of the past as they are absorbed in currently "reported" profits. Since July 1948 we have completed and placed into production over $40,000,000 of new steel-making facilities.

The data submitted above not only clearly evidence the fact that the steel industry has not made excessive profits either during or after the war, and there is also ample evidence that steel has been and is today one of the cheapest and lowest-priced commodities available to meet the needs of the consuming public.

Now the industry is confronted with substantially increased costs, and if a healthy relationship is to be maintained between price and cost factors, a compensating adjustment in price is needed to cover the added pension and welfare benefits granted to workers. Reimbursement for higher costs, with particular reference to ore and coal, depreciation, transportation, and the overhead burden is also essential.

The evaluation which follows is based on an assumed normal rate of operations of not less than 85 percent of rated ingot capacity. This in all probability is an optimistic assumption since the cyclical average for the steel industry prior to the excessive demands during and following the war was substantially lower than stated.

The increase in prices recently announced by Inland covered both base prices and extras. Many extras, however, were lowered in making adjustment for the cost differentials involved. Lower extras on wide sheets, both hot-rolled and cold-rolled, may also stimulate changes in buying patterns as customers elect to accept the economies available through changed specifications. Based on such information that we have at this time, it is estimated that the net effect of the revised prices may average from $4 o $4.50 per on.

Increases in costs per net ton of steel products since the last general price increase in July 1948, attributable to certain major factors are noted below.

Estimated increase per net ton of steel products

Increase in ore, coal, limestone, manganese, and other alloys	$2.38
Cost of pension and welfare benefits granted	[1] .95
Depreciation and interest charges on capital expenditures since July 1948	1.37
Increase in social security taxes, local taxes, refractories, molds, rolls, and other manufacturing supplies	.98
Total	5.68
Deduct: Decreased costs attributable to decline in market price of steel scrap, fuel oil, etc	2.24
	3.44
Add: Increase in fixed overhead charges assuming a rate of operations not lower than 85 percent of rated ingot capacity	4.28
Total increase	7.72

[1] Increase in cost only. Does not include substantial expenditures currently for payments to the company's past service pension trust and its contributory retirement plan which has been in effect since 1936.

A review of the data which have been herein submitted evidences the sincere effort which has been made to hold prices at an absolute minimum consistent with sound future planning not only during the war period but during the post-war years. Inland has not made excessive profits and the consuming public has benefited from the lower prices that have prevailed throughout this entire period of time. Labor throughout the entire decade has received generous consideration. The forgotten man has been the stockholder—the investor of risk capital. This situation in our opinion must be corrected if the American people are to enjoy the benefits of a dynamic and expanding economy. We are not only convinced that the increase in prices recently announced is fully justified and warranted, but we believe also that a higher and more realistic price level is needed to assure a fair return to the investor and an adequate flow of new capital into productive channels. New enterprise must be stimulated and more goods must be produced so that ample work opportunities will be available to provide employment to an expanding population. Only in this way will the American people be assured of a constantly improving standard of living.

The CHAIRMAN. Mr. Weir.

STATEMENT OF ERNEST T. WEIR, CHAIRMAN, NATIONAL STEEL CORP.

Mr. WEIR. Mr. Chairman and members of the committee, I wish to express my appreciation for this opportunity to testify before your committee. I might say that my company is the fifth in size in the steel industry, coming next to Jones & Laughlin.

The CHAIRMAN. Yours is the National Steel Corp.?

Mr. WEIR. National Steel Corp.; yes.

In my opinion, both the steel industry and the public have a great deal to gain from a better understanding of the steel industry and its

problems, and I am sure that this hearing will make a worth-while contribution to that better understanding.

From the time I started to work as a boy on the south side of Pittsburgh, my life has been spent in the steel industry. I believe I know the story of the industry during that period as well as anyone who is part of it today.

In my time, I have seen the industry grow from an ingot capacity of about 10,000,000 tons to almost 100,000,000 tons per year. In that same time, the variety—and, therefore, the utility—of steel products has increased enormously. Through research and experiment, the quality of steel has improved at a rate that has been equal to the great improvement in products made of steel. Though it is not as apparent to the eye, there is probably as much difference between the steel of today and of years ago as there is between the 1950 automobile and the horseless carriage of 1900. In fact, the improvement in the quality of steel has been a major factor contributing both to the improvement of products and to the creation of many new products.

On the human side of the industry, I have seen wages increase from a base rate of from 10 to 12 cents an hour, or earnings of from $6 to $7.20 per week, to the present base rate at our Weirton operation of $1.26½ per hour which results in earnings of $50.60 for a 40-hour week with no overtime included. This, of course, is the rate for common labor. Actual average earnings of steelworkers in all of National's plants during the first 9 months of 1949 were $1.80 per hour and $71.47 per week. While wages were making this great advance, the workweek was reduced from an average of 60 hours to the present 40 hours. Hard manual work has been eliminated. Working conditions have grown constantly better. Safety has improved to the point where it is now a fact that a steelworker is safer on his job than on the street or in his home. Incidentally, the "Safety first" campaign started in the steel industry.

Thus, in my time, the record of the steel industry has been one of continuous progress. And the one thing that has contributed most to that record has been the constant improvement in steel-making plant and facilities which, in turn, has been accomplished only through the expenditure of vast sums of money. Some of this money, of course, is invested capital. But a very large part of it is money that has necessarily been taken from steel earnings year after year. That money was reported as profits. It was not received as profit in the form of dividends by steel-company stockholders, however, and can be more accurately described as "profits" to the American public—realized by the public in the form of more abundant, lower cost, and better-quality steel.

I know intimately the management men in practically every steel company. Gentlemen, they are not price gougers. Naturally, they do everything they can do legitimately to keep their companies on a profitable basis. They should do so, because that is an obligation to employees, as well as to stockholders. And no company can be profitable unless it receives a price for its products that covers the cost of making them. But at no time have steel managements taken advantage of an opportunity to charge "all the traffic would bear." It is notable that not a single large steel company attempted to raise prices to anything approaching the levels that were freely offered in

the black market in the period of extreme shortage during and after the war.

Steel managers recognize that their jobs involve an obligation to the public. Their interpretation of that obligation might differ from the interpretation placed on it by persons outside of the steel industry. But in honesty of purpose and in concern for the welfare of their country, I do not believe that the managers of steel companies need to take a back seat for anybody. Perhaps I am overly sensitive, but I have the feeling that the steel industry has been singled out for criticism on a number of occasions, and with my long experience in steel and intimate knowledge of the men who manage it, I do not like to see the steel industry placed before the public in a bad light which I do not think it merits. For that reason, I am very glad that this hearing extends to steel men the opportunity to place some facts about the industry before the public.

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—byproduct 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 general revision in the prices of steel products was made for two important reasons. First, it attempts to provide an increase in total revenue which is needed to cover increases in costs that I will explain later. Second, it will correct certain maladjustments in the cost-price relationships of various product to each other which were caused principally by changes in production methods.

Revisions have been made both in base prices and in prices known in the steel trade as extras. Base prices are the amounts charged for various steel products in their standard forms. Extras are charges that are added to the base prices to compensate for costs involved in the additional processing of products or of manufacturing products that vary from standard dimensions. Most extra lists in effect prior to the price revision were established years ago when all costs were much lower than at present. The revamping of the entire list was something that was very much needed. Producers were reluctant to make changes, and the fact that we did not do so earlier is a reason why we lost money on a number of products.

In the case of my company, National Steel, the effect of the revision in base prices and the extra list will be a net increase estimated at about $3.50 per ton of finished product.

When operating at full capacity, National has an annual production of approximately 3,500,000 tons of finished product. Thus the maximum addition to gross revenue that could be made by the price increase in a year would be 12¼ million dollars. The comparable figure for the steel industry as a whole would be about $250,000,000.

I wish to make it clear that in this statement I am discussing the price situation as it affects National Steel Corp. only. I cannot speak for the steel industry as a whole. All steel companies, however, are subject to about the same economic conditions, and, for that reason, it may be accepted as a general rule that what applies to National will also apply to the steel industry.

I said a moment ago that the price revision was necessary to effect a readjustment in the cost-price relationships of various products and also to increase total revenue, in order to cover increased costs. My comments now will be directed to this matter of increasing costs.

A most important factor, of course, has been the increase in operating costs. We now pay much more than we did before the war for everything required to make steel. Labor costs advanced more than 92 percent in the basic steel industry, and more than 102 percent in the steel industry as a whole. There will now be a further increase because of additional costs for insurance and pension programs, which in National's case will amount to at least $5,000,000 per year. And I might point out that we had pretty good insurance and pension programs to begin with. With companies that are starting these programs from scratch—which would be the smaller companies in the main—the proportionate increase will be much greater than with National whose total cost we now estimate will be not less than $8,000,000.

I have been referring to the increase in direct cost. We can anticipate a further increase in indirect cost, because the expense of our suppliers' insurance and pension programs will be reflected eventually in higher prices for all of the things we buy. Of course, as with labor cost, there already have been very large increases in the costs of the thousands of material and supply items that are used in the production and distribution of steel. As an illustration of the effect of increased costs prior to the present price revision, National shipped a very substantial tonnage of steel in November 1949 on which it made no profit whatever.

The next factor is the increased cost of replacements. This has become a most serious problem for any steel company, as National's situation will demonstrate. The useful life of steel facilities will average from 30 to 35 years. Thus within 35 years at the outside, each building, furnace, mill, and other facility now in our plants will have to be scrapped and an entirely new one built in its place. It must be understood that this process will not provide for any expansion of capacity. It will only maintain the capacity we have now.

Here is what replacement means from a financial standpoint. National's property account amounts to $390,000,000. Against this, the Bureau of Internal Revenue allows us to deduct approximately $13,000,000 per year for tax purposes. At this rate, we would get back the value of our property, the original cost, as stated in the property account, in from 30 to 35 years.

Actually, however, to replace this property at present costs will require the expenditure not of $390,000,000 but of $1,000,000,000. Our most conservative estimates show that steel facilities cannot be

built now for less than $220 per ton of ingot capacity. Other steel companies place the cost at a considerably higher figure. But if we take the minimum figure of $220 per ton and multiply it by our ingot capacity of 4,500,000 tons, the result is a total round-number cost of $1,000,000,000 to replace our property.

Simple arithmetic shows that instead of the $13,000,000 annually allowed by the Bureau of Internal Revenue, we must provide for an actual replacement cost of $30,000,000 per year if we expect to come to the end of the 30- to 35-year period with at least the plant and facilities we have today. Since the end of the war, National's expenditures on plant and equipment have averaged close to $29,000,000 per year.

We do not anticipate any material reduction in these costs. As we entered the postwar period, we hoped that construction costs might come down. Now we are convinced that they will not and that we must face the fact that the cost of replacements will continue on at least the present basis. In my opinion, costs will be higher. We all know that the cost of labor is the big item controlling all costs. I do not believe labor costs—that is, wages—will go down; they will gradually increase. And I might say that I see nothing alarming in that prospect. So long as balance with productivity is maintained, wages should increase, because it is essential to the economic good health of the country.

The replacement problem of the steel industry is clearly illustrated by an appropriation request from one of our mills that crossed my desk a short time ago. This request was for a new roll grinder to replace a 40-inch grinder that had been installed in 1926 and is now worn out. The old grinder cost $24,500. The new one will cost $138,800—more than 5½ times as much as the old one. The new grinder will be 50-inch equipment, and, therefore, larger and heavier, but the difference in size accounts for only a small part of the very large difference in cost. The point is that through depreciation we cannot accumulate more than the $24,500 spent on the old grinder, but now we must lay out this sum plus an additional $114,300 to buy a facility to do the same work, which means we must now begin to depreciate on the basis of $138,800. Where do we get this additional money? Obviously, we can expect to get it from only one source—from the sale of products. This example applies to every one of our operations, and it applies not only to National, but also to every other steel company.

The CHAIRMAN. Mr. Weir, the grinder which you just mentioned is more efficient, is it?

Mr. WEIR. Yes, to some extent, Senator, but nevertheless, that would not cover more than 25 percent of the increased cost, the larger size.

Unfortunately, there has never been proper provision for replacement charges in the steel industry. In the old days, it was customary for some companies to charge no depreciation at all in poor years, and in good years, depreciation was frequently understated, in order to make a better financial showing, so they could borrow more money. Even today many steel companies charge into cost for depreciation only the amounts that are deductible for tax purposes. This policy is entirely unrealistic. It results in money being shown as a profit when actually it is not profit but money that represents used-up plant and equipment that must be replaced if the business is to live.

In confirmation of this—and based on the facts as we analyze them—companies representing more than 80 percent of the steel production in the United States in 1948 showed as earnings well over $100,000,000 which were not real earnings, but money that definitely should have been set up as replacement charges. In other words, profits were overstated to this extent, because the money should have been set aside for depreciation and replacement and added to cost per ton of production. I do not say, nor mean for you to infer, that there was an intended misstatement in this. These companies simply followed accepted, conventional accounting practice which was all right when past costs and present costs were reasonably close together but is entirely unrealistic now. Certainly, I realize now—as others must—the necessity for correcting this entirely mistaken policy.

The management of any industry such as steel should have a long-range viewpoint. Our plants, raw materials and possible development require planning for years ahead. It would be a short-sighted policy to fail to make due provision for the replacement of plants. Temporizing may improve the earnings statement for a few years, but cost actualities will overtake us in the end.

For the past several years, National has recognized this replacement problem by charging up some amounts for depreciation in addition to the amounts allowed for tax purposes. As I said before, the Bureau of Internal Revenue allows us to take about $13,000,000 annually. This amount is far short of sufficient to provide for replacement. Since it is our obligation to see that our plants and facilities are fully replaced, so that there will be no interference with proper steel production, we must provide the amount of money necessary for the purpose whether or not we receive a tax credit. We believe it would be definitely in the public interest to amend the tax laws to permit realistic depreciation, because this action would encourage the maintenance and expansion of industry on the scale needed to sustain the economic health of the country.

We can get an indication of the gravity of the replacement situation from the depreciation experience of the steel industry in 1947 and 1948. On an original cost basis, the average property of the industry in those 2 years was approximately $7,000,000,000 and the depreciation that was charged amounted to an average of 3.95 percent. The present replacement cost of the property is estimated at $20,000,000,000. At the 3.95 percent depreciation rate of $7,000,000,000, it would take over 70 years to accumulate the $20,000,000,000 which will actually have to be spent on replacements in from 30 to 35 years.

I wish to emphasize again that the only source of money for replacement is money received for products. Certainly, no one in his right senses is going to provide equity capital for plant and equipment that simply takes the place of existing facilities. That would be paying twice for the same horse.

The next important factor is the increasing cost of raw materials. In the past, the United States had the advantage of the largest and richest known deposits of iron ore and metallurgical coal. The materials were high grade, which means that they could be utilized in steel making at low cost in proportion to yield. They also were so located that they could be mined and transported at relatively low expense. The public received the benefit of this, because the low cost of these raw materials was reflected in the price of finished steel.

This day is over. We have taken off the cream and are now down to the skimmed milk.

Iron ore and coal are vital. An assured supply is something that we dare not leave to chance, and provisions must be made long into the future. For that reason, steel companies are now going far afield to find and develop new sources of iron ore, and are researching and experimenting with methods by which low-grade ores can be processed into usable form. Both activities are extremely costly, and money spent on them now will be recovered only in the long future, if at all.

National is now one of a group of companies participating in the exploration and development of a new ore field in Labrador. We have a 20-percent interest in this enterprise which probably will mean an obligation for us of at least $50,000,000. This is only one of the things being done regarding iron-ore supplies, as is indicated by the fact that the estimated potential of the known Labrador field is a total of about 500,000,000 tons, while the steel industry's consumption is approaching 100,000,000 tons per year. In 1948 almost 78,000,000 tons were consumed, and, of course, the consumption of ore will increase in proportion to the increase in steel consumption in the years ahead. Therefore, the problem of ore supply is not just a matter of providing for the need as it exists today, but of providing for the increasing need we know the future will bring.

The coal situation is much the same. We find it necessary to go increasingly farther afield for supplies. Furthermore, the new coal is not up to former quality standards which permitted the coal to be used almost as it came from the mine. Now almost all coal must be treated to make it usable for metallurgical purposes, and expensive plants must be installed, maintained, and operated for this purpose.

There is no escaping the facts of the raw materials situation. Iron ore and coal are already costing more, and they will be even more costly in the future.

The next factor is the increased cost of improvements. Steel companies are always spending large amounts of money on improvements of many kinds. In some cases, these improvements increase output or they lower costs and, therefore, pay for themselves. In other cases, the result is limited to an improvement in quality which is not reflected in lower costs or increased prices. This is because steel companies are highly competitive, and when one company succeeds in such a development, all other are compelled to follow suit or lose customers.

In 1926, for instance, our company installed the first continuous, four-high, wide rolling mill. Now that method of rolling is standard in the industry, and the former hand methods of production are entirely eliminated. Tin plate is an outstanding example of product improvement. Today it is an unusual thing to receive a complaint that a product has been spoiled because of the failure of a tin plate container. This is partly due, of course, to the improvement of methods and equipment by the can makers. But it is also due to the ability of steel companies to produce material that can be used successfully in machines that turn out from 300 to 400 perfect cans per minute. National is now spending approximately $15,000,000 on further tin plate improvements. Research and development leading to the improvement of all steel products is a continuing and expensive activity. A larger amount of money must be spent on it now, because this activity is affected by rising costs the same as all others.

I believe it is plain from what I have said that the major effect of the price increase will not be a large addition to National's profits but rather a contribution toward meeting the marked increase in National's costs, including proper provision for the future. Prior to December, the last general increase in the prices of our products was made in July 1948. Since then the average cost of producing a ton of finished steel in our plants increased $4.64 or a total increase in cost of about $16,000,000 per year. We naturally could not afford to continue absorbing this increase in cost, and that is why we raised prices last December. You will note that the average increase of $3.50 per ton is still less than the increase in cost. In addition to these vital cost factors, there are a number of other aspects of this steel-price situation which merit public consideration. Among them are the following:

Steel is a cheap commodity. This metal is the backbone of civilized life, yet it is one of the lowest-priced materials in general use. The January 19, 1950, issue of Iron Age showed that the composite base price of finished steel is less than 4 cents per pound.

Steel's prewar price base was low. When prices were frozen for the duration of the war, steel prices were, in effect, fixed at the levels prevailing in 1939—a year when steel prices were in a down trend. Therefore, all the rise that has taken place in steel prices has been from this low base.

The postwar price rise has been small. Even starting from this low base, the price of steel has risen less percentagewise than the prices of the great majority of commodities. The rise of about 75 percent in the price of steel since 1940 compares with an increase of 152 percent in prices received by the farmer, an average increase of 93.6 percent in the prices of all commodities, and an average increase of 86 percent in commodities other than farm products. Examples of increases in the prices of other important commodities are: Textile products, 87.1 percent; motor vehicles, 83.2 percent; building materials, 99.6 percent; petroleum and products, 120.2 percent. Another commodity, of course, which has had a very pronounced price increase is bituminous coal. From 1940 the increase in the average price of all grades at mine mouth has been 162 percent. Coal is a very important factor in the making of steel.

The steel-price increase is a minor factor in the total economy. The increase will amount to a total of about $250,000,000 on all products sold by the entire steel industry in a year of capacity production. Isolated, this might seem like a lot of money. But it is certainly not a large factor in a national income of more than $220,000,000,000. Furthermore, the added cost of raw steel going into such finished products as automobiles, refrigerators, washing machines, and many others will not be a significant part of the final selling price of those products. In no case will it amount to enough to be a decisive factor with buyers of the products.

Now let us examine another aspect of the steel industry—profits. There have been references to the "huge" and even "exorbitant" profits of the steel industry. Such statements are not supported by the facts.

In the first place, if steel profits of recent years appear large in terms of the total number of dollars, it must be remembered that these profits reflect the greatest production and consequently the largest sales total on record. Naturally, this has resulted in the use of more

labor, more materials, more of everything required to make steel, and, therefore, profits are the fair return for value received.

In the second place, steel earnings today are a measure of the amount of inflation in the dollar as well as a measure of profit.

It is well known that steel profits are particularly vulnerable to a decline in operations. We do not anticipate continuance of the present high levels. Operations probably will remain high during the first half of 1950, but the indications point to a downward trend thereafter. In the 20-year period from 1930 through 1949, operations averaged less than 69 percent of capacity which is much more representative of normal conditions than the present high rate.

Steel profits have been very moderate. As an illustration, consider the period from 1936 to 1948, which included good, poor, and in-between years. In this 13-year period, average net profit was 5.4 percent of average investment. I cannot give the comparable ratio between profits and sales for that period because data on total steel industry sales were not available prior to 1943, but from 1943 through 1948, average net profit was 4.6 percent of sales. In ratio to either investment or sales, the steel industry's recent profits have been lower than those of the majority of industries as is shown by comparison with the average of all manufacturers. In 1948 the steel industry's net income was 14 percent of investment—on the low basis of original cost—compared with 18.9 percent for all manufacturers, while the ratio to sales was 6.7 percent for steel compared with 7.5 for all manufacturers. As a percentage of sales National Steel Corp.'s profits in the postwar period have been consistently below the average of the prewar period from 1936 to 1941. In 1948, it was 9.19 percent compared with the prewar 9.64 percent.

If the steel industry was as opulent as the steel industry's critics claim, the investing public certainly would be eager to own steel stocks and would bid up the prices of the steel stocks in the market. Actually, at any time you care to place an order, you can buy the stock of any steel company for less than its book value—and based on the low original cost, not the present replacement cost.

Commenting on this situation in a letter to the New York Times, a well-known economist, Dr. Elisha Friedman, directed attention to the notable absence of steel stocks from the holdings of investment trusts, insurance companies, and the recommendations of investment counselors. He pointed out that from December 1936 to June 1949, investment trusts reduced their holdings of steel stocks from 5 percent to zero. It is apparent that the investing public does not think much of the profit potential of the steel industry and equally apparent that the industry would have a difficult time getting investment capital.

Against this background, the application of such terms as "huge" and "exorbitant" to steel profits hardly seems to be accurately descriptive. Nor in view of this record, can it be said that the price increase will raise steel profits to anything but fair levels. An industry so vital to the very lifeblood of America should be profitable and sound—not only for its own good, but for the good of the country. It is only the profitable company that can be counted on to keep efficient and, for that matter, alive. Throughout my life, I have done my best to make and keep the companies with which I have been connected, profitable companies. And I regard this as a duty that goes beyond employees and stockholders to the public in general.

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The steel industry has a primary obligation to the public, and the managers of every steel company are keenly aware of it. That obligation is to maintain the industry on a basis that enables it to meet the country's maximum requirements for steel at all times.

Throughout its history, the steel industry has been more than equal to that obligation. The only real steel shortage I have ever seen was in the period following the late war. The demand for steel then was highly abnormal since it was an attempt to crowd the accumulated demands of the war and depression years into a short time. Everybody wanted everything all at once. Even so, the excess demand for steel was satisfied pretty rapidly by a production of steel that was without precedent. There was a surplus of steel in 1949. There will be a surplus of steel in 1950 and later.

The record of the steel industry shows that there have been very few times when steel demand has approached steel capacity. And they have been of short duration. The steel industry has been consistently overbuilt, and I think properly so.. As I said before, in the 20 years from 1930 through 1949, the average rate of steel operations was less than 69 percent of steel capacity.

The necessity to have available a large amount of capacity that stands idle much of the time largely increases the cost of steel making. Whether used or not, steel facilities must be maintained, and they must be replaced in the same 30 to 35 years. The overhead cost of idle facilities is a major factor causing steel profits to drop so sharply when steel operations turn downward. By building and maintaining sufficient capacity to provide for maximum, rather than average requirements, the steel industry performs a public service. Adequate recognition of that service would include public acceptance of the industry's need for prices that cover costs and allow a fair profit.

The United States would never have had a steel industry capable of meeting its requirements in both peace and war if steel managers had confined their thinking ahead to 1 year or even 5 years. Decisions made this year with regard to replacement or expansion of plant and facilities will affect steel manufacture for 35 years ahead. The present concern also is to assure supplies of raw materials that will be sufficient to carry the industry for at least the next 50 years. If the managers of steel companies are to continue to provide for the future requirements of the industry—and that means the future requirements of the country—they should have the freedom, subject to the natural restraints of a competitive economy, to exercise their own judgment on such vital matters as the naming of prices for their products.

I would like to make one further point about the recent price action of the steel industry. From the criticism of it—and, significantly, there was very little criticism—one who did not know otherwise could well infer that the industry owned and directed by some small, tight-knit group whose main interest is to gouge the public whenever there is the opportunity to do so. Actually the steel industry is composed of about 200 separate companies, each of which is directed by its own management. All of these companies are in constant and aggressive competition on price, quality, and all factors entering into the steel business. In the aggregate, these companies are owned by an estimated 625,000 stockholders. Ownership of the steel industry is freely available to the public, and in my opinion, the industry would have

many more owners if it had a more attractive profit record and prospect.

From what I have said, I am sure that there is no doubt in your mind that in my opinion the price actions of steel companies were both necessary and constructive and were taken after mature consideration by qualified and responsible men. I think, however, that whether steel companies should or should not have increased prices at this time is not the most important point at issue in this matter.

The fundamental question is do we want a free, private economy in the United States, or don't we?

If we do want a free economy, then such powerful private correctives as customer resistance and competition should be relied upon to restrain those who would make ill-advised decisions on prices or other economic factors. Granting that mistakes may be made and that the less desirable human traits may affect private economic decisions, it must be remembered that these powerful correctives are always present and at work. In the past—and we hope it will apply in the future as well—our free, private, competitive economy has made the United States the world's strongest and most prosperous country.

The only alternative to the free economy is some form of Government control—such as now exists in socialistic England and many other countries whose condition would be even worse than it is today were it not for the support they are receiving from the privately created abundance of the United States.

I would like to urge that in the consideration of this committee this fundamental question of the free economy be given at least equal place with the narrower question of steel prices.

Thank you.

The CHAIRMAN. Are there any questions?

Mr. RICH. Mr. Chairman, I think he hit the nail on the head. I agree with him pretty much all the way through. I think if we are going to have a free economy in this country, we must let business people do business on a good, sound economic basis, and I am convinced that with the competition that we have in the steel industry and if the statement made by the gentleman preceding is correct, that the competition is keen—and what do you have to say about that?

Mr. WEIR. The steel industry is a very competitive industry. It always has been in my experience with it, it is today, and there seems to be the thought that steel producers sit around and set up prices. They do not do that; they are not that type of fellow; they do not like each other well enough to do it; and they do not believe enough in each other to do it, even if they wanted to do it.

Mr. RICH. Then you do not have any get-togethers, as is commonly supposed, where you get together and have a lot of feasts and all agree to do the same thing in order to keep all the industry on the same basis?

Mr. WEIR. No; that does not exist in steel. I am glad it does not. I believe in free competition, and that is what we have. That is what we want to maintain.

Mr. RICH. In that you build your industries on a competitive basis, then, and are directly interested in keeping your own individual plants in a most highly competitive condition; is that right?

Mr. WEIR. Absolutely.

Mr. RICH. For instance, in the building up of your industry for betterments, have you any formula whereby we will say if a machine

can pay for itself in 10 years, do you go out and buy that machine and put it in your operation in your plant or do you spend just as much money as you have from your surplus to keep your plant in operation?

Mr. WEIR. Oh, no. If there is any improvement in equipment that reduces cost, improves quality, we buy it if we have the money to buy it with.

Mr. RICH. Does that in any way help you in keeping your plant in the market in competition with your competitors?

Mr. WEIR. That is the way you have to do in the steel industry, keep abreast of your competition.

Mr. RICH. That is what makes for a better economy in our country, is it not?

Mr. WEIR. Absolutely, that is what it is built on.

Mr. RICH. It not only applies to the steel industry, but applies to every other branch of industry?

Mr. WEIR. That is right.

Mr. RICH. Now, you hit there at something saying that there was the application of the terms "huge" and "exorbitant" to steel profits. Who made such statements?

Mr. WEIR. I have read it in papers, in labor papers, labor economists have made that statement generally.

Mr. RICH. And if they were——

Mr. WEIR. Probably they will make it here tomorrow.

Mr. RICH. What is that?

Mr. WEIR. They will probably make it here tomorrow.

Mr. RICH. Who is going to make that?

Mr. WEIR. I say they probably will if they are here.

Mr. RICH. I am just trying to find out.

Mr. WEIR. I am not speaking for them, I just think they will.

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. You are not a part of that 32 percent they were talking about yesterday?

Mr. WEIR. No; we are not part of the Steel Corp., no. We are very much on the other side.

Mr. RICH. You are part of the 68 percent of the other manufacturers?

Mr. WEIR. We are part of the 68 percent.

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.

Mr. RICH. Have you anybody you know of trying to run your business?

Mr. WEIR. The only one that I am afraid of, Mr. Rich, is the Government, and I will tell you this to bring out this matter that has been discussed here. As far as the corporation is concerned, we have grown from a very small company, as others have in the steel industry, in direct competition all the time with the corporation. The corporations are fair competition, but they are at no time philanthropists in their competition within the industry, so we have had to meet their competition.

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.

Now, we have at Weirton a very fine, we think one of the very finest, steel operations in the world, employing about 14,000 people—75 or 85 percent of the product of that plant must go out into country-wide distribution. If we are prevented from doing that and meeting competition then, of course, the operation of that plant is seriously hurt.

Mr. RICH. You do not confine your sales to any one corporation; do you?

Mr. WEIR. We sell the whole United States.

Mr. RICH. You sell anybody that will give you an order and is responsible?

Mr. WEIR. We sell it to them.

Mr. RICH. And you believe the greatest number of customers you can have the better for your business?

Mr. WEIR. That is the way the United States has grown. Everybody competes no matter whether the buyer wants to buy from us, he may be from the extreme West or North or South, we can sell him, we have been able to do that.

Going back to our beginning, from which this company has finally come, this little plant in Clarksburg, W. Va., there was no demand for tin plate, we made tin plate, you could not sell the product of that very small plant in that district. We had to sell it outside the district. If we had not been allowed to meet competition, if we had been restricted, as there is some discussion of now, that plant could not have operated, and there would have been no development. It is only one. The country is full of them.

The point I never understand is why we can not meet competition? If we want to sell the fellow in Chicago and the fellow in Chicago is right close to a steel mill, he wants to buy from us, he likes some of us.

Why shouldn't we sell him? He is right next to a steel mill. He could buy from them. He wants to buy from us. I want to sell him. Why not? That is what I do not understand.

Mr. RICH. That is free-competitive competition?

Mr. WEIR. Yes. Getting back to the point, the smaller people such as we are, are getting along fine and have grown and developed and can meet competition. Make this change that has been discussed which, as I have described, affects our Weirton operation seriously, and that represents many others and many fabricators not only in steel but in other things, and we cannot move, we do not have money enough to go over East and buy a lot of property and build a new plant and move our Weirton operations. We do not have the money, nor credit, to do that.

The Steel Corp. probably can. So if you want to build up big business at the expense of small business, just go ahead with that program.

Mr. RICH. You do not mean the Government? You are not talking about the Government building steel plants?

Mr. WEIR. Well, yes, sure.

Mr. RICH. What?

Mr. WEIR. Sure.

Mr. RICH. You are not advocating it?

Mr. WEIR. No. I am just saying if you want to build up big business and break down small business, and kill the kind of development that we have had and other companies, all you have to do is establish that basis of limiting sales and preventing freight absorption and say you cannot meet competition.

Mr. RICH. Mr. Kaiser last year advocated our building a steel plant, just a year ago at this time.

The CHAIRMAN. Don't throw him off. He is supporting my bill.

Mr. WEIR. I certainly am, Senator, and from a statement you made this morning covering it a hundred percent—it is the fact. All of the small companies—I say that method of selling would hurt the Steel Corp., but not as seriously as the smaller fellow, because they can go over, they have bought 4,000 acres on the eastern seaboard, they can build a plant if they are forced to do it to hold on to the trade in the East. That takes away from us, the Pittsburgh district and other places, part of our trade and then what do we do?

Mr. RICH. I do not know. All I am afraid of is that the Government some time will have enough Members of Congress sitting behind the table to advocate it, and it will happen, and I hope it never does.

Mr. WEIR. I do not think so.

Mr. RICH. You spoke here about being taxed. They tax you 38 percent of your profits for the Federal Government?

Mr. WEIR. Well, considerably more than that. I mean even on the income tax.

Mr. RICH. If you do not spend 70 percent of your income in plant improvements or pay it out in dividends, they will come in and take 27½ percent more, will they not?

Mr. WEIR. They could, I presume. I have got a legal representative here. They have not done it so far. I do not think there has been any money in the till, enough to encourage their doing it.

Mr. RICH. Another thing, do you believe in the steel industry—that is, the amount of money you are paying in in taxes and we take it over

to Great Britain and help them buy the steel industry over there so that they own and control it in a socialistic condition? Do you ever want to see that happen here?

Mr. WEIR. No. That is socialism, and I am 1,000,000 percent against socialism.

Mr. RICH. Could you be any more than that?

Mr. WEIR. I never saw any country prosper in the long run in the history of the world through socialism. I have been in England and I say that instead of prospering, they are going the other way and cannot help it.

Mr. RICH. If you could be more than a million percent against it, I want you to put me in that class.

Mr. WEIR. That is as far as I can figure out.

Mr. RICH. That is all. Thank you.

The CHAIRMAN. Congressman Wolcott?

Mr. WOLCOTT. No questions.

The CHAIRMAN. Congressman Patman?

Mr. PATMAN. Mr. Weir, did you hear the testimony of Admiral Moreell?

Mr. WEIR. I read his statement, Mr. Patman, but I did not hear him.

Mr. PATMAN. In asking questions, this question was asked him: What do you consider a fair profit for the steel industry?

Mr. WEIR. I cannot answer that.

Mr. PATMAN. He said 24 percent after taxes.

Mr. WEIR. After taxes?

Mr. PATMAN. Yes.

Mr. WEIR. I do not know. I would say it is a variable thing.

Mr. PATMAN. You would not want to make an estimate?

Mr. WEIR. No. It depends on the value of the dollar; it depends on general conditions, looking ahead, how much we are going to have to spend in building, replacement—there are so many factors that I do not know.

Mr. PATMAN. Since you are so well acquainted with the steel industry, I would like to ask you some questions about this basing point.

Mr. WEIR. Yes, sir.

Mr. PATMAN. The phrase "absorption of freight" is oftentimes used. That does not mean that you pay all the freight, does it, Mr. Weir, for all your customers? Does that mean you pay all freight for all your customers, or do you include in the price of steel an amount sufficient to enable you to sell it near and far at the same time the amount you have charged extra will be enough to just about pay that freight?

In other words, to take care of the phantom freight.

Mr. WEIR. We have to figure on an average return.

Mr. PATMAN. On an average. You do not actually pay all the freight, do you?

Mr. WEIR. The buyer is supposed to pay the freight. For instance, we sell to a certain locality where our freight rate is 40 cents; another mill close has a freight rate of 30 cents. We, in order to meet their competition——

Mr. PATMAN. You pay the 10 cents extra?

Mr. WEIR. Yes.

Mr. PATMAN. That could result, could it not, in a customer at Chicago ordering steel from you at Weirton and you would ship it to him

in Chicago, and then the Chicago steel mill has a customer at Weirton——

Mr. WEIR. He can ship back.

Mr. PATMAN. He can ship back there, and it would be the same price?

Mr. WEIR. Why not?

Mr. PATMAN. That would encourage cross hauling, would it not?

Mr. WEIR. You have had it, Mr. Patman, since railroads came into the United States.

Mr. PATMAN. I know we have, Mr. Weir.

Mr. WEIR. That is free decision.

Mr. PATMAN. But do you believe it is economically justified?

Mr. WEIR. I do not agree with that, because I say through that system the free choice of the individual to buy any place he wants to has resulted in a great development in consumption and production.

Mr. PATMAN. I am impressed with the fact that the power to meet competition like it has been given and assumed by the steel and cement industries is the power to destroy competition, too; and that is what I fear, Mr. Weir.

Mr. WEIR. Of course, I do not understand that, because, as I have said, we have had this system. I have seen it grow all during my life.

Mr. PATMAN. You are right; it has grown and grown.

Mr. WEIR. And grown naturally, not because anybody supported it.

Mr. PATMAN. Now as to this New England mill, for instance, at New London, Conn. What chance would that mill have if the other steel companies did not want it? You see, you can sell under that mill right there in its own territory and make customers elsewhere pay for it because you average up the freight and the nearby customer pays it as much as the one that is far removed.

Mr. WEIR. You mean that we would do that in an effort to keep them from prospering?

Mr. PATMAN. I say, if you wanted to put them out of business, you could do it. Possibly in the steel business you would not do it, but in the cement business it has been done.

Mr. WEIR. What business?

Mr. PATMAN. The cement business. The point is, in giving you this power, it gives you power to destroy as well. That is my objection to it.

Mr. WEIR. Of course, that is just one of these things that somebody might undertake to do. It is not done as an industry.

Mr. PATMAN. As an industry I am sure it is not done, but it is possible.

Mr. WEIR. No one could put them out of business, no one company. It has to be the industry joined together.

Mr. PATMAN. Like the chairman properly brought out and correctly brought out, under existing law, since the basing-point decision in the Cement case, April 26, 1948, outlawing the basing point, since that time you can still absorb the freight, Mr. Weir. The chairman agreed with me on that. So long as you do not agree and conspire with other people to fix prices. Is that correct, Mr. Chairman?

The CHAIRMAN. That is right.

Mr. WEIR. Of course, our counsel says we cannot absorb freight.

Mr. PATMAN. You cannot have collusion and conspiracy.

Mr. WEIR. Never had collusion and conspiracy.

Mr. PATMAN. Like it was before the basing-point decision, Mr. Weir. I think the records will show that in all major projects in the country where bids were requested most of those bids were identical because you used a basing-point system that permitted you to figure out exactly what the price should be at that point. You would not have to confer with anybody else. You would just know from that schedule what you should charge.

But you would come up with exactly the same price. Now, that is the thing that the Supreme Court of the United States outlawed. They do not outlaw, Mr. Weir, your company selling on a basing-point price today, nor any other company. It is only this collusion or this vehicle that has been used that permits you to have identical prices. That is what has been outlawed.

Mr. WEIR. We know of no collusion in doing this thing.

Mr. PATMAN. I know, although you do not know of any, you come up with the same price.

Mr. WEIR. Our counsel says that under the decision we cannot sell except on an f. o. b. mill basis, and that is what we have been selling on.

Mr. PATMAN. In collusion you could not. Now, what I am afraid of on the new proposal of the Senator's here—and I know he is in absolutely good faith on it—but I am afraid, if you were to pass that and recognize and legalize the basing point, that you would go back to using along with your competitors the same system exactly that you used before April 26, 1948, that enabled you to come up with exactly the same price at any point in the United States along with your competitors.

If that were done and they were to file a complaint against you, Mr. Weir, you would come clear, they could not convict you, because you have not agreed with anybody, there has been no conspiracy, there has not been even an unconversational understanding. You just happened to go back to the old system, and it would be legalized, and there would be no way on earth for anyone to be punished for it. I believe that under the present law you can use the basing point, anybody can, anywhere, so long as they do not use it in collusion with their competitors and fix prices.

Mr. WEIR. Then our counsel has been wrong in these months and we have been doing something——

Mr. PATMAN. If he takes issue with that statement, I believe the best legal talents in this town will tell you he is wrong.

Mr. WEIR. Here he is. I do not follow him in anything else, but legally I have to.

Mr. PATMAN. Naturally, you would do it, and I would do it, too, because you hire him for that purpose.

Mr. WEIR. I would like to say, Mr. Patman, that steel prices, there is no mystery about them. Every company—to begin with, there is no basing-point system now.

Mr. PATMAN. Not now.

Mr. WEIR. Every company now has an f. o. b. mill price, and that is what they use. It used to be that in Weirton we would sell on the Pittsburgh base. That is out. It is an f. o. b. mill price.

Every company publishes their prices to their customers. All prices and extras. They may vary when the customer gets them. Inside of

24 hours we know; we are told what the other fellow's price is. There is no mystery about prices.

The user, the fabricator of steel, will not pay us any more; he wants to buy from us; he got a little better price from somebody else, so he tells us about it, and our price is down. What they want and what they force, and the result is that you have one price on steel.

How you are going to avoid that, I do not know. That is what they want. The cost of steel to the fabricator is an important item. He cannot afford to pay us any more than Jones & Laughlin or vice versa, and he will not do it. He tells us, and then you get the price.

Mr. PATMAN. If this Congress were to legalize a basing-point system and you were to go back to it, would you continue to put out f. o. b. prices like you do now?

Mr. WEIR. Absolutely; anybody can buy at the mill that wants to.

Mr. PATMAN. You did not have it that way before, did you?

Mr. WEIR. Yes; we did.

Mr. PATMAN. Always had it f. o. b.?

Mr. WEIR. Anybody could buy f. o. b. if they wanted to.

Mr. PATMAN. In other words, the nearby purchaser could buy f. o. b.?

Mr. WEIR. Yes.

Mr. PATMAN. How much would it cost you extra to absorb the freight? I do not agree that that is a proper phrase to use.

Mr. WEIR. That is what it is.

Mr. PATMAN. How much per ton extra would it cost you to absorb that freight?

Mr. WEIR. At our Weirton operations, which would be heavily affected, almost $2 a ton.

Mr. PATMAN. About $2 a ton. Could you absorb $2 a ton without a price increase?

Mr. WEIR. That is a small item. What I said before, if we could not do it, the operation at Weirton drops down over 50 percent, the cost goes sky high; so the $2 a ton on the average is small. That is the penalty of our location.

Now, the steel corporation, having more plants scattered around, they said yesterday it will cost them, I think, about a dollar a ton. We will make the other dollar up.

Mr. PATMAN. I want to ask you about your tax proposal here. I was very much impressed with it at first; but, thinking about it more, it occurs to me it might not be a good thing for a new industry.

You state:

> We believe it would be definitely in the public interest to amend the tax laws to permit realistic depreciation because this action would encourage the maintenance and expansion of industry on a scale needed to sustain the economic health of the country.

Now, that sounds fine to me, Mr. Weir, but you state in another part of this statement that what you consider to be realistic depreciation would be based not upon $330,000,000, the cost of your plant, but upon a billion dollars, the replacement value, including modernized machinery and everything.

Mr. WEIR. That is right.

Mr. PATMAN. Now, here is the point that comes to my mind. In other words, you would be allowed to hold back retained earnings—I mean to take the place of that depreciation—without any tax at all,

would you not? There would be no tax on that. Instead of being $13,000,000, it would be $39,000,000, and there would be no tax on it at all.

Mr. WEIR. That is right.

Mr. PATMAN. It would not be long until you would have a billion-dollar concern, two-thirds of it paid for by the consumers.

Mr. WEIR. That is not the way these plants wear out, Mr. Patman. They wear out every day.

Mr. PATMAN. But in practice over a period of years you will have a billion-dollar plant that your stockholders have only paid $330,000,000 for; the consumers paid the other two-thirds. Now, that sounds good to your competitors because they are all on the same plane; they get the same thing. That is fine. But what about the new industry that wanted to come in? Would it be on an equal plane with you? They have to put out the actual billion dollars.

Mr. WEIR. I think this——

Mr. PATMAN. You would have a billion-dollar plant, two-thirds of which is paid for by the consumers tax-free. That is the part I want you to explain.

Mr. WEIR. The fellow that builds the new plant gets the same depreciation.

Mr. PATMAN. From then on.

Mr. WEIR. That is all we are getting from now on.

Mr. PATMAN. But you are getting something based upon modernizing your machinery and increased value over what it cost you, and I just want to explore that a little further to see if that would not be a discrimination against a new industry.

Mr. WEIR. I do not think so.

Mr. PATMAN. I am not an economist, I am no steel man, I do not know anything about these things, I am just asking the question for information.

Mr. WEIR. No; I think it would be just the reverse, because a company that starts to build a new plant will have to spend in proportion.

Mr. PATMAN. He spent a billion dollars.

Mr. WEIR. He gradually spent a billion dollars, and every year that he operates he gets the same depreciation that we do.

Mr. PATMAN. Mr. Chairman, will you have some economist that could explain that to us before these hearings are over, about the tax feature? I do not know anything about the tax feature.

The CHAIRMAN. This question of depreciation was discussed at a hearing which was conducted by Senator Flanders last December or January, just after the election, and there was a very interesting story, and you will find that the evidence showed there was a disagreement among the accountants as to the extent to which depreciation should be allowed as a tax deduction.

For example, as Mr. Weir himself said in his paper on page 11:

> In some cases these improvements increase output or they lower costs and, therefore, pay for themselves.

So that when you are replacing an outworn plant or an outworn piece of machinery, you are not actually replacing the identical facility, you are replacing an old and worn out facility, which cost X dollars and 10 or 15 years ago, with a modern facility that may cost 2 or 3 X dollars in 1950, but this new facility is so much more efficient and

so much more productive that it frequently increases your output and reduces your cost.

Mr. WEIR. Absolutely.

The CHAIRMAN. So the question that has always risen in my mind is: To what extent and by what measurement shall we determine the increased production, the increased efficiency, of the new machinery?

Now, in the type of depreciation that was used by some accountants there was no allowance for that. That seemed to me not to be realistic. That was the whole problem.

Mr. WEIR. If you include what you put in as better than what you had, then you do reduce your cost and the selling price should reflect that.

The CHAIRMAN. Do you not acknowledge that in computing the depreciation, allowance should be made for the increased productivity of the new plant?

Mr. WEIR. Well, that is, it would increase the capacity. That is what you mean?

The CHAIRMAN. Yes; and increase output and lower the cost.

Mr. WEIR. Yes; but you see, the practical thing we have, Senator, is we have to find a billion dollars to replace just what we have got. Now, then, if out of that we get some increased tonnage, that is different. But I am just talking about replacing equipment to get 4½ million tons. The increased capacity that we get is an increase in plant valuation. The other is not.

I would like to say this about prices. You see, the steel industry has never been a high-priced, high-thinking-price group, and the prices at different times and very frequently have been reduced. So there is no assurance in the future, if we go along, if this industry goes along, and we go along and find out that earnings are better——

The CHAIRMAN. It is getting late, Mr. Weir. I wanted to ask you one or two questions, but I am going to shorten them up. First, I would like to have you state to us—perhaps it would be well for you to file for the record a statement with respect to the effect of the increases on extras. Now, not being myself a steel man, I am frank to say that I am not thoroughly equipped to question any of your witnesses with respect to the effect which the extra prices have upon the fabricators.

It seemed to me a year ago when we were holding the hearings on the first price increase by the steel industry, that the result of the changes in the extras was having a very bad effect upon fabricators by increasing their costs much more materially than the increase in the basic steel commodity.

Mr. WEIR. Well, the increase in extras is all included in what we say is an average increase in our total of $3.50 a ton. It is all part of the whole thing.

The CHAIRMAN. Do we understand that the increases on the basic steel product and the extras——

Mr. WEIR. Is $3.50 a ton.

The CHAIRMAN. That is true for the entire industry?

Mr. WEIR. Ours is $3.50 a ton on the average. I think some of the other companies have stated $4 a ton.

The CHAIRMAN. What I am thinking of now is this question of price leadership. The whole industry seemed to go right after the

leader. The leader was United States Steel, and all the other companies came right along. That is the fact, is it not?

Mr. WEIR. Wo do not always do that.

The CHAIRMAN. Was that the fact this time?

Mr. WEIR. I have a memorandum here. During 1947–48 we were producing and shipping large tonnages of steel at practically cost. This tonnage aggregated about 75,000 tons per month, which represents a lot of ore and other stuff. We made a long study of new cards of extras, which put there 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 industries that it is generally given credit for. We raise our prices. They raise their prices, and in our opinion that is justified. When they did raise—we had to take this increase out becouse it was not followed by a number of the other producers—so when they did put the new rates in, we were very happy to do the same thing.

The CHAIRMAN. That is the point, you did the same thing approximately.

Mr. WEIR. Well, we tried to do the other part and part of the industry did not come along, and we cannot sell our product at a higher price.

The CHAIRMAN. That is one of the things that puzzled me about this. When the steel increase on domestic products was announced by United States Steel on December 16, with some decreases on export products, then I wondered what are the other companies going to do? Are they going to do exactly the same thing or are some of these steel-producing companies which say they are in competition with United States Steel going to take advantage of the fact that Big Steel has raised its prices and are they going to maintain their lower level in the hope of getting more business? Well, they did not do it.

Mr. WEIR. They could not afford to. The reasons are given here. We could not afford to do it.

The CHAIRMAN. Well, it does seem a little bit queer. I am frank to say to you, Mr. Weir, to the general American public, so far as I can sound their opinion, that when it is stated today that there are 200 steel companies actively engaged in aggressive competition, yet when the biggest one of them, which because of its size might be expected to be perhaps not quite as efficient as the little one, when that big one steps out and increases prices in one segment and lowers prices in the other segment, the others do exactly the same thing. Now, is that aggressive competition?

Mr. WEIR. Yes. That is not the ultimate of it. The point is that every steel company was suffering severely from the prices, their price structure. We had tried to raise it on our own and a few others had. We could not do it until the whole industry came down to where they did. That does not mean that permanently that applies. We have lowered prices at times on our own and certainly will again.

Other companies have done the same thing. As I say, 68 percent of the industry is outside the corporation. It is a big factor.

The CHAIRMAN. At the risk of prolonging this, Congressman Patman, I am going to ask the witness a question about freight absorption.

The steel industry case, which is presently pending before the Federal Trade Commission, has come to this point: That the industry has indicated a willingness to agree to a certain order to cease and desist certain practices provided only that the Federal Trade Commission does not require a finding of fact.

Now, one of the practices which it was proposed in that order that the steel industry as an industry, including the American Steel Institute, should abandon was the publication and circulation of a document containing base prices and freight rates, so that by a very simple computation the price experts of each company having such a book would arrive at the precisely identical calculation with every other company, and thereby bring about the agreement which any court, I am bound to say, would regard as being an agreement in violation of the antitrust laws to fix the prices.

Now, is it your understanding that the steel industry as an industry is now willing to abandon the publication and circulation of these rate books?

Mr. WEIR. The book had nothing to do with prices, Senator.

The CHAIRMAN. Oh, no; deliberately did not.

Mr. WEIR. That has been discontinued.

The CHAIRMAN. Because it had only the freight rates, a simple computation from the material submitted in the book resulted in identical prices or practically identical prices. Since the steel industry is apparently willing to accept this order, does it mean in your judgment that the industry would be willing to abandon the use of that and similar devices? Because I say to you if the industry is willing to do that, whether or not there is a finding of fact, it would in my judgment put you clearly within the operation of the antitrust law and it would make it possible for your eminent counsel to advise you that it would not be essential for any steel producer to sell f. o. b. that he could absorb freight and use delivered prices, because he would not be using the devices by which employed agreements are reached.

Mr. WEIR. Well, we have already done away with freight books. He is here.

Mr. REED (counsel accompanying Mr. Weir). The freight book is part of the consent decree. We give up the use of that.

The CHAIRMAN. You are willing to do it?

Mr. REED. Yes.

Mr. WEIR. It is already done.

Mr. REED. We do not agree with Mr. Patman. We say the language of the Conduit case that says we may not systematically absorb freight is the troublesome thing.

The CHAIRMAN. That depends on what one means by "systematically." I think the court meant by that only agreement to reach the identical price.

Mr. REED. The talk about realizing different mill nets is pretty disturbing. If Mr. Patman thinks we have the right to absorb freight, why he objects to having it said so legislatively I do not know.

The CHAIRMAN. I do not understand that either.

Mr. PATMAN. Mr. Chairman, will you advise me why the steel companies insist that this consent decree not have a binding effect? I cannot go into that.

Mr. REED. If they are going to convict us, they will have to try us first.

Mr. PATMAN. I would like to have consent, Mr. Chairman, to insert in the record at this point a statement by the American Institute of Accountancy, an official document, Accounting Research Bulletin No. 33, issued by its committee on accounting practices, December 1947, on the questions I interrogated Mr. Weir about on depreciation.

The CHAIRMAN. It may be admitted.

(The material referred to above is as follows:)

In its Accounting Research Bulletin No. 33, issued by its committee on accounting procedure in December 1947, the American Institute 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.

Under these circumstances, the reported net income of the United States Steel Corp., Republic Steel Corp., and National Steel Corp., was adjusted by the elimination of accelerated depreciation in order to provide a satisfactory basis of comparing their earnings with those of the other companies which, though similarly situated, did not adopt the accelerated depreciation policy. The effect on the rates of return of the three companies by the inclusion of exclusion of amounts for acclerated depreciation is as follows:

Rate of return

	Including deduction for accelerated depreciation		Excluding deduction for accelerated depreciation	
	Before Federal income taxes	After Federal income taxes	Before Federal income taxes	After Federal income taxes
United States Steel Corp.:	*Percent*	*Percent*	*Percent*	*Percent*
On stockholders' investment	13.20	7.59	15.78	10.50
On total investment	12.80	7.41	15.30	10.20
Republic Steel Corp.:				
On stockholders' investment	23.43	14.64	24.94	16.50
On total investment	19.79	12.41	21.11	13.96
National Steel Corp.:				
On stockholders' investment	31.31	19.27	34.50	23.33
On total investment	27.29	16.73	30.17	20.26

The CHAIRMAN. Mr. Weir, we are grateful to you for a very clear statement. Nobody need be in doubt about what you mean.

The hearing has not progressed as rapidly as we had hoped. Mr. C. M. White, president of Republic Steel Corp., and Mr. W. H. Colvin,

Jr., president of Crucible Steel Co. of America, were to have appeared this afternoon. It is impossible to hear them. I have invited each of these gentlemen to appear at another time. Mr. White found it necessary to leave, and he asks that the statement be made a part of the record. That will be done, and the committee will reserve the right, of course, to examine the statement and to address to Mr. White any questions amplifying the statement that may seem desirable.

Mr. WHITE. I am sorry I cannot be here. I reserved the 2 days and I am sorry that I cannot remain.

The CHAIRMAN. We cannot make a yardstick that will cover congressional time.

(The statement submitted by Mr. White is as follows:)

STATEMENT OF C. M. WHITE, PRESIDENT, REPUBLIC STEEL CORP.

I. INTRODUCTORY STATEMENT

My name is C. M. White and I am president of Republic Steel Corp.

I am here not to defend but to explain the recent steel price increase announced by Republic Steel Corp. on December 20, 1949. It needs no defense. However, I do feel that an explanation of the economic facts and circumstances underlying this increase may help to clarify the thinking of the members of this committee and the public in general with respect to the factors which motivated the management of Republic in taking such action.

When I have finished I hope you will feel, as the Cleveland Plain Dealer did, when it said, in an editorial commenting on our press release issued at the time of the price advance, and I quote:

"The Republic Steel Corp., which has now followed United States Steel in raising its prices, has stated its reasons for taking this action, thus giving the public an opportunity to judge for itself whether the price increases are justified * * *

"This explanation answers most of the questions about which the public has been wondering in connection with the increases in steel prices. The one unanswered question is the cost of the new pension and insurance programs. We suspect the steel compaies don't know the answer to that one themselves."

We are fully aware of the fact that any large producer of a basic and essential product such as steel has a tremendous economic and social responsibility. We owe an obligation to our 65,000 employees, to our 60,000 stockholders, to our thousands of customers and, in fact, to the general public. What we would like you to realize is that in order to discharge such responsibility and obligations we simply must have adequate profits. I cannot emphasize too strongly that profits, far from being a word of odium, are the indispensable key not only to our success but to the success of our economy and our free-enterprise system.

This is particularly true at the present time for a number of reasons which I will develop more fully in this statement. It is true, first, because the trend toward the provision by industry of old-age security for its employees makes the obligation to provide job security even greater than it has been in the past. Secondly, our capital investment in this inflationary postwar period is being seriously eroded due to extremely high replacement costs and the refusal of taxing authorities to permit us to take adequate depreciation allowances to build up reserves for such costs. Thirdly, this factor, together with the inadequate real return on investment, has reduced venture capital to the point where it is rapidly disappearing as a source to look to for the nourishment of the industrial plants of the country. Finally, basic raw materials, particularly iron ore reserves, are being rapidly depleted and new sources requiring vasts sums of money must be developed in the near future.

Before developing these reasons in more detail and discussing our materials, transportation and labor cost increases, I want to give you a few facts with respect to the record made by Republic during its 20 years of corporate existence. During this period Republic has had net earnings averaging a fraction over 3 cents per dollar of sales. It has spent on its plants and properties $272,000,000 in order to keep efficient and competitive. By so doing it has created thousands of new jobs and made the jobs of all of its employees more secure. Moreover, the average weekly wages of its wage-roll employees have increased from $29

in 1939 to $63 at the present time, making them among the highest paid employees in industry. As we pointed out to the Presidential Fact Finding Board last August, during the past decade average hourly earnings have increased from 85 cents to $1.67, an increase of 97 percent. This compares with a rise in the cost of living of approximately 70 percent during the same period. The average earnings of its employees exceed by 30 cents an hour the average hourly earnings of workers in all manufacturing industries and by 22 cents an hour the average of workers in durable goods industries. Republic has invested over $6,000 per employe in tools and equipment to make jobs possible. These things could not have been done without profits and we stand on the record of Republic as to whether its employees have received their fair share of the fruits of this enterprise.

For example, in 1948 (the last available figures) Republic had gross receipts of $771,110,250. After deducting the cost of materials, supplies, freight, and expenses—$410,564,604; depreciation and depletion—$23,016,740; taxes—$45,779,905; and interest—$2,173,708, the balance $289,575,293 was available for employees, stockholders, and for reinvestment in the business. Of the $289,575,293, wages and salaries amounted to $243,136,911 or 84 percent; cash dividends to stockholders to $14,450,147 or 5 percent; and $31,988,235 or 11 percent was reinvested in the business.

Over the years Republic's customers have been given increasingly better products and service, due mainly to the continual reinvestment of earnings in its plants and properties in the form of replacements, additions, and improvements. At the moment we have plans on paper for replacements and improvements which may run into more than $100,000,000. Such things cannot be done without profits because risk money is no longer readily available. Moreover, the base prices of steel products have not increased as much as the average of wholesale commodities in recent years. Since 1939 steel base prices, including the recent price adjustment, have risen 66 percent as measured by the Iron Age composite index, whereas the wholesale commodity prices according to the BLS index of such prices have risen 97 percent. Therefore, we believe our customers have been and continue to be treated fairly.

While these things were being accomplished for the employees and customers of Republic, its stockholders, particularly its common-stock holders, the people who take the rap when losses occur and see their equity diminish when replacement costs go up as under present conditions—these 60,000 persons in all walks of American life, have been very patient to say the least.

Taking the stockholder who purchased Republic common in December 1939, paying $22.75 per share, we find that at the present time he could sell that stock for about $24.75. In addition, he has received $14.90 per share in dividends over the 10-year period. This gain, averaging $1.69 per year, may seem satisfactory at first glance, but when we look closer we realize that the dollars do not have the same purchasing power they did in 1939. The $24.75 for which he could now sell his stock will only buy as much as $14.50 would have in 1939. The dividends of $14.90 were only equivalent to $10.75 in 1939 purchasing power, so that in total, in terms of the goods and services he may wish to buy, he has received not an average gain of $1.69, but 25 cents per year. This represents a 1.1 percent return which certainly is not one to encourage further investment in steel.

II. THE PRICE INCREASE AND CAUSES THEREFOR

Under present abnormal conditions, about which I shall have more to say later, if we are to continue to provide good jobs for our employees, good products and service for our customers, and a return on investment for our stockholders, we must have price increases to compensate for cost increases.

Since our last price increase in July of 1948, materials costs have been steadily rising and as a result of the recently negotiated pension and insurance programs, our labor costs, beginning this year, are certain to increase substantially. To meet this situation, we recently adjusted our steel prices, including base prices and extras, by an amount which we estimate will result in an average increase of less than two-tenths of a cent a pound or approximately $3.60 per ton on our entire steel shipments. This represents a price increase averaging approximately 3½ percent. The amount of the adjustment varies by product and in the case of tin plate actually involves a price decrease ranging from $2 to $5 per ton.

Our cost figures indicate that this price increase will barely take care of our cost increases since the last price increase and it will not take care of our anticipated increased labor costs due to pensions and insurance.

A. Increased materials and freight costs

From the second quarter of 1948, the cost period on which the 1948 price increase was based, through the third quarter of 1949, our materials and freight costs increased about $3.65 per ton of steel shipped, as compared with the estimated price increase of about $3.60 per ton. To the $3.65 cost increase in materials we must add $2.40 per ton for the increased cost of pensions, insurance, social-security taxes, and unemployment insurance which will affect us starting early in 1950.

Steel cost increases since previous price increase

	Per ton
Materials and freight	$3.65
Pensions and group insurance Increase in social-security tax Increase in unemployment insurance	2.40
	6.05

Despite the fact that the prices of scrap and fuel oil—accounting for only about 25 percent of our total materials and freight expense—have declined, the balance of the major materials we use have materially increased, thus not only offsetting such decline, but actually resulting in the per-ton cost increase set forth above. In addition, our suppliers invariably protect themselves against cost increases by covering any future deliveries to us under escalator clauses. This means that we cannot contract for or purchase either materials or equipment at a firm price except in the case of off-the-shelf items.

Taking 9 of the major cost items, representing almost 60 percent of our materials cost and expense we find that every one has increased considerably in price in the period from the second quarter of 1948 through the third quarter of 1949. The price of iron ore is up $1 per gross ton, and the coal we mine costs us 93 cents per ton more. Republic uses almost 9,000,000 gross tons of ore and sinter and over 8,000,000 tons of coal per year. Freight rates are up 10 percent as a result of ICC ex parte ruling 168. This is very important, because we must move over 4 tons of material into a plant to produce a single ton of finished steel. Electric power, a substantial cost in steel production, has risen in price, as for example at our big Cleveland plant where the increase in price amounts to 30 percent. Ferromanganese is up 19 percent in price. Refractories, reflecting higher labor, coal, and transportation costs, increased 10 percent in price, and largely as a result of pension costs, refractory prices have again recently been increased by $6 per 1,000 bricks. Limestone prices are up 7 percent, ferrochromium prices 10 percent, and nickel prices 15 percent.

The vast number of minor items which make up the remaining percentage of our material costs and expense are, for the most part, also costing us more, especially where labor and transportation are involved in making them available to us. However, two of the items in this group have declined in price and are worth mentioning. The price of zinc was keyed to the price of the steel sheets and pipe coated with this material so that, as the price of zinc declined, the savings were passed along to the consumers of these galvanized products. The recent decline in the price of tin has been directly reflected in a cut in the price of tin plate previously mentioned.

B. Increased labor cost in 1950

We have always been aware of the necessity of job security to the economic health of Republic and, as I have said, we have invested over $6,000 per employee in the tools of production to insure such security. We are now asked to take on, and are taking on, the obligation of providing security for our employees beyond their working lives. 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. It must be remembered that the cost of a pension plan does not diminish with decreased operations or a shortened workweek. Pension reserves represent continuous allocation of large sums of money to meet pension payments. To this cost must be added the increased cost of the insurance program amounting to over 2½ million dollars annually. To the extent that such costs cannot be passed on, they become an additional burden on our ability to make profits, without which we cannot even supply the jobs which give rise to the right to old-age security now to be provided by us. Nothing is so important to our steel worker as having our company financially strong and able to make the payments into its pension fund so that he will be assured his monthly pension for the rest of his life.

As a partial offset to this anticipated increase of $2.40 per ton in labor costs and the $3.65 per ton increase in materials costs, a total of $6.05 per ton, we have increased our prices an average of about $3.60 per ton. We hope that this will enable us to show an adequate profit.

C. The depreciation problem

As you all know, the Federal income-tax regulations limit us in the amount of depreciation we can claim each year for income-tax purposes. Under these regulations, equipment is depreciated on the basis of its original cost even though the replacement cost is frequently many times the allowed depreciation. As a result our, and other accountants, have used accounting principles conforming to such limitations. Under normal conditions these limitations and accounting principles are workable, though we are not always happy with them. However, an alarming situation has now developed as a result of the inflationary spiral to which the Federal fiscal policies have contributed largely by tampering with the dollar and by failing to balance the budget. Due to the tremendous increase in postwar construction costs and to the anemic dollars of today, we find that we not only are unable to build up adequate depreciation reserves but we have to spend more for replacement costs than we are allowed as depreciation for income-tax purposes. To illustrate, coke ovens recently replaced at two of our plants cost three times the amount of the original units whereas allowable depreciation was equivalent to only one-third of this expense. The same facts apply to a steam-power plant which we are now replacing at seven times the original cost. Situations similar to these are largely responsible for the fact that during the years 1946 to 1948 Republic has been forced to spend $27,000,000 more, largely for replacements, than was provided by depreciation charges in that period.

The deficiency in depreciation reserves which results from this rise in construction costs, together with the failure of the Federal Government to allow proper depreciation, is alarming.

Construction costs according to a standard index increased 50 percent from 1945 to 1948. The major portion of Republic's assets are in plants and equipment which are stated in the balance sheet in terms of original cost, whereas every other item is stated in terms of relatively current value. This results in a gross distortion in the amount of profits we have been reporting since the war. To put it mildly they are highly overstated. If we reported our profits on the basis of today's reproduction cost of our plants and equipment, our profits would be drastically reduced. However, such treatment would provide adequate depreciation only for the current year. It would not provide anything for the accumulated deficiency in depreciation reserve for past years. Such deficiency would have to be made up out of future profits.

As a result of the failure of the Federal Government to allow depreciation on a realistic basis, the plight in which Republic, and industry generally, finds itself is best described in a statement made by Mr. H. Tippit, managing partner of Ernst & Ernst, our accountants, before the Presidential Steel Board on August 19, 1949. Let me quote from this statement:

"In the case of Republic, I estimate that at December 31, 1948, the deficiency in reserve for depreciation on the replacement basis was at least $195,000,000, which amounts to a mortgage on the future earnings of Republic if we accept the assumption that construction costs will remain as high as the 1948 level. Any further increase in construction costs will add to that burden."

* * * * * * *

"The Federal income-tax laws have contained certain provisions to protect taxpayers against involuntary liquidation of inventories, but so far no relief has been provided for involuntary liquidation of operating plants and facilities brought about by these conditions which I have described.

"The shortage in reserve, on the replacement basis, therefore, may be considered as a heavy drain on earnings of Republic (aggregating at least $195,000,000) and other steel companies for the next 25 to 30 years if such companies are to be successful in maintaining their plants they now have. Management is faced with the problem of furnishing the dollars at the higher cost level when replacement is required, and this deficiency can be made up only out of future earnings of the company. Consequently any increase in wage or other costs at this time, without compensating revenues from price increases, would seriously hamper Republic's ability to survive as an employer."

I know some of you may point out that we don't reproduce our plants all at one time and if we did they would be more efficient and have a greater output. This is, of course, true, but we can't shrug off the replacements we are making at today's costs. Nor can we ignore the fact that the construction-cost index has

never gone down measurably since 1913 except for a brief period during the depression. Consequently, if we are prudent and look at this thing with the foresight which our responsibilities as good managers require, we must anticipate that over the years we are in fact going to have to replace our operating plants at these higher costs.

Something simply has to be done about this depreciation problem for income-tax purposes or one of these days we are going to find that our capital investment in the Nation's industrial plants has been largely dissipated.

D. The venture-capital problem

As Mr. Tippit has said, our plants, to a large extent, will have to be replaced out of profits. This is so, not only because to the extent that simple replacement (as opposed to improvements and additions) is involved, it is a proper charge against profits, but also because it is becoming almost impossible to secure risk or venture capital. I have already indicated how low has been the return to the common-stock holder of Republic since 1939. Actually, Republic's common-stock holders got no dividends at all from 1930 to the end of 1940. So their situation is even worse if figured over the 20-year life of Republic. This, combined with the problem I have just discussed which is rapidly eating away his capital investment and the double taxation at present high levels to which he is subjected, is enough to discourage any potential common-stock holder. With a 1-percent return on investment and in view of the problems pointed out above, is it any wonder that Republic's stock is now selling for about $25 when its book value is $55? With this situation existing pretty generally throughout industry, is it any wonder that the risk-money—the common-stock—situation in the country the last few years looks like this?

Year	Total new corporate financing [1]	New common stock capital [1]	Percent of common stock to total
1946	$3,564,441,065	$738,397,742	20.7
1947	4,831,046,013	633,925,515	13.1
1948	5,984,598,532	477,246,205	8.0

[1] From Commercial and Financial Chronicle.

With risk money rapidly disappearing we must have adequate profits to survive.

E. The raw materials problem

The foundation of the steel industry rests upon an adequate supply of iron ore. Due to the drain upon iron-ore reserves during the war, the great Mesabi range has been depleted to the point where the steel industry must reach out into more distant areas to replenish the Nation's ore supply. To safeguard Republic's future, we have recently entered into a number of important ore ventures the development of which will require huge expenditures in the next few years. One of these ventures is the acquisition of a rich ore deposit in Liberia. To reach this ore we are in the process of building a 40-mile railroad which, together with the cost of developing the mine, will require over $8,000,000. To bring the ore to this country we will have to build or acquire oceangoing vessels costing additional millions. Another venture in which Republic is participating, together with certain ore and other steel companies, is the exploration and development of ore bodies in Labrador. Tremendous deposits have already been proved to exist and exploration continues to prove up more. The development of this area is estimated to cost approximately $300,000,000. A 200-mile railroad is required, as well as loading and docking facilities, and it is hoped the area will be producing large quantities of ore within the next 5 or 10 years, particularly if the navigation facilities of the St. Lawrence are improved in the near future. Other similar projects are under consideration, including the processing of low-grade taconite ores of the Mesabi which requires an investment in processing plants and equipment of more than $10,000,000 to obtain 1,000,000 tons of ore concentrates annually. I need hardly add that such ventures require tremendous sums of money. Of course, we cannot expect profits to carry all of this load but they will have to carry a large part of it.

Another raw-material problem is the assurance of an uninterrupted supply of metallurgical coal at reasonable prices. The labor monopolist who controls our coal supplies hands it out to us at his caprice and with governmental ac-

quiescence, in such quantities and at such times as he wishes. The result is that we cannot plan with any degree of certainty on our output of steel or our costs of such production. Solely as a result of this shameful situation, the coal industry was idle about half of last year and our costs of coal rose 93 cents per ton. I will leave you to judge whether the year 1950 has started with any greater assurance of a constant flow or a constant price of metallurgical coal. This condition affects our profits in two ways. First, the cost of coal, of course, has an effect on the cost of steel. Second, if we do not get the coal, there will be no profits.

III. EFFECT OF PRICE INCREASE ON CONSUMERS

You are now probably wondering how this price increase is going to affect the ultimate consumer. Looking at the over-all picture, we find that in 1949 steel consumption amounted to about 763 pounds per capita. The $3.60-per-ton price increase, therefore, represents an increased per capita cost of steel amounting to about $1.37 per year. The fact is that in practically all consumer goods the cost of steel is relatively small compared with the cost of labor and other factors. For example, the increased cost of steel used in major household appliances will be from 35 to 40 cents, an insignificant sum compared to the retail price of $150 and more for such appliances.

The United States Bureau of Labor Statistics, in compiling its Index of Consumer Prices, gives a weight of about 40 percent of the total to food items, and this food portion of the index has risen 110 percent above the 1939 level. The household furnishings part of the index is given a weight of about 5 percent, and includes most of the items made of steel purchased by the consumer. This portion of the index has risen 83 percent over the 1939 level. It is clear, therefore, that in this period the increase in the price of steel and of items made of steel has had a much less serious effect on the consumer than the increase in the price of food. It is difficult to reconcile this situation with the fact that the Government is supporting the price of many food items at high levels, but apparently complaining about the price of steel.

IV. SUMMARY OF REPUBLIC'S EARNINGS RECORD

In view of our great responsibilities to our employees, our stockholders, our customers, and the public, and, of the business problems which confront us, some of which have been outlined above, we feel compelled to look at each cost increase in the light of our over-all earnings experience. Republic has never known an extended period of business normality. It was born in 1930 in the depth of the depression. During 6 of its first 9 years of existence it lost substantial sums of money, totaling over $39,000,000. Even though Republic had profits in 3 of these 9 years its accumulated loss for the entire period was $16,000,000. As a consequence it could not pay any dividends to its common stockholders from 1930 through 1940 and none to its preferred stockholders from 1930 through 1934. Even during this hectic period, Republic made capital expenditures of $74,000,000, and paid out in wages $443,000,000. This served to preserve the corporate entity for its stockholders, to make more secure the jobs of its employees, to improve its products for its customers, and, as subsequent events have shown, to help place its steel-making facilities in efficient operating condition to do its war job in the national interest.

Shortly after this low period in Republic's earning history, the war enveloped us and with that came price controls, excess-profits taxes, higher costs and a jittery monetary unit with which to cope. As a result, from 1939 until the end of the war in 1945, despite a doubling of its annual sales volume to approximately a half billion dollars, Republic's annual earnings averaged only about $15,000,000, or 3 cents per dollar of sales. Of this $15,000,000 in profits, $8,000,000 was the average annual amount paid out in dividends to its stockholders with the balance of $7,000,000 being reinvested annually in the business for increased working-capital requirements arising from the high volume of war business. Pay rolls to employees during this period averaged $143,000,000 annually, or $1.12 per hour.

Since the war through 1948—the figures for 1949 not being available—Republic's earnings have been somewhat better, averaging about $31,000,000 yearly, or 5 cents per dollar of sales. Of these modest annual earnings 11½ million dollars were paid out annually in dividends to stockholders and largely because of inadequate depreciation allowances and rising inventory costs it was necessary

to reinvest the balance of 19½ million dollars annually in the business. Total wages paid during this period averaged $208,000,000 per year, or $1.58 per hour.

V. CONCLUSION

This, briefly, is our story on the recent steel price increase announced by Republic. Again, I say, it needs no defense. In fact, as I have shown, it will not adequately compensate us for the increased labor, materials, and transportation costs which we are now facing.

The recent war tested and approved our efficiency. If we are efficient in our operations and if, as I have pointed out, our earnings are modest and fairly distributed, our prices just must be right and fair.

I thank you for permitting me to appear and tell our story, and I want to leave with you this one further thought. If some of those in high places in Government circles will begin to look upon the management of American industry as experienced, hardworking, honest citizens trying to do a real job for the good of the country, instead of as a group of questionable characters whose every action must be viewed with suspicion, we will all get on much faster with the job of constantly increasing our standard of living and keeping this country the best place in the world in which to live.

The CHAIRMAN. The other witness who was to have appeared today, Mr. W. H. Colvin, Jr., president of Crucible Steel Co. of America, has agreed to appear on Friday. He will be on the agenda Friday with Mr. A. B. Homer, president of Bethlehem Steel Corp., and Mr. John N. Marshall, chairman of the Granite City Steel Co.

Tomorrow morning we will hear Mr. Otis Brubaker, director of research of the United Steelworkers of America; Mr. Donald Montgomery, director of the Washington office, UAW-CIO; Dr. Alfred Neal, vice president, Federal Reserve Bank of Boston; and Mr. A. W. Phelps, president, Oliver Corp.

The committee will assemble again tomorrow in this room at 10 o'clock.

(Whereupon, at 5:15 p. m., an adjournment was taken until 10 a. m., Thursday, January 26, 1950.)

DECEMBER 1949 STEEL PRICE INCREASES

THURSDAY, JANUARY 26, 1950

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

The joint committee met, pursuant to adjournment, at 10:15 a. m., in room 362, Old House Office Building, Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney and Flanders; Representatives Patman, Huber, Buchanan, Wolcott, and Rich.

Also present: Representative Chase Going Woodhouse, Representative Carroll D. Kearns, Theodore J. Kreps, staff director, Grover W. Ensley, associate staff director of the joint committee staff.

The CHAIRMAN. The committee will come to order, please.

The first witness this morning will be Mr. A. W. Phelps, president of the Oliver Corp.

Is Mr. Phelps present? Will you come forward, please?

Mr. Phelps, you represent a corporation which is a consumer of steel and steel products, do you not?

Mr. PHELPS. That is right.

The CHAIRMAN. Will you please identify yourself for the record, and then proceed with your statement.

STATEMENT OF ALVA W. PHELPS, PRESIDENT, THE OLIVER CORP., ACCOMPANIED BY JOHN R. COVINGTON, CORPORATE SECRETARY AND COUNSELLOR

Mr. PHELPS. I am A. W. Phelps, president of the Oliver Corp. of Chicago, Ill. My associate here is corporate secretary and counsellor for the corporation, Mr. John Covington.

I prepared a short statement, and I wish to thank the committee for giving me the early position today, as I have to get away.

The Oliver Corp. is a manufacturer and wholesale distributor of farm and industrial machinery. Sales by this company during its 1949 fiscal year exceeded $101,000,000. The company is among the six largest concerns manufacturing a full line of farm machinery.

Following the settlement of strikes in the steel industry in December 1949, notices were received by the Oliver Corp. from important steel suppliers of price increases on various shapes and sizes of steel purchased by the company.

The CHAIRMAN. May I interrupt you at that point, Mr. Phelps, to ask you one or two more questions about your corporation?

Where is your principal place of business?

Mr. PHELPS. Our central office is in Chicago, Ill., 400 West Madison Street, in the Daily News building. We only have executive offices there, accounting and such as that.

The CHAIRMAN. Where is your plant?

Mr. PHELPS. We have seven plants located as follows: Two in South Bend, Ind.; one in Springfield, Ohio; one in Cleveland, Ohio; one in Shelbyville, Ill.; one in Battle Creek, Mich.; and one in Charles City, Iowa.

In addition to that we have 40 branch warehouses located in various places throughout the United States and western Canada.

The CHAIRMAN. Is the Oliver Corp. a subsidiary or an affiliate of any other corporation?

Mr. PHELPS. We are affiliated with no one.

The CHAIRMAN. You are an independent organization?

Mr. PHELPS. Yes.

The CHAIRMAN. What is the capital stock?

Mr. PHELPS. The net worth is about $50,000,000, with approximately 800,000 shares of common stock and 82,000 shares of preferred stock.

The CHAIRMAN. How many stockholders?

Mr. PHELPS. Between ten and eleven thousand. It varies from day to day, of course.

The CHAIRMAN. How many employees?

Mr. PHELPS. Eight thousand four hundred.

The CHAIRMAN. In what State did you obtain your charter?

Mr. PHELPS. Delaware.

The CHAIRMAN. Is it one of the usual broad blanket charters of the State of Delaware?

Mr. PHELPS. Yes.

The CHAIRMAN. Very good; you may proceed.

Mr. PHELPS. Many of these increased prices became effective December 16, 1949. Because of these increases in steel, which is an important item of the company's costs, because Oliver was and is exploring the subject of pensions for employees in its own organization, and because increases in the prices of component parts containing steel purchased by the company were anticipated, I addressed a letter under date of December 23, 1949, to dealers and distributors selling Oliver products. A copy of this letter is attached hereto, and I believe has been supplied to all of the committee members.

It will be noted that this letter calls attention to the increased costs and the prospects of other rising costs.

Since distribution of that letter a more detailed analysis of the effects of published steel-price increases on Oliver's costs has been made. This analysis was made on the basis of last year's dollar purchases of various steel items and the percentage of increase on each major classification. It shows an average increase on purchases of steel of approximately 7.8 percent. A copy of this analysis is attached hereto for the examination of the committee.

In addition to these increases in the prices of steel bought directly from the steel mills, Oliver has received some, and expects to receive other, price increases on purchased items in which steel is incorpo-

rated. The following increases are examples of those already received:

	Percent
Antifriction bearings	3.3
Baling wire for hay balers	8.4
Check wire for corn planters	5
Cap screws and set screws	3–12.5
Regular unfinished cold punched square nuts (average)	15
Hexagonal nuts (about)	9
Rolled thread screw machine bolts	9.5

Approximately two-thirds of the materials and supplies purchased by the Oliver Corp. consist of steel and steel products. Although it may not be pertinent to the purposes of this hearing, it should be noted that Oliver has also received recent price increases in other materials and services purchased in important quantities by the company. All of these price increases will be reflected in higher costs of the products manufactured by Oliver.

A copy of the annual report to stockholders covering the results of operations of the Oliver Corp. during the last fiscal year is attached hereto for the further information of the committee. Also attached is a copy of the company's employee publication discussing the year's operations.

I shall be glad to answer any questions put before me by the committee on which I have sufficient information to state facts or to express a qualified opinion.

The CHAIRMAN. I note that one of your exhibits is the statement of December 23, 1949, from you to the dealers and distributors of the equipment that you sell. I think it might be well if you would briefly tell us the meaning of that statement which was issued a week after the price increase.

Mr. PHELPS. It is a policy of long standing in the Oliver Corp. to keep its employees, its dealers, its distributors, and its customers informed as well in advance as it is practical to do so of any changes which might affect them. That was the only reason for putting the letter out.

The CHAIRMAN. Well, the list of commodities which you placed in this statement appears to be somewhat different from the list of items upon which percentage increases of cost have resulted to you from the steel-price increase.

For example, the first one refers to a type of steel which you describe technically, if I read it correctly, 1 inch by $\frac{3}{16}$ inch by 16 feet no inch, C–1095, used on row crop cultivators, old price, $88 a ton; new price, $105 a ton; increased $17 a ton, or 19.3 percent.

Mr. PHELPS. That is one item.

The CHAIRMAN. Now there are several here. I wish you would explain those for the committee. The percentage increase as described by the steel witnesses is considerably less than that which you list here.

Mr. PHELPS. That is right.

The CHAIRMAN. So I would like to see what the factors are which enter this difference of computation.

Mr. PHELPS. This is an actual quotation that we had on December 23 from the standard price lists that are put out.

This other compilation was made much later, and naturally it is more complete, and includes many more quotations.

The CHAIRMAN. All right, on this specific size of steel, does this statement to your dealers and distributors say that the price to Oliver Corp. has been increased from $88 a ton to $105 a ton?

Mr. PHELPS. That is right.

The CHAIRMAN. So that the increase to you on this particular product is $17 a ton and not $4 a ton.

Mr. PHELPS. That is correct.

The CHAIRMAN. Not $3.82 a ton?

Mr. PHELPS. Not 4 percent, it is 19 percent.

The CHAIRMAN. Now the next item——

Mr. PHELPS. And that is true in each of those items, Mr. Chairman.

The CHAIRMAN. Well, here is a beam for disk plows in which the increase was only $3 a ton, or 3.8 percent.

Mr. PHELPS. Yes.

The CHAIRMAN. The next item is a mild steel angle used in various machines, price increased to you from $75 a ton to $83 a ton, or an increase of $8, or 10.6 percent.

The next item, high carbon steel for tractor plow beams increased from $74 a ton to $79. That is an increase of $5 a ton, or 6.75 percent.

The steel used for axles for various tools, the old price was $71 a ton, the newest price is $74 a ton, an increase of only $3, or 4.22 percent.

The long terne sheets for gasoline tanks increased from $96 a ton to $111, or $15, an increase of 15.6 percent.

Mr. RICH. Mr. Chairman, may I ask the gentleman a question in reference to that first item?

The CHAIRMAN. Let me finish the list and then we will go over all of the items.

Cold-rolled sheets—drawing quality for tractors and combines increased from $90 a ton to $98.50, or $8.50, or 9.44 percent, and finally hot-rolled sheets, common quality used for various tools increased from $69 a ton to $77 a ton, $8, or 11.6 percent.

That shows a great variety of the increases.

Mr. PHELPS. Yes, sir.

Mr. RICH. I was going to ask, in the manufacture of that first item, 1 inch by $\frac{3}{16}$ inch by 16 feet, C–1095——

Mr. PHELPS. That is carbon steel 1095.

Mr. RICH. Did they sell that material to you by the ton before they increased the price?

Mr. PHELPS. We are buying it on the same basis now that we always bought it.

Mr. RICH. Was there anything that went into the item of manufacture of a small piece of steel such as we find here, that would be cause to increase the price of it other than the price of steel?

Mr. PHELPS. I am not qualified to answer anything on the processing of steel and steel manufacturing. I know nothing about it.

Mr. RICH. And so you are not prepared to say?

Mr. PHELPS. No, sir.

Mr. RICH. Do you have in your manufacture of things that pertain to manufacturing agricultural implements—when you are making a small item, the cost increases materially because of other things in the price of the material that goes into that construction? I am thinking here of taking a specific item. Did you ever find in manufacturing a certain piece of machinery that you figured out your cost? Did you ever make a mistake in figuring out your cost?

Mr. PHELPS. Yes.

Mr. RICH. Do you have an idea that probably some other manufacturer might have done the same thing?

Mr. PHELPS. Absolutely, very often.

Mr. RICH. And when they find out that they have got a certain item to manufacture and they have lost on that, they generally try to get at least cost out of it so that they do not go in the red in manufacturing a particular item. Has that ever occurred in your business?

Mr. PHELPS. It occurs frequently I think in any business.

Mr. RICH. Then that one item there, the percentage cost was 19.3 percent. The next item was 3.8 percent. To me it looks as if there might have been an error in the price that they asked you for that particular weight of steel. Now this is a lightweight piece of steel that you are using there, is it not?

Mr. PHELPS. That is right.

Mr. RICH. So that on a lightweight piece of steel they could have made an error that should have been or probably they did correct.

Mr. PHELPS. Congressman, I would like to go a little bit further on that. Naturally I am speaking of our product, not of the steel company's product.

In our business very often we will have a small item that we are selling in large quantities, and with a big volume we can keep the cost down. Over a period of years, however, if we do not watch it, the volume may keep dropping off because the item is becoming somewhat obsolete or being superseded by another product.

If we do not watch our cost and check it from year to year, we will find that the volume of that particular item has dropped to such an extent that our cost has gone up tremendously, and then we have to put through adjustments. We have had some of that kind of adjustment in our own product not too far back.

We go through our list of products and find a thing that we have been making for years and losing money on, and correct the selling price on it or we will not make it.

Mr. RICH. That is right, and here is a small item that has the largest percentage, so that people looking at that, as was expressed by the Chairman, would think it was a great amount of the product of the steel companies. In other words, it is only a small item in the operation of these great, large steel companies in the amount of steel that they are producing. That is the point I wanted to bring out.

I remember very well an old concern I was interested in at one time. We had to close it up because it was going in the red. We found out it was going to be unsuccessful, and they had one sign in that plant, and I have it in my office now, and it is the only thing I have to remember it by:

"Count that day lost when low descending sun; when goods are sold for less than cost and business done for fun."

It just cannot be done.

Mr. PHELPS. You cannot do it long.

The CHAIRMAN. Well, are you doing business for fun, Mr. Phelps?

Mr. PHELPS. No, sir; we are not. We are making a small profit, I am glad to say.

The CHAIRMAN. These prices which you have set forth in the statement to the distributors, are they prices that you are now paying?

Mr. PHELPS. Yes, sir; those prices are in effect.

The CHAIRMAN. Have you paid them?

Mr. PHELPS. Oh, yes, since December 16 on some of these, as stated in the letter.

The CHAIRMAN. Do you care to say where you buy these commodities?

Mr. PHELPS. I do not know, Senator. We buy from practically all of the big steel producers.

The CHAIRMAN. Well, how can you tell the price, then? From what did you figure the price that you set forth in your letter?

Mr. PHELPS. Our purchasing department gave me that without giving me the name of the source, but we purchase by comparing published price lists, which gives the effect of competitive bidding.

The CHAIRMAN. Did you receive price lists from the various producers?

Mr. PHELPS. Yes, sir.

The CHAIRMAN. And these prices set forth here are the ones that were taken from those prices, is that the idea?

Mr. PHELPS. That is right, yes, sir.

The CHAIRMAN. You speak of buying at competitive bids. What has been your success in finding a different range of prices among these various producers?

Mr. PHELPS. We find a difference.

The CHAIRMAN. What is the range?

Mr. PHELPS. I do not know, Senator. Naturally, manufacturers making the same thing, eventually arrive at prices that are pretty close together, without ever having to see each other. Their competitors and their customers take care of that pretty well.

The CHAIRMAN. How do you explain this variation of price increase percentagewise and dollarwise on the various items? What I am leading up to is, is this a computation of the extras?

Mr. PHELPS. This chart shows that the price increases include increases in the base prices and in extra charges.

Mr. RICH. I was under the impression, as you explained to me, it was determined some items cost more from time to time, and that is the reason why, say, the first item there increased 19.3 percent, and the second item increased 3.8 percent.

Do you think the same reasons that you explained that you had a difference in cost, might be the same reasons that they had the difference in cost in that particular item?

Mr. PHELPS. Such things influence our prices. I am not speaking for the steel industry.

Mr. RICH. Well, you asked for bids from various steel companies on that particular item?

Mr. PHELPS. Yes, sir; we compared price lists.

Mr. RICH. So that the various plants had items that seem to be similar?

Mr. PHELPS. Yes, sir.

The CHAIRMAN. Now may I ask you with respect to the list in your statement to the distributors, and the list which accompanies your statement, as well as the list of items appearing on page 2 of your statement, do these lists embrace the major proportion of the steel products which you buy?

Mr. PHELPS. They do.

The CHAIRMAN. And you are telling the committee that, on the whole, the increase in steel prices will compel you to bear a very much larger increase of cost than is represented by the testimony which has heretofore been given here by the steel witnesses in which they talk of a 4-percent increase and a $4-a-ton increase?

Mr. PHELPS. Our steel bill on items purchased direct from steel mills is going to be increased, or has been increased 7.8 percent.

The CHAIRMAN. You have stated, as I recall it, somewhere in this presentation, that during the years the Oliver Co. has kept prices of its products down in the face of increasing costs.

Mr. PHELPS. That is right.

The CHAIRMAN. Can you give us a table showing that?

Mr. COVINGTON. Since the end of OPA, our prices have increased approximately 25 percent. I think that reference to public statistics would show that that is lower than the general increase in price levels.

Mr. PATMAN. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes, indeed.

Mr. PATMAN. You state that you have a difference in the bids from the different companies. Do you also have quite a few identical bids from the different steel companies?

Mr. PHELPS. I am not qualified to say.

Mr. PATMAN. Who is qualified to say?

Mr. PHELPS. Our purchasing department.

Mr. PATMAN. Is he here?

Mr. PHELPS. No; he is not. I am satisfied that we do have a lot of identical bids, that is, in certain items.

Mr. PATMAN. Prior to the basing-point decision in April 1948 when the steel companies were operating under the basing-point system, did you have more identical bids then than you have now?

Mr. PHELPS. About the same.

Mr. PATMAN. I would really like to have that information, Mr. Chairman. If the gentleman is not qualified to speak, I wish he would send a person here who is qualified to speak for his company, or possibly we could do that by correspondence.

Will that be all right with you?

Mr. PHELPS. Absolutely.

Mr. PATMAN. We will submit questions and you will see that correct answers are given.

The CHAIRMAN. That will be pursued.

Any other questions, Congressman?

Congressman Buchanan, Congressman Woodhouse, Senator Flanders?

Mr. RICH. Mr. Chairman, I would like to ask a question.

The CHAIRMAN. I thought you had exhausted yourself.

Mr. RICH. I wish to interrogate this young man.

Since you have increased the prices of your material 25 percent since OPA ceilings were taken out, what were the reasons for those increases in prices?

Mr. COVINGTON. Because of increase in costs, Congressman.

Mr. RICH. Be specific in the reasons why you have increased your costs 25 percent.

Mr. COVINGTON. Well, I suppose that the greatest increase in our costs has been attributable to increased labor costs. We have had three rounds of general wage increases since the end of the war. That

has increased our very substantial labor bill. It has also increased the cost to our suppliers, necessitating them to raise their prices, so that we have realized increases in both the cost of materials and services we buy, and also in the cost of labor to us, and when that has pushed our costs too high, we have necessarily increased our prices.

Mr. RICH. You have had three rounds of increases in labor since that time.

Mr. COVINGTON. Yes.

Mr. RICH. How many increases in prices have you had in the cost of materials since that time?

Mr. PHELPS. Naturally we get increases from time to time in materials. They do not all come at one time. In general the large jumps have been coincident with the general wage increases which have swept the country.

Mr. RICH. And I see from your annual statement here, or the statement here of October 31, that the income to your stockholders was 6 percent on the volume of business that you transacted.

Mr. COVINGTON. Yes.

Mr. RICH. The dividends for the stockholders were 2.7 percent.

Mr. COVINGTON. 2.7 percent of our sales.

Mr. RICH. And the earnings were 6 percent on your profits on the volume of business?

Mr. COVINGTON. On the second largest volume we ever had, Congressman.

Mr. RICH. That was the second largest volume you ever had?

Mr. COVINGTON. Yes, sir.

Mr. RICH. What is the condition of your company now so far as being in good financial condition in comparison to what it was 5 years or 10 years ago?

Mr. PHELPS. Our company is in much better financial position than it was 10 years ago because we had just come out of a very severe depression in agricultural machinery sales 10 years ago.

Insofar as our position today as against 5 years ago is concerned, I would say that our working capital is appreciably greater, and so is our indebtedness to banks.

Mr. RICH. What do you figure the business prospects for the agricultural implement business is, we will say, in the next 5 years?

Mr. COVINGTON. I wish I knew, Congressman.

Mr. RICH. I appreciate that, but one in management cannot live in the present day, and you are no doubt trying to figure what your business is going to do in the next 5 years, and that depends on the condition of the agricultural business. We have heard from many people, economists here, for a year. I thought maybe you people could give us something a little bit beyond a year.

We would be glad to have any information that you might figure on, because we know that agriculture is one of the greatest businesses that we have in this country.

Mr. PHELPS. I do not think that we are qualified as seers into a think like that. Naturally we do a lot of forecasting. We are fairly accurate within, say, 3 months, but we do not believe we can accurately forecast for longer periods.

Mr. RICH. Could you run your business 5 years or 10 years ahead if you were going in the red?

Mr. PHELPS. No, sir.

Mr. RICH. Would you take chances on trying to keep your business going if you were going in the red each year?

Mr. PHELPS. We could not do it.

Mr. RICH. Do you know of any business that can?

Mr. PHELPS. I do not.

Mr. RICH. That is all.

Mr. HUBER. If there was a fire in the plant next door, you would not hesitate to take whatever action might be necessary, even if it cost you money, to protect your own property, would you?

Mr. PHELPS. No.

Mr. HUBER. You mentioned these steel increases coming after labor increases. I think if you check, in February of 1948 when there was a steel increase, there had been no demand for a wage increase, and the wage increase followed the steel increase in February of 1948.

Mr. PHELPS. Perhaps. We have had increases from many of our suppliers, not only steel, who would say, "We are not doing so well on this product that we are selling you, and we are faced with a labor increase and we are faced with material increases, and we are going to increase our price to you as of today."

That very often happens, and we feel if he is fairly accurate in his estimate of the situation approaching him, he is justified in doing so.

Mr. BUCHANAN. Then you would say you have been getting a number of small price increases between the times when there were no wage increases?

Mr. PHELPS. Oh, yes, any good businessman, as Congressman Rich says, must adjust his prices as his volume drops off or increases.

Now we have had in normal times, and even in times like, for instance, not so long ago, one of the big rubber companies came to us and voluntarily gave us a price reduction, one that we had not expected, because of this particular product being manufactured in large volume. At other times we have had similar things happen from steel companies.

Mr. HUBER. It was probably an Akron rubber company, was it not?

Mr. PHELPS. I would not name it, but we have reductions from steel companies at times, too. They are not always increases.

The CHAIRMAN. Mr. Covington, turn to the table on page 2 of your annual report to the stockholders, I would like to develop the figures there just a little bit. As I read this review of your operating results, the dividend to stockholders for common stock amounted to 2.7 percent of your sales income. The total income or just the sales income?

Mr. COVINGTON. That is of the total income.

The CHAIRMAN. Then that is 2.7 percent of your total income amounting to $101,650,968. You did not compute the dividends to the preferred stockholders.

Mr. COVINGTON. That is included in that 2.7 percent, Senator.

The CHAIRMAN. Oh, is it?

Mr. COVINGTON. Yes, sir.

The CHAIRMAN. Of course it is. I see that now. So that you have this picture of having net earnings for the year of $6,141,243, or 6 percent of your income. Two and seven-tenths percent of that was paid out in dividends, and 3.3 percent reinvested in the business, is that correct, sir?

Mr. COVINGTON. Yes, sir.

The CHAIRMAN. Can you give us the percentages on the net investment?

Mr. COVINGTON. The net investment of stockholders is $49,645,000, so that the payment to stockholders was approximately 6 percent to common-stock holders, and 4½ percent to preferred-stock holders.

The CHAIRMAN. And your net earnings for the year on investment would be approximately 12 percent.

Mr. COVINGTON. Yes, sir.

The CHAIRMAN. Now, then, Mr. Phelps, in this circular which you sent out to your people, I find this statement:

> This industry and the dealers and distributors of its products may be proud of its record during the long inflationary period 1939 to 1948 when price increases of our products were held to moderate levels at the same time as prices of steel, labor, and other important items of cost reached much higher levels.

Were you talking there of the industry as a whole or of Oliver Corp. in particular?

Mr. PHELPS. Oliver Corp. in particular. I believe it is applicable to the industry.

The CHAIRMAN. It is?

Mr. PHELPS. I think so, generally speaking.

The CHAIRMAN. What you are saying here is that the Oliver Corp. held its prices down?

Mr. PHELPS. That is right, sir.

The CHAIRMAN. What was the percentage of increase of your over-all costs as compared with the percentage of increase of your prices during the period you mentioned?

Mr. PHELPS. I would not have those percentages at hand.

The CHAIRMAN. Mr. Covington, do you have any approximation of that?

Mr. COVINGTON. No, sir. That statistic is one I do not have in mind.

The CHAIRMAN. But do I understand that you have already stated that over-all your prices increased about 25 percent?

Mr. COVINGTON. Since the end of the OPA.

The CHAIRMAN. Now what will be the effect of this present steel increase in price on the prices that you charge to farmers?

Mr. COVINGTON. That is something we are studying, Senator. We do not propose to make a price increase if we can avoid it. We know that the costs of our steel have gone up. We are daily receiving price increases which are raising the cost of our other products made by other manufacturers, which include steel.

We are negotiating with our employees with regard to pension plans. We have received a 50-percent increase in our social-security tax cost. We have received freight increases. We are receiving increases on other products in addition to steel products.

We are naturally studying these increases in costs as related to the very low percentage of return which we made on sales last year. In addition to having to study our increase in costs, we also have to study what we can sell our product for.

The CHAIRMAN. Well, would it be a proper inference, from what you say, that in the past you have sought to absorb these increases of cost; that your business has been increasing in volume, and you have been able to absorb a large part of the increase in cost, and that you intend to do so with this increase of cost if you can?

Mr. COVINGTON. We certainly do not propose to increase our prices any more than we have to, to realize a moderate return on our investment and on our sales.

The CHAIRMAN. Your sales have been increasing; have they not?

Mr. PHELPS. They were increasing. They are now decreasing.

The CHAIRMAN. Has there been increasing mechanization of the farm?

Mr. COVINGTON. Very decidedly. In the last 10 years there has been a tremendous increase which was particularly accelerated by the shortage of farm labor during the war.

The CHAIRMAN. To what do you attribute this decreasing market now?

Mr. COVINGTON. One of the big factors in it is that we are now back to seasonal selling. Until about May of last year we were in the position of selling our product as quickly as it was manufactured. Since that time we have gone from a so-called sellers' market to a so-called buyers' market. This is resulting in substantially lower sales which we hope is only seasonal.

The CHAIRMAN. The statement signed by Mr. Phelps to your people contains this sentence, which I have already quoted, about the policy of the company to hold its prices to moderate levels as the prices of steel, labor, and other important items of cost reach much higher levels. Do you have any figures on those increases, of steel, for example, of labor, and of other costs?

Mr. COVINGTON. I do not have the figures. I assume they are in the exhibits which have been previously filed with this committee as to the increase in steel prices since 1939.

The CHAIRMAN. I have before me a chart prepared by the United States Bureau of Labor Statistics from which I have quoted during the progress of this hearing, which undertakes to show the wholesale-price index, 1940 to October 1949, and December 1949, with 1926 prices as a base.

Now this would show that in 1940 metals and metal products ranked second; iron and steel ranked No. 3. In December 1949, metals and metal products ranked third; iron and steel ranked fourth in December 1949. The increase in iron and steel from 1940 to December 1949 was from an index of 95.1 to an index of 165.4, and metal products from an index of 95.8 to an index of 167.8, while all commodities which ranked over No. 6 as of 1940 and No. 7 as of December 1949 increased from 79.6 in 1940 to 151.3 in December 1949, thus indicating that the relative position of metals and metal products and iron and steel, ahead of all commodities, has been preserved during this time.

I recite this because it seems desirable to have it inserted in the record at this point. We have made an inquiry of the Bureau of Labor Statistics to see whether or not it would be possible for them to break down these categories, the iron and steel categories particularly, so that we would know the difference in the index price on basic steel and iron; but they tell us that that would be a major job of computation which has not yet been done, so that I was unable to obtain that information at the present time for the committee.

Senator Flanders?

Senator FLANDERS. I am wondering what the significance is of the year 1926.

The CHAIRMAN. Well, it was just merely taken as the base. It is purely an arbitrary selection.

Senator FLANDERS. Perhaps there is some justification for it from the standpoint that we were running more or less in a balanced way, perhaps, at that time. I am always interested in the years taken as a base.

The CHAIRMAN. Yes; you are quite right, because those years vary. Dr. Kreps, do you know why 1926 was shown?

Mr. Ensley, do you know why 1926 was chosen as the base period by the Bureau of Labor Statistics?

Mr. KREPS. Of course, that was the year most near normal after the effects of the other war were completely liquidated, and a year followed by 3 years of considerable prosperity; so, in terms of general prices, statisticians throughout the country, in a conference of the American Statistical Association, have agreed that 1926 represented a year most close to normal-price balance that we have had in recent times.

Certainly 1940 was a year in which agriculture was prostrate, and no comparison based on 1940 will stand up before statistical experts.

The CHAIRMAN. This may be put in the record at this point.

(The document above referred to follows:)

Wholesale price index, 1940, October 1949, and December 1949

[1926=100]

	December 1949		October 1949		1940 (average)	
	Index	Rank	Index	Rank	Index	Rank
Building materials	190.3	1	189.2	1	94.8	4
Hides and leather	179.9	2	181.3	2	100.8	1
Metals and metal products	167.8	3	167.3	3	95.8	2
Iron and steel [1]	165.4	4	163.3	4	95.1	3
Foods	155.7	5	159.6	5	71.3	10
Farm products	155.3	6	159.6	6	67.7	11
All commodities	151.3	7	152.2	7	78.6	6
Housefurnishings	144.1	8	143.0	8	88.5	5
Textiles	138.4	9	138.0	9	73.8	8
Fuel and lighting materials	130.8	10	130.5	10	71.7	9
Chemicals and allied products	115.3	11	116.0	11	77.0	7

[1] 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. Price changes were recorded on only 3 of the items other than steel-mill products, while 42 items showed no price change. It should be pointed out that the Bureau of Labor Statistics uses prices of extras on only 11 of the 30 regular steel-mill products included in the index and that 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 (Consumers' Prices of Steel Products, Bureau of Labor Statistics, Mar. 31, 1943, p. 15).

Source: U. S. Bureau of Labor Statistics.

The CHAIRMAN. Are there any other questions?

Mr. RICH. I would like to ask this, Whether your industry in the field in which you serve has any competition?

Mr. PHELPS. We have plenty of it. We are the fifth or sixth largest company in the industry.

Mr. RICH. If you have got competition and you want to get business, what is it going to be necessary for you to do?

Mr. PHELPS. Make a bigger and better product at a lower price.

Mr. RICH. So that the enterprise system which has made this country great is going to thrive, your industry will thrive, provided you

are able to meet the competition and put out a better product than somebody else for the least money, and we are getting back more to normal now, so that, if these things go on, it will be the survival of the fittest in the manufacturing game or in any business enterprise; will it not?

Mr. PHELPS. That is right.

Mr. RICH. And if the Government leaves you alone, and if the business enterprises in this country are permitted to seek their level, we will get back to normal prices and prices that will keep each industry in this country on their toes to be able to survive; will we not?

Mr. PHELPS. I would qualify my answer on that, Congressman, because there is such a thing as having the pipe lines full. There is such a thing as overproduction, and there are many things that control the volume of business other than price or Government interference.

Mr. RICH. Well, you are now in a buyers' market. If you manufacture your product and you do not have ready sales for it, you have got to store it if you want to keep your plant running.

Mr. PHELPS. That is right.

Mr. RICH. What is one of your main interests now? Is it trying to keep the plant running and give your employees a job, or is it just a matter of trying to stay in business so that your executives have salaries and your stockholders have nothing? You have no idea of trying to keep your business going in that manner; have you?

Mr. PHELPS. No; our objective at present is to keep our plants running and to balance out employment, keep everybody working as much as we possibly can, to see that we have an ample inventory of finished goods in the field, in our dealers' hands, so that when a farmer comes in to buy a tractor or a manure spreader there is one there for him.

Mr. RICH. You have got 10,000 or more employees?

Mr. PHELPS. Between eight and nine thousand.

Mr. RICH. And, in order to keep those employees working and have jobs, it is going to keep you in the executive offices pretty busy; is it not?

Mr. PHELPS. That is the biggest job we have.

Mr. RICH. How many hours a day do you work in the executive office?

Mr. PHELPS. We work at least 40 hours a week, 8 hours a day, 5 days a week, the same as we do in the plant.

Mr. RICH. You mean your executives are down to the 8-hour day, too, now; are they?

Mr. PHELPS. We try to hold it to that.

Mr. RICH. You are in a better position then if you can do that only working 8 hours a day than the majority of concerns that I know.

Mr. PHELPS. I have always had an idea, Congressman, that if a man works efficiently and diligently he cannot work more than 8 hours a day.

Mr. RICH. I will bet you could get a job in lots of industries if yours closes up.

Senator FLANDERS. Mr. Chairman, I feel that the witness has something for Senators and Congressmen. I wish you were able to analyze what we do or think we have to do, and fix it so we could do it in an 8-hour day. I am sure it would be done better than it is being done now, if it could be done.

Mr. PHELPS. Senator Flanders, I mean nothing personal by this, but you understand I said working efficiently.

Senator FLANDERS. That is just it. I wish there were some way for us to work efficiently 8 hours a day.

The CHAIRMAN. I think I ought to say, Mr. Phelps, that Congress, from time to time obeying, I was going to say, and perhaps I will say, the clamor of the press, has passed legislation intended to streamline its operations. My observation has been that that streamlining has resulted in less efficiency and not more. I do not know where we could obtain the management counsel that would enable us to get down to 8 hours a day. Now, Mr. Phelps, in your statement on page 2, I find this sentence:

> All of these price increases will be reflected in higher costs of the products manufactured by Oliver.

The paragraph began by saying:

> Approximately two-thirds of the materials and supplies purchased by the Oliver Corp. consist of steel and steel products.

We had a witness yesterday from whom I wanted to quote this sentence:

> The added cost of raw steel going into such finished products as automobiles, refrigerators, washing machines and many others will not be a significant part of the final selling price on those products. In no case will it amount to enough to be a decisive factor with the buyers of the products.

Of course he referred to the price of raw steel. You have been dealing with the prices of extras as well as the price of steel. Now would you say that your conclusion that these prices will have to be reflected in prices to the consumers, or the other witness' statement that they will not, is correct?

Mr. PHELPS. I do not see how we can absorb it, Senator. Of course, we will try. We said it will reflect itself in our cost.

The CHAIRMAN. But in your statement it says that the average increase of steel and steel products to your corporation is 7.8 percent.

Mr. PHELPS. That is right.

The CHAIRMAN. And you are going to try to absorb that?

Mr. PHELPS. We are going to try to absorb all of it that we can. Of course, it is not only steel products that we have increases on.

The CHAIRMAN. Well, you can do that according to your statement, only if you continue to have the large volume with the very satisfactory profit status which you described in your report.

Mr. PHELPS. That is right.

The CHAIRMAN. Are there any other questions?

Mr. HUBER. Your company is in good condition, sound financially?

Mr. PHELPS. With a lot of borrowed money; yes. We recently borrowed $15,000,000.

Mr. HUBER. From whom, privately?

Mr. PHELPS. Yes; an insurance company.

Mr. HUBER. But the outlook is encouraging?

Mr. PHELPS. I would say we are in an average position; a little above average.

Mr. HUBER. Despite the restrictions, the so-called regimentation of the past 20 years, the restrictions in private enterprise, you built your sales from $12,000,000 in 1932 up to $101,000,000 today.

Mr. PHELPS. That is right. We took on another company during that time. We absorbed the Cleveland Tractor Co., which is a large percentage of that. On page 13 in that report is a 15-year performance chart. Of course, a lot of the increase is due to increased mechanization of farms.

The CHAIRMAN. Thank you very much, Mr. Phelps and Mr. Covington.

Mr. PHELPS. Thank you, sir.

(Mr. Phelps submits the following data:)

THE OLIVER CORP.,
Chicago 4, Ill., December 23, 1949.

To: Dealers and distributors of Oliver farm and industrial equipment.
From: Alva W. Phelps, president.

You are aware of recent labor agreements forced on major steel producers by a national strike. These agreements provide pension and insurance benefits for all employees. These pension plans have been established at company expense, and constitute a large addition to operating costs. The natural and immediate result has been an increase in the selling price of steel products to customers which include the Oliver Corp. and many of its principal suppliers. By December 20, 1949, the company had been advised by important steel suppliers of price increases ranging from 5.6 percent to more than 19 percent on certain products. The management anticipates that the average of such increases on all steel and steel products purchased will approximate 8 percent.

Following are specific examples of various steel products used by the company upon which price increases have been made since December 16, 1949. For your information, former and new prices, the dollar increases, and the percentage of each increase are listed.

	Price per ton		Increase	
	Old	New	Dollars	Percent
1 by 3/16 inch by 16 feet C–1095 steel (used on row-crop cultivators)	$88	$105.00	$17.00	19.3
2¾ inches square by 14 feet C–1095 steel (beam for disk plows)	79	82.00	3.00	3.8
1 by 1 by ⅛ inch by 16 feet mild steel angle (used various machines)	75	83.00	8.00	10.6
⅞ by 2¾ inches by 16 feet high-carbon steel (tractor plow beams)	74	79.00	5.00	6.75
1¾-inch rods by 16 feet C–1045 steel (axles for various tools)	71	74.00	3.00	4.22
Long terne sheets (for gasoline tanks)	96	111.00	15.00	15.6
Gage 20, 36 by 96 inches cold-rolled sheets, drawing quality (tractors, combines)	90	98.50	8.50	9.44
Gage 10, 36 by 96 inches hot-rolled sheets, commercial quality (various tools)	69	77.00	8.00	11.6

Union bargaining committees in Oliver's plants have submitted economic demands to the local plant managements and the company has offered to negotiate the issue of company-paid pensions. As a result Oliver's payments for labor will probably soon be increased, causing a further addition to its operating costs.

Material and labor costs accounted for more than 85 percent of Oliver's total expenditures during the past fiscal year, and the increase in such costs without a price increase would have a serious effect on the company's ability to continue to operate at a profit. It is difficult for me to see, at this time, how a general increase in the price of Oliver farm and industrial equipment can be avoided. We are now appraising the effect of these cost increases, and I believe the results will dictate that a general price increase be made.

This industry and the dealers and distributors of its products may be proud of its record during the long inflationary period 1939 to 1948 when price increases of our products were held to moderate levels at the same time as prices of steel, labor, and other important items of cost reached much higher levels. Any increase in the price of our products that may be forthcoming is necessary to protect the great investment in jobs, money, and better living which millions of American men and women have at stake in the farm and industrial equipment industry.

Sincerely,

ALVA W. PHELPS.

The Oliver Corp.—Statement showing the approximate weighted effect of increases in steel prices made December 1949, on steel purchased by the Oliver Corp.

[The examples under each classification show steel items purchased in substantial volume by this company]

Product	Old cost per ton (1)	New cost per ton (2)	Increase (3)	Weighted average cost per ton (old basis) (4)[1]	Weighted average cost per ton (new basis) (5)[1]	Percent increase (6)
Hot rolled carbon bars: [2]						
1⅝ inches round by 16 feet 0 inch, C–1050, for axles for various implements	$71.00	$74.00	$3.00			
1 inch by 1 inch by ⅛ inch by 16 feet 0 inch, mild steel angles, for various implements	77.00	87.00	10.00			
⅞ inch by 1½ inches by 16 feet 0 inch, C–1050, for plow beams	76.00	84.00	8.00	$75.00	$80.50	7.3
2¾ inches square by 16 feet 0 inch, C–1095, for disc plow beams	79.00	82.00	3.00			
1 inch by 2¾ inches by 13 feet 6 inches, C–1050, for tractor plow beams	71.00	76.00	5.00			
Cold rolled carbon bars: [3]						
¾-inch round by 16 feet 0 inch, C–1019, saw cut ends, 1,800-pound lots, for shafting	131.00	139.00	8.00			
2 inches round by 14 feet 0 inch, C–1045, saw cut ends, 20-ton lots, for shafting	104.00	113.00	9.00	120.00	128.00	6.7
1½ inches round by 14 feet 0 inch, C–1050, saw cut ends, 13-ton lots, for shafting	103.00	112.00	9.00			
Hot rolled alloy bars: [4]						
1⅝ inches round, No. 8620–H, 10 foot to 20 foot lengths, for transmission gears	155.00	159.00	4.00			
3¾ inches round, No. 4145–H, 10 foot to 20-foot lengths, for transmission gears	138.00	142.00	4.00	140.00	144.00	2.9
2⅝ inches round, No. A–4145–H, 20-ton lots, for axles for tractors	136.00	140.00	4.00			
Hot rolled strip: [5] 1 inch by 3/16-inch by 16 feet 0 inch, C–1095–HR, for row-crop cultivators	88.00	109.00	21.00	88.00	96.50	9.6
Cold-rolled light gage sheets: [6]						
Gage No. 20, 36 inches by 96 inches, drawing quality, for tractors and combines	90.00	98.50	8.50	90.00	98.50	9.4
Gage No. 20, 36 inches by 96 inches, commercial quality, for tractors and combines	85.00	91.50	6.50			
Hot-rolled heavy gage sheets: [7]						
Gage No. 10, 36 inches by 96 inches, commercial quality, for tractors and combines	69.00	77.00	8.00	69.00	77.00	11.6
Gage No. 10, 36 inches by 96 inches, drawing quality, for tractors and combines	74.00	84.00	10.00			
Galvanized steel sheets: [8] Gage No. 20, 36 inches by 120 inches, galvanized, for corn pickers	104.00	113.20	9.20	104.00	113.20	8.8
Terne plate: Gage No. 18, 30 inches by 98 inches, long terne, for gasoline tanks	96.00	111.00	15.00	96.00	111.00	15.7
Rail steel: [9]						
U bars, for spike harrows	76.00	84.00	8.00			
Channel flats, for spike harrows	71.00	75.00	4.00			
1¼ inches by 1¼ inches by 9/64 inch angle, for spreaders	72.00	82.00	10.00	71.00	78.00	9.9
1½ inches by 1½ inches by 3/16 inch angle, for grain drill frame	70.00	77.00	7.00			
1¾ inches by 1¾ inches by 3/16 inch angle, for corn planter frame	69.00	76.00	7.00			

[1] The weighted averages are approximate averages of all steel purchased in each classification, and not an average of only the items shown as examples.

[2] The base price of this class of steel was increased from $67 per ton to $69 per ton, and the extra charges on items purchased by Oliver were increased from a range of $4 to $12 to a range of $5 to $18 per ton.

[3] The base price of this type of steel was increased from $80 per ton to $83 per ton. Various extra charges applying to purchases made by Oliver were increased, including: steel containing 0.60 to 0.90 manganese up $1 per ton; extras on ⅜-inch round items up $8 per ton; extras on large sizes up $1 per ton; extras for cutting to length up $1 per ton; and extras on standard quality steel (special bar quality) up $2 per ton.

[4] The base price on this class of steel was increased from $75 per ton to $79 per ton. No changes in extra charges affected items purchased by Oliver.

[5] The base price on this type of steel was not increased. The average increase in extra charges amounted to $8.50 per ton.

[6] The base price of this class of steel was increased from $80 per ton to $82 per ton. Various increases in extra charges included: drawing quality increased from $5 to $7 per ton; new gage charges of $2; new length charges of $2; new wrapping charges of 50 cents; and new shroud load charges of 50 cents.

[7] The base price of this type of steel was increased from $65 per ton to $67 per ton. Various extra charges were increased, including: new gage charges of $2; new length charges of $1; new side cut charges of $3; new wrapping charges of 50 cents; and new shroud load charges of 50 cents.

[8] The base price of this class of steel was not increased. Various extra charges were changed; including: width charges increased from $2 to $20; and coating charges decreased from $14 to $5.20 per ton.

[9] The base price of this class of steel was increased from $65 to $66 per ton. Various extra charges were increased, including: quantity charges for purchases of 3 to 5 tons increased $1; quantity charges for purchases of 2 to 3 tons increased $4; and quantity charges for purchases of 1 to 2 tons increased $9. Extra charges one account of sizes were increased an average of $6 with some increases as high as $9 per ton.

The Oliver Corp.—Statement showing the approximate weighted effect of increases in steel prices made December 1949, on steel purchased by the Oliver Corp.—Continued

The examples under each classification show steel items purchased in substantial volume by this company]

Product	Old cost per ton (1)	New cost per ton (2)	Increase (3)	Weighted average cost per ton (old basis) (4)[1]	Weighted average cost per ton (new basis) (5)[1]	Percent increase (6)
Plates, carbon U. M.:[10]						
7/16 inch by 14 inches by 9 feet 5 inches, 45–55 carbon, for tractor plows	$68.00	$73.00	$5.00			
3/8 inch by 11 inches by 12 feet 5 inches, 65–80 carbon, for tractor plows	86.00	91.00	5.00	$70.00	$75.00	7.1
1/4 inch by 9½ inches by 12 feet 8 inches, 65–80 carbon, for tractor plows	88.00	99.00	11.00			
Structurals:[11]						
4-inch channels, for corn picker frames	75.00	81.00	6.00			
6-inch channels, for picker and combine frames	73.00	79.00	6.00	74.00	80.00	8.1
4 inches by 4 inches by 3/8 inch, mild steel angles, for various frames	69.00	72.00	3.00			
Special sections:						
Raydex section, for plow shares	106.00	112.00	6.00			
M–544, for grouser shoe for HG tractor	93.00	97.00	4.00	93.00	99.00	6.5
M–4397, for grouser shoe for A-B tractors	88.00	94.00	6.00			
S–348, for grouser shoe for F tractor	81.00	87.00	6.00			
Total, approximate average				84.49	91.12	7.8

[1] The weighted averages are approximate averages of all steel purcharsed in each classification, and not an average of only the items shown as examples.

[10] The base price for this type of steel was increased from $68 per ton to $70 per ton. Changes in extra charges were made, including the charge for minimum quantity which is now applicable to purchases of less than 5 tons instead of less than 3 tons. On quantity purchases above this minimum, a new extra charge of $2 per ton was established. Thickness charges on ¼-inch plate steel were increased $3.

[11] The base price of this class of steel was increased from $67 to $69 per ton. Various extra charges were increased, including charges for shapes, which ranged from $6 to $8 to a range of $10 to $12. Charges on odd-size angles were increased $1.

ANNUAL REPORT, 1949—THE OLIVER CORP.

A brief review of operating results for year ended Oct. 31, 1949

	Amount	Percent to total income	Per employee[1]
Sales and other income:			
Net sales of the company's products	$101,341,008		
Other income	309,960		
Total sales and other income	101,650,968	100.0	$11,294
Costs and expenses:			
Materials, supplies, freight, fuel, and other costs	57,029,162	56.1	6,337
Employees' wages and salaries for manufacturing and selling our products	30,112,811	29.6	3,346
Officers' salaries	377,514	.4	42
Charge to operations as cost of wear and tear on buildings, machinery and equipment (depreciation)	2,835,631	2.8	315
Social security, State, local, and other general taxes	1,332,607	1.3	148
Provision for income taxes	3,822,000	3.8	424
Costs and expenses applying to sales	95,509,725	94.0	10,612
Net earnings for the year	6,141,243	6.0	682
Dividends to stockholders for the year:			
On preferred stock ($4.50 per share) $368,509			
On common stock ($3 per share) 2,409,812			
	2,778,321	2.7	308
Current earnings reinvested in the business	3,362,922	3.3	374

[1] Based on average number of employees of 9,000 for the year.

Other data at Oct. 31, 1949

Current assets (cash, securities, amounts due from customers, and inventories of raw materials and finished goods)	$58,313,093
Current liabilities (amounts owed by Oliver for goods, services, salaries and wages, etc., in process of payment, for accrued taxes for current portion of term loan, and for dividends declared on common stock)	13,087,983
Net current assets (working capital)	45,225,110
Land, buildings, machinery, and equipment (net)	20,750,874
Source of funds used in the business:	
Borrowed from insurance company ($15,000,000 less $600,000 included in current liabilities)	14,400,000
Stockholders' investment (including earnings reinvested)	49,645,723
Total funds in use	64,045,723
Number of employees	8,400
Number of stockholders	10,335

DECEMBER 21, 1949.

To the Stockholders:

Net sales of the Oliver Corp. for the fiscal year ended October 31, 1949, were $101,341,008, which was within 2 percent of the peak volume attained in the preceding year. Net earnings were $6,141,243, equivalent to $7.19 for each share of outstanding common stock after dividends on the preferred stock, which was higher than in any previous year except for the $9.38 per share earned in 1948.

A comparison of operating results for the last 15 years is shown in the table on page 13.

DIVIDENDS

Regular quarterly dividends totaling $368,509 were declared and paid on the outstanding 4½ percent cumulative convertible preferred stock.

Dividends of $3 per share, amounting to $2,409,812, were again declared on the common stock in the fiscal year. It was the opinion of the board of directors that dividends in this amount were justified despite reduced earnings for the reason, among others, that capital expenditures in 1949 were substantially lower than in 1948.

WORKING CAPITAL

Working capital at the close of the fiscal year was $45,225,000, representing an increase of $10,427,000 in the year.

In July 1949 the company obtained a 20-year 3½ percent loan of $15,000,000 from an insurance company. Minimum semianual prepayments of $300,000 each are required, with provision for additional contingent and optional prepayments. Any unpaid balance is due on July 1, 1969. One-half of the proceeds of this loan was used to retire the outstanding term bank loans, and the balance was added to working capital.

The increase in working capital is accounted for as follows:

From operations—		
Net earnings for the year	$6,141,000	
Dividends declared	2,778,000	
Earnings reinvested in the business	3,363,000	
Depreciation provided (this did not require expenditure of cash)	2,836,000	
Reduction in prepaid expenses and other assets	67,000	
		$6,266,000
Deduct expenditures for plant and equipment ($3,335,000, less proceeds from property sold, etc.)		3,239,000
Increase in working capital from operations		3,027,000

From long-term loan:		
Loan of $15,000,000 from insurance company, less $600,000 current maturities included in current liabilities at October 31, 1949	$14,400,000	
Deduct repayment of term bank loans of $7,500,000 less $500,000 included in current liabilities at October 31, 1948	7,000,000	
Increase in working capital from long-term loan		$7,400,000
Total increase in working capital		10,427,000

It is anticipated that this additional working capital will be needed to meet the business problems incident to the return of competitive selling in the farm and industrial machinery business. Under the favorable conditions which prevailed until recently in the postwar period, requirements for working capital in relation to sales volume were substantially below the prewar level. Since business is returning to a more normal pattern, it is reasonable to expect that the requirements for working capital will increase materially in relation to sales volume.

Net trade receivables of $8,205,000 at October 31, 1949, were $2,340,000 less than at the end of the 1948 fiscal year. This decrease is attributable in part to a lower sales level for October 1949, which resulted largely from the resumption of seasonable buying. The decrease would have been greater but for the fact that the company's dealers are now taking more advantage of the credit available to them under their dealer contracts.

Inventories increased $2,676,000 during the year to a total of $33,368,000. The raw materials and work-in-process inventories decreased $4,860,000, while inventories of finished goods at the plants and sales branches and on consignment to dealers increased $7,536,000. The increase in finished-goods inventories was largely due to the policy of building up greater field stocks to provide prompt deliveries to customers.

Capital expenditures during 1949 were $3,335,000. Of this amount, 39 percent was for tooling for the manufacture of new and improved products. The remainder was used largely for renewal and replacement of machinery and buildings. These expenditures brought the amount spent for capital assets during the past 5 years to $23,081,000.

The tentative program for 1950 provides for capital expenditures of about $4,100,000, which will exceed estimated depreciation for that year by approximately $900,000.

SALES

Sales of the company's products were variously affected by changing business and market conditions during 1949. Sales of products for agricultural uses within the United States showed little change from 1948, but increased substantially in Canada and other export markets. Demand for industrial products fell off early in the fiscal year, and, although there was some revival toward the end of the year, the decline in industrial sales reduced total sales for the year about 2 percent below 1948. Demand for the company's agricultural wheel-type tractors, combines, and corn-pickers remained high throughout the year. Sales of hay balers declined sharply, but a new automatic baler which is being put on the market is expected to stimulate the demand for this product in 1950.

The company has been making active preparations for the return to competitive selling conditions. Approximately 200 salesmen are now engaged in selling the company's products to retail dealers, as compared with fewer than 100 salesmen at the low point in World War II, and as compared with about 175 salesmen employed immediately before the war.

EMPLOYEES

The company had 8,400 employees at October 31, 1949, as compared with 9,100 at the beginning of the fiscal year. Employee relations, on the whole, were good during the 1949 fiscal year. The company had only one strike, which involved but a single plant and lasted 2 weeks. Union representatives of most of the

company's employees have requested wage increases and company-financed pensions.

In the annual interplant safety contest, instituted in 1947, the Battle Creek plant, which produces harvesting machinery, won the Oliver president's award in 1949. The purposes of this contest are to reduce the frequency and severity of accidents, to minimize human suffering, and to improve plant housekeeping and working conditions.

After 2 years of the contest the number of working days lost due to accidental injuries in the company's plants and the number of these lost-time injuries have been reduced 55 percent below the level of the year before the contest started. In one of the plants there has not been a lost-time accident since January 31, 1949; since this date over 1,500,000 man-hours have been worked. These gratifying accomplishments have brought the frequency and severity of accidents in the company's plants well below the average in the farm-equipment industry.

OUTLOOK

It became evident in 1949 that farmers and industrial users were returning to their normal seasonal and selective buying habits. Demand for the major items of farm and industrial equipment manufactured by the company no longer exceeds its ability to produce.

As a result of the strikes in the steel and coal-mining industries, the company has removed from its 1950 production schedules goods having a sales value of about $1,500,000. Further adjustments may be necessary as the full effect of these strikes on the flow of materials becomes evident.

It is expected that sales for the first 3 months of the 1950 fiscal year will be substantially less than sales for this corresponding quarter of the 1949 fiscal year, but that sales in the second quarter will approximate those in the corresponding period of 1949. The management believes that 1950 sales will be below those of 1948 and 1949, but will still be relatively high as compared with other past years.

The management and the board of directors appreciate that the continuing progress of the Oliver Corp. is attributable to and dependent on the fine efforts and excellent cooperation of the entire organization, including the company's distributors and dealers.

Respectfully submitted.

ORA W. PHELPS, *President.*

By order of the board of directors.

J. FREDERICK CUNNINGHAM,
Chairman of the Board.

Statement of financial position, Oct. 31, 1949 and 1948

	1949	1948
Current assets:		
Cash	$12,726,736	$9,879,773
U. S. Government obligations, at cost	4,012,800	
Dominion of Canada bonds, at cost		900,000
Trade receivables, less allowance for losses and discounts (1949, $823,000; 1948, $900,000)	8,205,490	10,545,989
Inventories, at the lower of cost or market, less allowance for obsolescence and other losses (1949, $1,939,429; 1948, $1,959,098)	33,368,067	30,692,539
Total current assets	58,313,093	52,018,301
Current liabilities:		
Term loans—current portion (note 2)	600,000	1,000,000
Accounts payable and accrued expenses	6,976,665	8,953,144
Dividend declared on common stock	803,287	803,186
Provision for income taxes	4,708,031	6,464,393
Total current liabilities	13,087,983	17,220,723
Net current assets (working capital)	45,225,110	34,797,578
Prepaid expenses and other assets	769,738	836,622
Plant and equipment, at cost:		
Land and land improvements	2,049,539	2,048,949
Buildings, machinery and equipment	38,344,542	35,900,281
Less portion allocated to operations to date as depreciation	19,643,207	17,601,423
Plant and equipment, net	20,750,874	20,347,807

Statement of financial position, Oct. 31, 1949 and 1948—Continued

	1949	1948
Patents, designs, trade-marks and goodwill	$1	$1
Total	66,745,723	55,982,008
Deduct—		
Term loans—noncurrent portion (note 2)	14,400,000	7,000,000
Contingency reserves:		
General	1,500,000	1,500,000
Other (equivalent to reduction in 1942 income taxes, resulting from losses on Canadian subsidiary)	1,200,000	1,200,000
Excess of assets over liabilities and reserves	49,645,723	46,282,008
Derived from—		
4½ percent cumulative convertible preferred stock, $100 par value (outstanding 81,891 shares) (note 1)	8,189,100	8,189,100
Common stock without par value (issued, 822,351 shares) (note 1)	17,415,763	17,415,763
Paid-in surplus	3,566,346	3,566,346
Earnings reinvested in the business since 1934 (note 2)	20,888,231	17,525,309
Deduct Treasury common stock, at cost (1949, 19,060 shares; 1948, 19,160 shares)	413,717	414,510
Total	49,645,723	46,282,008

NOTE.—Reference is made to heading "Notes to Statement of Financial Position."

Statement of income for years ended Oct. 31, 1949 and 1948

	1949	1948
Sales and other income:		
Net sales	$101,341,008	$103,310,462
Other income	309,960	203,001
Total sales and other income	101,650,968	103,513,463
Costs and expenses:		
Cost of sales	81,139,333	81,454,017
Selling, administrative and general expenses	6,380,154	5,117,580
Charge to operations as cost of wear and tear on buildings, machinery and equipment (depreciation)	2,835,631	2,327,687
Social-security, State, local, and other general taxes	1,332,607	1,233,109
Provision for Federal and other income taxes	3,822,000	5,475,000
Total costs and expenses	95,509,725	95,607,393
Net earnings for the year	6,141,243	7,906,070

Statement of earnings reinvested in the business, for years ended Oct. 31, 1949 and 1948

	1949	1948
Balance at beginning of year (since 1934)	$17,525,309	$12,397,199
Net earnings for the year, as shown above	6,141,243	7,906,070
Total	23,666,552	20,303,269
Cash dividends on—		
Preferred stock ($4.50 per share)	368,509	368,940
Common stock ($3.00 per share)	2,409,812	2,409,020
Total	2,778,321	2,777,960
Balance at end of year (see note 2 to the "Statement of financial position" for restrictions)	20,888,231	17,525,309

NOTES TO STATEMENT OF FINANCIAL POSITION

(1) The authorized preferred stock is 125,000 shares, par value $100 per share, cumulative as to dividends and issuable in series. The 81,891 shares outstanding are designated as 4½ percent cumulative convertible preferred stock, redeemable at $104 per share plus accrued dividends, and convertible at option of holder into common stock at rate of three shares of common for each share of preferred.

The authorized common stock is 1,600,000 shares, of which 245,673 shares are reserved for conversion of preferred and 75,000 shares are reserved for sale to officers and employees or for other corporate purposes under terms and conditions to be approved by the stockholders.

Of the common stock in treasury, 5,900 shares are reserved until October 31, 1953, for sale to an officer at $21 per share.

(2) The long-term 3½-percent loan of $15,000,000 obtained in 1949 from an insurance company matures in 1969, subject to required prepayments as follows: (*a*) Semiannually starting May 1, 1950—$300,000, and (*b*) annually starting May 1, 1951—the lesser of $200,000 of 20 percent of the net income in excess of $1,200,000 for the preceding fiscal year.

The loan agreement limits cash payments for dividends on common stock or for acquisition of common or preferred stock to $1,000,000 plus the net income since October 31, 1948; and such payments may not be made if, after giving effect thereto, net current assets would be less than $30,000,000 or less than 200 percent of the funded indebtedness. Under this restriction, $16,525,309 of the earnings reinvested in the business at October 31, 1949, were not available for cash dividends on common stock or for acquisition of common or preferred stock.

AUDITORS' CERTIFICATE

CHICAGO, ILL., *December 21, 1949.*

To the Stockholders, the Oliver Corp.:

We have examined the statement of financial position of the Oliver Corp. (a Delaware corporation) as of October 31, 1949, and the related statements of income and earnings reinvested in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We had previously made a similar examination for the year ended October 31, 1948.

In our opinion, the accompanying statement of financial position and statements of income and earnings reinvested in the business present fairly the financial position of the Oliver Corp. as of October 31, 1949, and the results of its operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Sales, earnings, dividends, and amounts reinvested in the business since recapitalization in 1935

[Amounts are in thousands of dollars]

Year	Net sales	Net earnings		Special deductions	Dividends		Earnings reinvested in business
		Total dollars	Percent to sales		Common	Preferred	
1935	12,289	[1] 482	[1] 3.9				[1] 482
1936	18,809	1,153	6.1				1,153
1937	26,207	2,183	8.3				2,183
1938	18,778	61	.3				61
1939	19,112	430	2.2				430
1940	19,107	866	4.5	229	169		468
1941 [2]	23,162	1,660	7.2		168		1,492
1942	28,459	[2] 3,140	11.0	[4] 1,500	673		967
1943	30,864	1,762	5.7		840		922
1944	43,322	1,735	4.0	180	984	6	565
1945 [5]	58,554	1,675	2.9		802	369	504
1946	50,841	2,004	3.9		401	369	1,234
1947	73,783	4,072	5.5		803	369	2,900
1948	103,310	7,906	7.7		2,409	369	5,128
1949	101,341	6,141	6.0		2,410	368	3,363
Total	627,938	34,306	5.5	1,909	9,659	1,850	20,888

[1] Denotes loss.

[2] 10 months ended Oct. 31, 1941. Thereafter, the figures are for fiscal years ended Oct. 31.

[3] After $1,200,000 deduction in lieu of Federal taxes on income, credited to contingency reserve. This amount is equivalent to the reduction in 1942 Federal income taxes, resulting from deduction of losses on the Canadian subsidiary, which losses were reflected in the consolidated statements for prior years.

[4] Appropriated for contingency reserve.

[5] Operations of the Cleveland tractor plant, acquired Oct. 31, 1944, are included for 1945 and subsequent years.

[From Oliver Mirror, January 1950]

REPORT ON OPERATIONS FOR 1949

The following is a reprint of page 2 of the annual report for 1949 to shareholders of the company.

These figures are used as a basis for preparing the Company income tax returns to the Federal and state governments.

A brief review of operating results for year ended Oct. 31, 1949

	Amount	Percent to total income	Per employee [1]
Sales and other income	$101,650,968	100.0	$11,294
Costs and expenses:			
Materials, supplies, freight, fuel, and other costs	57,029,162	56.1	6,337
Employees' wages and salaries for manufacturing and selling our products	30,112,811	29.6	3,346
Officers' salaries	377,514	.4	42
Charge to operations as cost of wear and tear on buildings, machinery and equipment (depreciation)	2,835,631	2.8	315
Provision for income taxes; social security, State, local, and other general taxes	5,154,607	5.1	572
Costs and expenses applying to sales	95,509,725	94.0	10,612
Net earnings for the year	6,141,243	6.0	682
Dividends to stockholders for the year	2,778,321	2.7	308
Current earnings reinvested in the business	3,362,922	3.3	374

[1] Based on average number of employees of 9,000 for the year.

OPINION OF INDEPENDENT AUDITORS

In connection with our examination of the financial statements of the Oliver Corp. for the year ended October 31, 1949, included in the annual report to stockholders, we have examined the above "brief review of operating results." Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. In our opinion, said Brief Review presents fairly the results of operations for the year ended October 31, 1949, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & Co.

CHICAGO, ILL., *December 21, 1949.*

Other data at Oct. 31, 1949

Current assets (cash, securities, amounts due from customers, and inventories of raw materials and finished goods)	$58,313,093
Current liabilities (amounts owed by Oliver for goods, services, salaries and wages, and so forth in process of payment, for accrued taxes, for current portion of term loan, and for dividends declared on common stock)	13,087,983
Net current assets (working capital)	45,225,110
Land, building, machinery, and equipment (net)	20,750,874
Source of funds used in the business:	
Borrowed from insurance company ($15,000,000 less $600,000 included in current liabilities)	14,400,000
Stockholders' investment (including earnings reinvested)	49,645,723
Total funds in use	64,045,723
Number of employees	8,400
Number of stockholders	10,335

THE OLIVER CORP.,
Chicago, Ill.

To the Men and Women of Oliver:

You have read on the opposite page the excerpt from our annual report to the owners of the company, the shareholders, whose investment provides the tools and facilities which make all of our jobs possible. This review of 1949 operating results shows that, after payment of all costs and charges of doing business, your company earned $6,141,243, an amount equal to 6 percent on total sales of $101,650,968. This is 22 percent less than last year's net earnings of $7,906,070, which was equivalent to 7.7 percent on total sales of $103,513,463.

It is my opinion that the amount of 1949 earnings is the minimum necessary to run a business the size of Oliver on a sound, long term basis. As you know, business must compete for money as anyone else does. Only those companies who can earn and pay a fair return on capital invested with them by the public are able to attract the continued interest in their securities which, in turn, provides prosperity and job security for their employees. The 10,335 shareholders of Oliver who provided the necessary capital to operate the business received 2.7 cents per dollar of sales in 1949 for the use of their money and for taking the necessary risks involved. This left 3.3 cents for reinvestment in the business.

In the same connection, I should like to remind you of the fact that in spite of Oliver's substantial earnings during the past 3-year period, and the fact that more than $11,391,000 from total earnings of $18,119,000 during the same period was reinvested in the business, it was found necessary last year to borrow the large sum of $15,000,000 from an insurance company. One-half of this money was used to repay outstanding bank loans. The balance is being used to finance a broader distribution of the company's products among our dealers. This program will help us to meet ever-increasing competition from other manufacturers by making our products available at the time and place prospective customers want to buy them. The loan has already helped and should further help to stabilize production and employment during seasons when sales activity is normally slow.

I feel that closer relationships have been established and maintained within our organization during the past year. You have attained outstanding performance in our continuing safety and good housekeeping program, which is of such importance to everyone. Members of the Oliver organization have taken an increasingly active and effective part in the public affairs of their communities, and this has reflected desirable credit on them and on the company. The Oliver Mirror has finished its first year, and we have learned more about each other and our products. The Oliver suggestion plan has worked well, and its recently liberalized policies and achievements are nationally recognized.

Most local union committees at the plants have demonstrated a considerable appreciation of the company's problems in bargaining over economic issues. In other industries similar issues have been the cause of great confusion and unrest together with serious interruptions of employment and production. Many of these issues remain open at this time. Negotiations are continuing between plant managements and the local unions involved.

With further reference to existing and foreseeable competition, your company has made important advances during 1949 in the development and manufacture of new products. These new products and improvements made on already established products are expected to be well accepted by our customers in 1950. We must all realize, however, that such acceptance will be strongly influenced by the quality built into Oliver machinery and the price at which it is available. The price to the customer is directly related to cost, and the degree to which every member of the organization reduces waste and defective work will be an important factor in controlling the cost of our products and maintaining employment in our plants.

The coming year promises to test us as individuals and as an organization. I am confident that working together, we will meet this test successfully. We can and should resolve to increase Oliver's share of the total business done by our industry, whether this total of all sales of farm and industrial machinery goes up or down. Cooperative enterprise, honest effort, and making better use of new methods and facilities available should help us achieve this desirable goal.

Yours very truly,

ALVA W. PHELPS, *President.*

JANUARY 3, 1950.

How the Oliver sales dollar was divided

	Cents
Materials, services, and other costs	56.1
Employees' wages and salaries	29.6
Officers' salaries	.4
Cost of worn-out and obsolete equipment	2.8
All taxes	5.1
Dividends to shareholders	2.7
Earnings reinvested in the business	3.3

Let's suppose that all of the money received by Oliver for sales made during 1949 was represented by a dollar bill. Then suppose that we measured and cut this dollar bill into the exact sections expressed by the second column of figures on page 265. The result, pictured above, shows clearly what happened to the dollar—and to every dollar—that Oliver took in during 1949.

To look at the Oliver sales dollar for year 1949 in another way, certain large payments must be made outside of the company simply in order to stay in business. These expenses, shown above, are:

Materials, supplies, fuel, freight, and services needed to manufacture and sell out products—56.1 cents out of every sales dollar.

To cover the cost of worn out and obsolete buildings, machinery, and equipment—2.8 cents out of every sales dollar.

Our share of the costs of Federal, State and local governments, which are paid by the company in the form to taxes—5.1 cents out of every sales dollar.

The sum of these outside payments was 64 cents per sales dollar. Subtracting this amount from the total sales dollar, 36 cents was left in the business. This remaining amount was available for distribution to employees, officers, and the owners of the business. Let's see how this distribution was made.

The amount left in the business, after all necessary outside payments are made, might be called "available" dollars. Let's see how these "available" dollars were distributed.

Employees' wages and salaries for manufacturing and selling our products. This covers all employees except officers. 82.2 percent of the total.

This amount of earnings was reinvested in the business to protect and maintain the mutual interests of employees and owners of the company. 9.2 percent of the total.

Dividends paid to shareholders—owners of the Company. This sum was payment for the use of their money. 7.6 percent of the total.

Salaries of all officers of the company. This covers the cost of hiring the 13 men who plan and direct the business, and take the responsibility for its future. 1 percent of the total.

You will be interested in reviewing the company's business for the past year from another angle. You notice on page 265 in the last column that the operating figures were reduced to a "per employee" basis. In other words, if each one of us were running his own little business, here is how the figures would look for the year 1949:

You developed a product, manufactured it, found someone who wanted to buy it a the price you set, and did a total amount of business for the year of $11,294.

In order to make your product, you had to buy materials, pay freight in and out of your plant, buy fuel, supplies, and other items, which cost you over the year's time $6,337.

Let's suppose that you were "the works." You did all the buying, selling, planning, worrying, production work, engineering, and ended the day by cleaning up your office and shop at night. For that you paid yourself for the year wages of $3,346.

In order to establish credit and permit your business to operate most efficiently, you set it up as a legal corporation. Since you are "the works," you paid yourself for the year as president, vice president, treasurer, secretary, etc, 17 cents per day and for the year 42 cents.

During the year your building, your machinery, and other equipment started to wear out. Some of it become completely obsolete. To replace this worn-out and obsolete equipment it cost you for the year $315.

You paid your share of social-security taxes, you paid various taxes in the communities and States where you did business, and you figured out your obligation on the Federal income taxes your business must pay. Altogether this cost you for the year $572.

At the end of the year you went over your books, which showed that after you had paid all of the costs and expenses of operating your business for 12 months, you had earned $682.

It takes more than brains, ideas, ambitions, and know-how to start and run a business. It take money. You risked some of yours, and perhaps some friends also put some money in your business because they had faith in you and its future. In return for their risk and for the use of their money (which might have been profitably invested elsewhere), you paid as dividends, out of your earnings, for the year $308.

As a business man, you wanted to build up your bank account, improve some of your methods and equipment, and put away some money for a "rainy day." For this you used the last of your current year's earnings, $374.

The CHAIRMAN. Mr. Brubaker.

STATEMENT OF OTIS BRUBAKER, DIRECTOR, RESEARCH DEPARTMENT, UNITED STEELWORKERS OF AMERICA, CIO

Mr. BRUBAKER. Mr. Chairman, members of the committee, President Murray has asked me to express to you his full support and that of the Steelworkers and the CIO in your efforts to find out the full facts on this subject of the price increase recently made by the steel industry.

On receiving the committee's invitation to appear and present facts, President Murray felt that it was in the best interests of getting at the facts that he should ask his own research department to prepare and to present to the committee the fullest facts that we could find.

He felt, as do we, that insofar as our organization was concerned, there was not actually a policy question at stake. He has repeatedly stated the policy of our union under the CIO on the question of price increases, both in the steel industry and elsewhere along with the question of the ability of this industry to absorb further price increases. He felt very frankly that it would be better if we were to try to bring to you facts insofar as we could find them, rather than a restatement of our own policy and our own position on the question.

We assumed that the committee wants the facts and not merely expressions of opinion. Frankly, I have done nothing, as has my staff, for the last 2 or 3 weeks since we received this invitation from the committee, except work in an effort to try to find the full facts so we could bring them to you.

We were asked by President Murray to drop all other work and devote our full time to trying to find these facts and have them ready for you, so we do not feel that we have anything to apologize for in Mr. Murray's absence today. We have tried to give you what we thought you wanted, the facts, and not merely an expression of opinion.

Now, to turn to our formal statement, this statement is prepared in the main by our research department. It is, however, prepared with full consultation with President Murray and the officers of our organization, and it does represent an accurate statement of their own position on this question, and it has their full support and endorsement.

The United Steelworkers of America, CIO, welcomes this opportunity to testify on the recent steel price increases at the invitation of this committee. We have made a careful study of the recent general price increases in most steel products. We have examined the amounts of the increases. We have endeavored to ascertain the validity of the "reasons" cited by the industry in support of its actions. We have

tried to measure the impact on costs and profits of the alleged cost increases incurred by the industry, and we have also assessed the cost decreases of the period since the last general steel price increases. From this investigation we have reached the following conclusions:

1. The steel price increases have been misrepresented as an average $4 per ton or 4-percent increase. The average is substantially larger than this.

2. The price increases are without justification in terms of alleged increased costs since the last general steel price increases in July 1948. Actually, there has been a net decline in total steelmaking costs for the industry and for nearly all companies in the industry since August 1948.

3. The union cannot reasonably be held responsible for these steel price increases. If the pension cost estimates of these large companies can be, and are, accepted at face value along with the other cost estimates, they demonstrate that the price increases cannot be sustained on the basis of the added labor costs incurred by the companies. The pension cost estimates recently released by many of the companies are not nearly as large as was indicated or implied by these same companies at the time of their price increases. And even their eventual costs will be further reduced if the Social Security Act is amended to increase primary benefits.

4. These additional pay-roll costs could have been absorbed by the industry without unduly narrowing its profit margins and without a price increase. The Steel Fact Finding Board, appointed by the President last summer, so found after a full month of hearings.

5. Increased productivity in the industry has already wiped out any added labor cost resulting from the pension and insurance agreements and would permit a price decline. This was also recognized by the Fact Finding Board.

6. The result of the increased prices will be additional profits above the already high ones enjoyed by the steel industry during the postwar period and may revive inflationary tendencies in our economy.

Let us turn to section 1 of our report, entitled "The Union's Interest in Steel Prices."

The union's interest, the interest of the Steelworkers, the CIO, the labor movement—yes, of the public—in the increases in the price of steel should not require explanation. Some persons, both in the industry and out of the industry, however, seem to find it difficult to understand why the union, as they put it, injects itself into a matter which is none of its business. But there they err. The achievement and maintenance of maximum production and full employment is our business and it is the public's business.

As was recently pointed out by the President's Council of Economic Advisers, price increases at this time represent a real threat to this objective. With specific reference to steel prices the Council said in part:

> Steel affects the whole economy, and some reduction in steel prices would favorably influence the whole economic situation. * * * 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.

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Mr. RICH. Will the gentleman yield at that point for a question?

Mr. BRUBAKER. Yes.

Mr. RICH. By the President's Council of Economic Advisers, whom do you refer to in the Council of Economic Advisers?

Mr. BRUBAKER. This is the recent report which was published by the Council as its report to the President. I believe it is the report which is under consideration by this committee.

Mr. RICH. When?

The CHAIRMAN. The most recent report.

Mr. BRUBAKER. The most recent, the one in January of this year.

Mr. RICH. Did you read the report by Mr. Keyserling and Mr. Clark of January 1949?

Mr. BRUBAKER. Yes; I have read all of their reports.

Mr. RICH. Was that a correct report?

Mr. BRUBAKER. What are you driving at, Congressman.

Mr. RICH. What I am driving at, I am driving at your quoting Mr. Keyserling and Mr. Clark. Nobody was ever more wrong than the report of Mr. Keyserling which he made last February for this committee, and his testimony at that time in this committee. And if he was as wrong last February as he was in the report that was submitted, I do not attach much stock to quoting him now.

Mr. HUBER. At that point, Mr. Chairman, if we want to quote all the people who have been wrong in all their predictions here, we will have a very long list.

Mr. BRUBAKER. I do not pretend to try to defend everything in the report of the President's Council and all the reports they have issued. They have, however, in the most recent report which is under consideration by you, made a specific comment on a subject which is the subject of this hearing. We quote it for you for what it is worth. It happens to back up the opinion we hold.

Mr. RICH. The report made in December by Mr. Keyserling was just as opposite from the one he made last February as any two reports possibly could be.

Mr. BRUBAKER. I am sure it was not on this subject of steel price increases, however, Congressman.

The CHAIRMAN. Proceed.

Mr. BRUBAKER. The CIO and the steelworkers have striven since the war, as during the war, to prevent the onrush of inflation. During the war we supported the price-control legislation, which involved wage controls. Since the war we have certainly received little help from either Congress or from businessmen, particularly the latter, in stabilizing prices. Businessmen have urged continued voluntary wage stabilization, but have refused to hold prices in check.

Since we were unable to stem the general price increase tide, since our own cost of living continued to rise, and since higher corporate profits and increased productivity have resulted each year in this industry, we have felt that it was necessary to make repeated demands for wage increases. The unions, however, certainly have not "caused" inflation by these demands.

It is the high prices which are the inflation—prices which are neither set nor "caused" by the unions and which bear no relation to the costs of wage increases.

Mr. RICH. I want to ask a question right there. Do you mean that the increased costs of wages had nothing to do whatever with the increased cost of prices?

Mr. BRUBAKER. I think we will demonstrate, Congressman, in our testimony here, if you will be patient with me, that the increased cost which these companies say has resulted from their recent pension agreement does not represent a total net cost increase to them, and that they could easily absorb the cost increase.

Mr. RICH. That was not the question I asked you. I asked you whether the increased costs in labor had anything to do with the increased cost of prices.

Mr. BRUBAKER. We do not think this price increase in the steel industry was determined on the basis of increased costs in the industry. We shall demonstrate that, I think, in our testimony.

Mr. RICH. Considering the fact of increased social security and increased pension costs?

Mr. BRUBAKER. That is right.

Mr. RICH. Go ahead.

Mr. BRUBAKER. It was the refusal of industry, including the steel industry, to be satisfied with a fair and reasonable profit when price ceilings were removed in 1946 which resulted in the raising of prices, thereby bringing on inflation. Inflation came from the determination of many businessmen to take advantage of postwar shortages "to get theirs while the getting was good."

These are not mere allegations. Every one of you most certainly has heard this very expression from some of his more candid business acquaintances. It was for just such reasons as these that the union urged retention of price controls in 1946 and later the reimposition of selective controls where industries were unwilling to exercise price "restraint." It was for these same reasons that we have attacked unnecessary price increases.

The role of the CIO and the steelworkers in the postwar period has been mainly a defensive one. It has been an effort to give to our people the wherewithal to purchase the things they need—yes, even to buy back the product of their own labor. It has been an effort to keep industry from throwing us into a depression by siphoning off more profit than the system would bear.

We want and we must have lower prices. We are in full accord with the statement of the Council of Economic Advisers that—

> If there is any room for price change in some vital industrial areas, it is in a downward and not in an upward direction.

In the next breath the Council added "Steel prices are a case in point."

This, incidentally, is from the same report, the most recent report of the President's Council.

Mr. RICH. You are quoting the same report?

Mr. BRUBAKER. That is right, from the same report.

Mr. RICH. We had Mr. Keyserling and Mr. Clark in there and they reported one thing, and then you have seen the report of Dr. Nourse, which is quite the opposite. Of course, he was only one and there were three on the committee, and his report was entirely different than that of the other two.

Mr. BRUBAKER. Congressman, I am just not prepared to discuss that report here today.

The CHAIRMAN. Mr. Huber.

Mr. HUBER. Under the head of predictions of things to come, I would like to cite Mr. Rich as the greatest authority. He has been predicting the country is going bankrupt for 15 years.

Mr. RICH. I did not hear the gentleman. Was he speaking to me? If he was, I certainly would like to hear it.

Mr. HUBER. I said you have been predicting the country was going bankrupt for 15 years.

Mr. RICH. Well, we are. We are going $6,000,000,000 in the red this year, and we have gone every year you fellows have been running it. And you will see the wreck coming pretty soon. And don't forget that. It will be a sad day if you continue trying to run the country in the red at the rate of 5 or 6 billion dollars a year. I am trying to find out the fellows advocating that, and if you fellows keep on you will be sorry, and the people you represent will be sorry.

Mr. HUBER. Congressman, I am trying to preserve the good financial condition of your company over there in Pennsylvania.

The CHAIRMAN. I think I ought to say for the record that every report received by Congress from the Council of Economic Advisers since it was established was a unanimous report. There never has been a minority report.

Mr. RICH. You mean when Dr. Nourse was in there?

The CHAIRMAN. He never signed a minority report.

Mr. RICH. Oh, what are you talking about? They do not agree at all. You know that and everybody else knows it.

The CHAIRMAN. I say the record is plain. He signed every report that was submitted to Congress.

Proceed, Mr. Brubaker.

Mr. BRUBAKER. Many prices were moving downward in 1949. The steelworkers had, on the recommendation of a Government-created board, foregone its demand for an increase in wages in the interests of preventing further steel and other price rises. We did not think the steel industry would need to raise prices if it raised wages. We accepted the fact-finding board's recommendations in the public interest. We settled our contract negotiations for pension and insurance arrangements, the major costs of which will not be felt for many years by the steel industry and which will, in increasingly larger part, be absorbed by the Government if it takes over a greatly enlarged share of this burden as now appears probable.

The CHAIRMAN. This point is the real point of your presentation, namely, that the steelworkers did not get an increase of wages as the result of the recent bargaining; though they asked for such an increase, they settled for an increase of pension. So that the question is, did the pension increase cause the increase of prices? If so, to what extent?

Mr. BRUBAKER. That is one of the major points which we plan to develop in the course of the testimony, Senator.

Mr. RICH. You had the statement made, Mr. Chairman, yesterday by Jones & Laughlin that the cost to them was going to be, I think, $1,800,000, and earnings of the company over the past 6 or 8 years had netted 1.6 percent.

Mr. BRUBAKER. If I remember, Congressman, Jones & Laughlin yesterday said they were not prepared to give you an estimate of their increased costs and pensions because even their own actuary had not finished deciding what it was going to cost them.

Mr. RICH. I was under the impression it was $1,800,000. Some figure was mentioned. If I made an error, I want to apologize for it, because I do not want to make any misstatements. I thought the statement made, Mr. Chairman, was to that effect, that costs were high and earnings were 1.6 percent over the past 10 years. Am I right there?

The CHAIRMAN. Mr. Brubaker is correct according to my recollection. Admiral Moreell was not able to say what the increased costs would be because he had not received his report from Mr. Buck's company.

Mr. RICH. I have no desire to try to misquote anybody. I am not trying to do that, I assure you.

Mr. BRUBAKER. I am sure of that. Yet this industry has chosen, at this critical period, to defy the public interest and to throw its weight toward a reversal of the downward price trends. It must have known the unfavorable influence that its price increase action would have upon our economy. Yet, it took such action, insofar as we can ascertain, without consultation with anyone, including the Government and its customers.

The steelworkers did not bargain for a price increase in its recent settlement with this industry. As you know, the union does not bargain with the industry on prices, nor does it "deal" with these companies covertly beneath the bargaining table on this important subject. The leading steel companies must bear the sole responsibility for their price actions.

If there are some smaller steel companies who can make a case for price increases in their situations, they are not the ones who brought on the increase in prices. The leading companies set the prices.

From the very outset of its 1949 negotiations, the union stated repeatedly that an increase in prices was not necessary in order to satisfy the union's demands. We so testified with all the facts and figures at our disposal before the Steel Fact Finding Board appointed by the President of the United States. We urged that the industry could absorb a reasonable increase in pay-roll costs and still cut steel prices.

The Board, mind you, not the union, found a need for general stability in wages and for a downward movement of prices. It recommended that the union withdraw its wage increase demand, lest it should possibly set off further inflationary price boosts. This we did without hesitation. The Board recommended further that the companies grant a 6-cent and 4-cent pension and insurance arrangement, which it specifically found the industry could grant without raising prices. This was possible, in major part, because of the cost reductions which the companies were receiving and would receive from plant improvements. It found further that the companies could absorb these costs "without unduly narrowing the profit margins of the industry or its ability to hold or even lower its prices."

On page 6 of its report, the Board flatly stated further, with reference to lower costs and higher profits accruing from the industry's plant modernization programs, that—

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 renew its demand for increase of wage rates in order better to participate in the industry's prosperity.

You know how these recommendations were received by the industry. The companies obstinately refused to accept the recommendations. They forced a strike throughout the steel industry—a strike which they could easily have avoided and which they finally settled by granting pension and insurance benefits, as recommended by the Board. Then they promptly raised prices—as much as to say, "the public be hanged." In effect, they said that the facts, as found by an impartial investigatory body, after more than a month of hearings, meant absolutely nothing to this industry and to its leaders.

Not satisfied with this action, this industry has now tried again to blame the steelworkers for this latest unwarranted increase in its prices. We are tired of being a public whipping boy for this industry, especially when we are charged with the responsibility for things which we have not done. The leaders of the Steelworkers' Union were happy, therefore, to accept the invitation of this committee that a union representative appear and shed what light the union could on this action of the industry. We are determined to speak out so that the public may know the truth concerning this price increase. We trust that the committee will not let the industry rest until it has required every company of any significance to appear and try to defend its price action—actions which we contend are indefensible. We hope that the public interest may thereby be served.

Now, turning to the question of the recent history of steel price increases.

The general movement of steel prices since removal of the artificial price "restraint" forced by price controls has been most rapid and most steady. This movement is highlighted by some major price shifts, but a more careful study shows a steady and almost uninterrupted increase in prices. A significant portion of total steel prices is made up of "extras," charged for width, length, thickness, quality, quantity, packing, loading, marking, chemistry, check analysis, straightness, resquaring, and a host of other specifications. These "extras" are added to the so-called base price. This is what is paid, plus freight, by the steel user. The only published "price" of steel, however, is the base price.

The figures appearing in the recently revised finished steel price composite published by the trade magazine, Iron Age, show the following increases per ton in base prices:

	Base price increase per net ton
December 1944 through January 1946	$1.36
January 1946 through March 1946	5.10
March 1946 through March 1947	3.30
March 1947 through August 1947	6.18
August 1947 through April 1948	.96
April 1948 through June 1948	—.60
June 1948 through August 1948	10.18
August 1948 through November 1949	—.30
November 1949 through December 27, 1949	2.62
Total increase	28.80

This $28.80 per ton represents an increase of 60.1 percent, and these are industry figures, over the OPA base price of $47.92 per ton which

existed throughout 1941–44 period and which was used as a starting point in the above comparisons. The base price per ton now, according to this price composite, is $76.72.

Mr. RICH. At that point, Mr. Brubaker, do you have in your table here the increased price in labor during that period?

Mr. BRUBAKER. No; I do not, Congressman.

Mr. RICH. Can you insert that in here at this place?

Mr. BRUBAKER. We will be very happy to furnish that to you.

Mr. RICH. And insert it in the record at this point, please.

(The information above referred to is as follows:)

Changes in average hourly earnings and general wage changes for selected periods corresponding to periods for which price changes are shown in the preceding table [1]

Period	Increase in average hourly earnings [2]	General hourly wage increase
	Cents	
December 1944 through January 1946	−1.0	None.
January 1946 through March 1946	12.1	18.5 cents (February 1946).
March 1946 through March 1947	4.3	None.
March 1947 through August 1947	15.5	15 cents (April 1947).
August 1947 through April 1948	2.5	None.
April 1948 through June 1948	.2	None.
June 1948 through August 1948	12.7	13 cents (July 1948).
August 1948 through October 1949 [3]	.4	None.
Total increase	46.7	46.5 cents.

[1] Submitted at request of Congressman Rich.
[2] BLS data used; figures represent change from first to last month of period. Hourly earnings include overtime.
[3] Latest BLS figures available are for October 1949. There has been no general wage change since that month.

The above data bear out our statements on pages 559–560 of the transcript that increases in steel prices "have borne no definable or reasonable relationship to wage increases" (p. 560), and that "usually the pattern has been two price increases for each wage increase—one price increase before the wage increase and one after" (p. 559). It should also be noted that average hourly earnings during this period increased by 39.6 percent of the hourly earnings of 117.9 cents in December 1944, and general wage increases represented 39.4 percent of December 1944 earnings; while prices increased by 60.1 percent during the same period.

Mr. BRUBAKER. Steel magazine, another trade publications, uses a slightly different product mix for its price composite. Its index shows an increase of $31.30 per ton, or 58.3 percent, over this same period.

The price increases, as shown in the above listing, were much more concentrated chronologically than is indicated. During most of the OPA period this steel-price composite showed no change. The first one was in January 1945. From December 1944 through January 1946 there were scattered increases in early 1945 which totaled $1.36 in base prices per ton. The first major increase came in February 1946. It shows up in the March prices as $5.10 per ton. There were no further general increases until price controls were lifted on most steel products on November 11, 1946. There then followed immediately scattered increases in December 1946 and January and February 1947, which totaled $3.30 per ton.

These base-price increases, however, were accompanied by so-called radical increases in "extras,"—and that term was the term used by

the industry press itself—estimated by the trade press at the time as averaging $6 per ton. These latter increases, however, are not reflected in the price composite. In July 1947 the increases in base prices averaged $6.18 per ton as reflected in the August prices. In February 1948 there was an increase of 96 cents per ton. This was also the month of the $5 per ton increase in the prices of semifinished steel—an increase also not reflected in this index, because the index includes only finished steel. You may remember at the time you were holding hearings in February of 1948 you were talking about the increase only in semifinished steel. Actually there was at that same time an increase in finished steel which does not show until we actually see the industry's own price index.

There then followed the much heralded price decrease of May 1948, which ends up as an average of 60 cents per ton decline instead of the announced $1.25. In July 1948 the major increase in base prices occurred—it totaled $10.18 per ton. And then followed scattered price shadings, starting in February 1949 and continuing through June 1949, which were of a relatively minor nature, totaling only a decrease of 30 cents per ton. The last general increase is the one presently under discussion, which occurred in December 1949, and which totaled $2.62 per ton in base, according to this index. This is in contrast to the figure which has been cited by the industry at the time of approximately $2 a ton. It was accompanied by extras, which were purportedly as large as the base increase and which Iron Age and Steel magazine variously termed "drastic" and a revolutionary method of arriving at extra prices which would require a revolution in steel-buying habits.

From the above, it is possible to identify seven clearly defined price increases during this period. Of these, two were scattered increases spread over a period of some months. All but two, however, of the seven were larger increases than the one recently made. There were only two decreases during the period. The larger of them averaged only 60 cents per ton. This is the figure to which the so-called $1.25 decrease of May 1948, finally is reduced, a figure not even 50 percent as large as the announced decrease in prices at that time. The other decrease is a minor one, only 30 cents a ton, occurring last spring when the market for steel fell off enough that most premium prices were eliminated.

The full amount of the increase in steel prices during this period still remains a company and industry secret. As you know, extras have made up an ever-increasing portion of the price of steel. The Department of Justice indicated in a study submitted to the TNEC in 1939 that extras constituted roughly 10 percent (9.9 percent) of the total delivered price of certain steel products, though on sheet and strip it averaged 18.8 percent and 29.7 percent, respectively. The 10 products there studied constitute about 60 percent of all shipments today. The precise amount of increase in extras since then we do not know. We know they became more common during the war. They have been even more generally applied since then, extending to nearly all steel products. There is every reason to believe that the amount of the increase in extras during the postwar period substantially exceeds, percentagewise, the increase in base prices during the same period. As a writer for one of the trade publications stated in the March 11, 1948, issue of Iron Age, "It is impossible to order any

popular steel item without paying some kind of an extra." That was not true many years ago. In fact, it was not true even as recently as 10 years ago.

He gave many examples comparing the increases in base prices with the increases in extras since 1939. The increases in extras were far larger, percentagewise, than the corresponding increases in base prices on the many heavy tonnage popular items which he checked. Thus, it is clear that the total increase in steel prices, when both base prices and extras are used, has been considerably greater than the 60 percent shown when only base prices are used.

In contrast to these seven price increases, there were only three wage increases during this period, in addition to the recent pension and insurance settlements. There has been no wage increase in the steel industry since July 1948. The only pay roll cost increase is the one which will arise from the pension and insurance settlement. And these effects will not be felt, in most instances, for some time.

Mr. RICH. May I ask you a question there?

Mr. BRUBAKER. Yes, sir.

Mr. RICH. Even though a pension system today would not increase the costs immediately, is it not necessary for the companies to lay aside a certain amount to build up for the emergency that will come, and that will naturally be an increase on their costs at this particular time?

Mr. BRUBAKER. That depends, Congressman, of course, on how you decide to finance your pension program. There are companies that we have settled with that are using just a strictly cash payment approach, by which they just pay the pensions as they fall due.

Now the increased cost to them now is very small, and obviously is no justification for price increases.

Mr. RICH. If you want to build up a sound pension system, it is going to be necessary for you to have a sound system in order to do it, is it not?

Mr. BRUBAKER. Of course it is, and we want sound pension systems, obviously.

Mr. RICH. It does not mean very much today but is likely to mean a great deal more in 10 years. You want those men protected by having a sound system established in order that they could be protected when that time comes.

Mr. BRUBAKER. We certainly do, and we have striven in our pension agreements to achieve as great a degree of soundness in the pension settlements as possible. We have made a number of types of settlements. That is only one, Congressman. We have arrived at settlements where the amount necessary to fund pensions for a person is set aside at the day he retires so there is no question about his getting the pension. And we have also arrived at other arrangements which provide a very much fuller funding and, therefore, in terms of, at least your frame of reference, are more sound pension plans.

Mr. RICH. The men that are working today are looking forward to their daily wage. But after they get to the age of retirement, then they expect to receive this pension and, therefore, it is going to be incumbent upon the company to make that just as solid as it can in order to pay the daily wage. If the employee is going to be properly taken care of that is necessary.

Mr. BRUBAKER. We have no quarrel with you there on that. We want a sound pension plan and we are quite willing to see the companies incur the necessary costs for making such a pension plan sound.

Mr. RICH. Then the total cost of that pension plan by some actuary based on good sound business judgment should go into effect as soon as they establish the pension plan, should it not?

Mr. BRUBAKER. You will find a much fuller discussion, if you will be patient with us, a little later on this question. We certainly have no quarrel with you that pension plans should be sound and have to be paid for.

Mr. RICH. In other words, the plan you want to make, you want to make a sound plan?

Mr. BRUBAKER. That is quite right, sir.

Mr. RICH. Go ahead.

Mr. BRUBAKER. Back to this question of price increases and wage increases.

It is true that major price increases have followed each wage increase of the postwar period. But this is only part of the story. Usually the pattern has been two price increases for each wage increase—one price increase before the wage increase and one after.

Because of the existence of price controls in 1946, no general price increase immediately preceded the wage increase. So, we find that an increase of $5.10 per ton in base prices in that year was sufficient to support a wage increase of 18.5 cents per hour and still substantially increase steel company profits. In 1947, however, the total increase was $9.48 per ton in base prices, plus $6 per ton in extras—increases which were both precedent and subsequent to the wage increase. As you will note, these increases were more than three times as large as the 1946 price increase; yet the wage increase which they preceded and succeeded was less—it was only 15 cents per hour.

In 1948, with a wage increase averaging only 13 cents per hour, there were again price increases both before and after the wage increase, which totaled a net increase in base prices of $10.54 per ton. In 1949, there was an increase of only 2.5 cents per hour for insurance for most of the companies, and an indefinite amount for pensions, which will be largely future cost. Yet the net increase in base prices immediately succeeding the recent contract settlements was $2.62 per ton—using the Iron Age composite of finished steel prices—plus an increase in excess of $2 per ton in "extras." There was no price movement immediately preceding this contract settlement.

It should be obvious from the foregoing analysis that the industry's price increases have borne no definable or reasonable relationship to wage increases—certainly no relationship to the "costs" arising from the wage increases. Yet, wages are a major cost in the steel industry—nearly 40 percent of sales revenues for United States Steel. We might, therefore, expect to see a close relationship between wage increases and price increases, as the corporation and industry have always alleged there is.

We recognize, of course, that increased wage rates do not always result in higher labor costs. Increased productivity can, and often does, absorb much of the cost of a wage increase or other increased costs. Even a cursory examination shows that wages and prices have not moved together in the postwar period. The largest wage increase of this entire period was accompanied by the smallest price increase.

Furthermore during this period, the net profits of the industry have steadily increased. How, in the face of these facts, this industry can continue to blame labor for these price increases we find it difficult to understand. It appears to us that labor is merely a convenient scapegoat. The companies have deliberately chosen to increase their profit margins by raising prices. They have felt that there would be less criticism of this profit-taking if they could make it appear that labor cost increases were to blame. They have failed to make their case.

An examination of the relationship of the wages and salaries bills of major steel companies to their net profits and to sales buttresses this conclusion. It shows a sharp and steady increase in net profits as a percent of wages and salaries for almost every single company which publishes these figures.

Mr. RICH. May I say this, Mr. Chairman? You were here yesterday, Mr. Brubaker. I did not hear all the steel companies and I am not interested in steel companies. I was just interested in trying to get their statement. When I saw the statement by Jones & Laughlin, and the gentleman testified as to their earnings and the amount of business they did—do you feel the business they were doing was a legitimate sound business from the standpoint of the company and the standpoint of the employees?

Mr. BRUBAKER. Frankly, Congressman, I do not know what you mean by legitimate. I trust all the business they did was purely legitimate.

Mr. RICH. The stockholders' earnings were 1.6 percent over the period, I think, since 1926, the period they were operating. They took over from some other company.

Mr. BRUBAKER. You have got to remember that the figures they gave you are not based upon the usual approaches to figuring the rate of return on investment. They have used a number of concepts that are not used in common accounting terminology which result in greatly decreased stated profits or return to the stockholder.

Let me show you what Jones & Laughlin, for instance, has done in this period. Now we are talking about a price increase in December of 1949, a recent one, which has something to do presumably with their costs.

Mr. RICH. I am talking now of the general statement he made that the company over a period of, say, 10, or 12, or 15 years had a certain return.

Mr. BRUBAKER. That statement, in our opinion, is grossly misrepresentative of the actual facts with regard to their own stated profits and their own rate of return to their investors on the investment in their business. We have figures here, taken from their own annual stockholders' report.

Mr. RICH. And you mean to say the testimony they gave here yesterday was not an honest statement?

Mr. BRUBAKER. I did not say that, sir. I said it was misrepresentative. A statement can be completely honest and still be quite misrepresentative.

Mr. RICH. You got me. I thought the only way to do business was by good honest bookkeeping, and I did not know they could misrepresent it that way.

Mr. BRUBAKER. I am sure most people attempt to dress up their own figures so they can make as good a case for their own position as possible. Jones & Laughlin did that.

Mr. RICH. Is that what you are trying to do now?

Mr. BRUBAKER. No, sir.

Mr. RICH. Oh, you are different. All right, go ahead.

Mr. BRUBAKER. Perhaps you do not appreciate the fact, Congressman, we happen not to be in business for a profit, so we are not making a profit from this price increase.

Mr. RICH. I am anxious to get an honest statement now, if that was not honest, and we will just let you proceed.

Mr. BRUBAKER. I think the fact was brought out at the hearing yesterday by the chairman, when the Jones & Laughlin presentation was made, that Jones & Laughlin's return to its stockholders was actually 8 to 9 percent on investment and not 1.6 percent, as they stated in their statement. Now, there was no contradiction of that when the chairman developed the point yesterday. So I say there can be a considerable amount of misrepresentation without a lack of honesty.

Mr. RICH. I am not going to argue it. I just asked that for information.

Mr. BRUBAKER. I would ask you to look quickly at the table which we have at the top of page 9.

(The table is as follows:)

Company	Net profit as a percent of wages and salaries			Wages and salaries as a percent of sales		
	1946	1947	1948	1946	1947	1948
United States Steel	12.6	14.1	12.5	47.1	42.6	41.7
Bethlehem Steel	10.6	11.9	17.8	50.2	41.4	38.5
Republic Steel	10.0	14.1	18.9	38.6	33.8	31.8
Jones & Laughlin	10.3	14.1	20.6	42.2	38.9	33.9
National Steel	28.2	29.7	37.5	30.1	27.2	24.4
Youngstown Sheet & Tube	22.2	32.3	35.8	29.7	26.6	26.4
Armco Steel	24.3	26.5	29.8	32.9	30.3	28.1
Inland Steel	26.2	38.8	42.2	27.3	24.4	23.3
Sharon Steel	16.1	23.5	26.0	32.7	30.3	29.8
Wheeling Steel	12.1	23.8	26.5	40.2	37.1	36.5
Colorado Fuel & Iron		12.6	12.7	47.3	42.9	41.0
Crucible Steel	1.2	4.2	.65	49.3	45.6	42.2
Pittsburgh Steel	.2	12.0	14.7	45.9	39.0	36.6
Portsmouth Steel	(1)	28.9	29.4	(1)	27.3	26.0
Lukens Steel	.005	17.2	13.5	39.9	31.3	29.2
Granite City		30.2	44.8	37.1	24.4	21.2
Copperweld Steel	9.1	12.7	36.8	17.3	22.1	18.0
Alan Wood Steel	10.3	20.4	38.5	30.3	26.6	22.5
Newport Steel	6.7	6.5	7.5	36.5	30.1	32.6
Allegheny Ludlum	18.4	15.2	15.1	37.6	37.0	35.6
Studebaker Corp., including Empire Steel	(1)	(1)	22.8	(1)	(1)	21.8
Continental Steel	11.0	14.9	20.1	35.4	32.1	27.3
Rotary Electric	16.0	22.5	75.8	30.3	24.2	17.6
Northwestern Steel & Wire	14.8	38.7	26.7	32.8	24.7	25.0
Follansbee Steel	23.9	36.9	30.4	29.3	26.8	21.0
A. M. Byers	2.6	19.2	23.3	41.0	35.2	31.6
Babcock & Wilcox	(1)	(1)	20.5	(1)	(1)	35.9
Continental Copper	(1)	(1)	24.2	(1)	(1)	29.3
Latrobe Electric	20.0	13.7	14.9	38.0	41.4	39.5
American Steel Foundries	13.1	12.8	21.2	51.5	42.6	36.8
Blaw-Knox	(1)	12.3	14.5	(1)	43.9	41.0

[1] Not available.

Mr. BRUBAKER. This table shows the relationship of wages and salaries both to net profits for these major steel companies and to sales.

Now, these figures that we have used during this postwar period are all taken directly from the profit-and-loss statements which are issued

as a part of the annual reports of these companies. We have used in every case the stated profit of the companies.

Now, we have some comments to make later as to whether those are, in our opinion, accurate representations of the profit they made in the period, but we have used in this table the actual stated profit which they say they made, and I would invite your attention—all of you—to what those figures showed during recent years.

An examination of the relationship of the wages and salaries bills of major steel companies to their net profits and to sales buttresses this conclusion. It shows a sharp and steady increase in net profit as a percent of wages and salaries for almost every single company which publishes these figures. Likewise, wages and salaries, as a percentage of sales, shows a marked and steady decline during this period for almost every company furnishing such data. These relationships for the companies involved in the fact-finding hearings last summer are set forth in the following table for each company where information was available. As you might expect, a number of the companies in the industry, which were involved in those proceedings, do not even make this minimum basic information public. Comparisons for 1949 are not available because almost none of the companies release this information except on an annual basis. The apparent deviation from this pattern in the first set of comparisons for United States Steel results from using its stated profits which already reflect deductions for "extra depreciation" and other special charges and credits. Eliminating these items in all 3 years would lower the figure of 12.6 percent for 1946 and would increase the figures for 1947 and 1948, respectively, to 17.4 and 19.3 percent.

The CHAIRMAN. You say you have used the companies' statement of profit?

Mr. BRUBAKER. That is right. We have not adjusted it for accelerated depreciation or anything.

The CHAIRMAN. What figure on wages and salaries have you used?

Mr. BRUBAKER. We have also used the companies' stated figure for total employment costs where that was available. Where not available, we have used figures that they called variously in their reports wages and salaries or some such general terminology.

The CHAIRMAN. Do I understand that this table purports to show a percentage of net profit in relation to wages and salaries?

Mr. BRUBAKER. That is right.

The CHAIRMAN. And the ratio of wages and salaries to sales?

Mr. BRUBAKER. That is right.

The CHAIRMAN. On the basis of these figures which you have taken from the report of the companies mentioned?

Mr. BRUBAKER. That is right, sir.

The CHAIRMAN. These are not your figures?

Mr. BRUBAKER. These are not our figures—not adjusted figures.

The CHAIRMAN. You made the computations of percentages?

Mr. BRUBAKER. We have made only the computation of percentages, and I used a perfectly good calculator, and I am sure I got the correct answers here.

Mr. WOLCOTT. What is included in these figures on wages and salaries?

Mr. BRUBAKER. Obviously most of wages and salaries is what actually goes out in the pay envelope each week.

Mr. WOLCOTT. I submitted that in leading up to this question: Do these figures on wages and salaries include social security payments or pensions, or is it just take-home pay?

Mr. BRUBAKER. This is not take-home pay. There are a few instances in which the companies do not say whether wage and salary figures do include social security taxes, for instance. Most of them do. Where they did, we have included that. They do include pension costs where these companies had pension plans and that was considered a part of employment costs.

Mr. WOLCOTT. Your understanding of the figures on wages and salaries is that they include all employment costs?

Mr. BRUBAKER. They include all employment costs insofar as we could find those in the companies' reports. You know each of the companies makes up their own report and their own pattern and they do vary some. Some of the things are not as purely labeled as they might be.

Mr. WOLCOTT. And you are going to take the company statements now and make them correct?

Mr. BRUBAKER. We are not doing any correcting, sir. All we are doing is converting those company figures without any adjustment to percentages to show the relationship of these employment costs they have used for the price increase, and we are showing what has happened to those employment costs in the last few years for each of these companies.

If you will look at that second column with me for just a moment our figures show that for nearly every one of those companies the percent that wages and salaries is of their sales dollar has shown a steady and marked decline in each of the last 3 years, and this same trend is evidenced in such figures as we have been able to get for 1949 already, although the complete figures are not yet out.

Mr. WOLCOTT. Just another question in that respect, if I may. Your first column is entitled "Net Profit as a Percent of Wages and Salaries." That is a little confusing to me. I thought you were comparing the increase in wages and salaries to the increase in profit. What do you mean by "Profit as a percentage of wages and salaries"?

Mr. BRUBAKER. You know one of the things these companies have attempted to do in the last year or two is to show how little their profit actually is as compared to the amount of wages and benefits they pay to their employees.

The CHAIRMAN. Mr. Brubaker, let me see if I can clarify this point.

Take the first company, United States Steel, in your first column. For 1946 you say that on the basis of the total amount of profit reported by United States Steel to its own stockholders in 1946 that amount was 12.6 percent of the total amount which they reported at the same time as their expenditure for wages and salaries.

Mr. BRUBAKER. That is right.

The CHAIRMAN. And that is true of 1947 and 1948?

Mr. BRUBAKER. That is right.

The CHAIRMAN. In other words, you are merely trying to show the relationship between the total amount which the companies reported as being earned as profit with the total amount they reported as being expended for wages and salaries?

Mr. BRUBAKER. That is right.

The CHAIRMAN. And these wages and salaries include not only what goes to the worker in his pay envelope but what also goes as salaries to executives and bonuses and all other employment costs?

Mr. BRUBAKER. That is right.

Mr. RICH. Did you take out taxes? Is that before or after taxes?

Mr. BRUBAKER. These profit figures are after taxes.

Mr. RICH. Net to the company after they paid their income taxes?

Mr. BRUBAKER. That is right. And all we purport to show by this first set of figures is simply this: Even though employment costs may have actually increased in gross during this period, the amount of profit the company makes has increased faster, and that is what that shows for nearly every company in the list.

Mr. WOLCOTT. That is what I was trying to get at. This is in percentage of wages and salaries. I assume you are using these figures in justification of the statement which you made that the increases in the price of steel, such increases as have been made in the price of steel, have not been wholly due to increases in wages and salaries?

Mr. BRUBAKER. No; we are saying they have widened their profit margin during this period.

Mr. WOLCOTT. That is as far as wages and salaries are concerned. But would it not be a better comparison if we had a comparison of the wages and salaries increase or decrease and the increases in profit?

Mr. BRUBAKER. It shows exactly the same thing.

Mr. WOLCOTT. It seems to me we have to take into consideration in analyzing these figures such data. I can see your point, that you want to show the increase in prices of steel has not been justified because of the increase in wages and salaries. But then we have to eliminate in this analysis under that method all of the other increases in cost of production.

Mr. BRUBAKER. If we set up the figures in the way you are suggesting, and show increases in wages and salaries in one column for these companies, and increase in profits in the next column, it will boil down to the same figures we have combined in this one set, because it will show that the wages and salaries have increased but profits have increased faster.

Mr. WOLCOTT. I wonder if you could do that.

Mr. BRUBAKER. We can do that, or your staff can do it.

Mr. WOLCOTT. I can see your position in respect to the justification of the increased price of steel being placed on increased wages and salaries. But after all, the thing which determines whether a company has made a profit or not, or how much profit it has made, is the balance sheet at the end of their fiscal year. And what they have left over to pay dividends. That seems to me to be the proper basis of analysis, and I think you can make out just as strong a case and, to me, perhaps a more understandable case.

Mr. BRUBAKER. We will be glad to submit that set of figures to you if you would like it. It is a very simple comparison to make, and if it will prove helpful, we will be glad to give it to you. It will show exactly the same answer we get from this, though.

Mr. RICH. You will submit it at this point in the record?

Mr. BRUBAKER. We will be glad to have it inserted in the record at this point.

(The information is as follows:)

Comparison of increases in profits after taxes and wages and salaries, 1946–48 [1]

[In millions of dollars]

	Net profit						Wages and salaries					
	1946	1947	1948	Percent increase, 1947 over 1946	Percent increase, 1948 over 1947	Percent increase, 1948 over 1946	1946	1947	1948	Percent increase, 1947 over 1946	Percent increase, 1948 over 1947	Percent increase, 1948 over 1946
United States Steel	88.6	127.1	129.6	43.5	2.0	46.3	704.5	903.6	1,035.7	28.3	14.6	47.0
Bethlehem	41.7	51.1	90.3	22.5	76.7	116.5	397.4	428.0	506.1	7.7	18.2	27.4
Republic	16.0	31.0	46.4	93.8	49.7	190.0	160.4	219.7	245.6	37.0	11.8	53.1
Jones & Laughlin	10.7	19.2	31.2	79.4	62.5	191.6	103.9	136.1	151.3	31.0	11.1	45.6
National	20.5	26.8	40.1	30.7	49.6	95.6	72.8	90.1	107.0	23.8	18.7	47.0
Youngstown	14.3	26.3	35.7	83.9	35.7	149.7	64.3	81.3	99.8	26.4	22.8	55.2
Armco	18.6	25.0	32.0	34.4	28.0	72.0	76.4	94.3	107.4	23.4	13.8	40.8
Inland	15.6	29.9	38.6	91.7	29.1	147.4	59.5	77.0	91.4	29.4	18.7	53.6
Sharon	2.9	6.7	9.2	131.0	37.3	217.2	18.0	28.5	35.4	58.3	24.2	96.7
Wheeling	5.4	11.7	15.1	116.7	29.1	179.6	44.7	49.2	56.9	10.1	15.7	27.3
Colorado Fuel & Iron	[2]—3.6	5.1	6.2		21.6		27.5	40.6	48.7	47.6	20.0	77.1
Crucible	.5	2.1	3.6	320.0	71.4	620.0	43.4	50.3	55.2	15.9	9.7	27.2
Pittsburgh	.05	4.0	5.5	7,900.0	37.5	1,090.0	24.9	33.2	37.3	33.3	12.3	49.8
Portsmouth	1.2	3.9	4.5	225.0	15.4	275.0	[3]	13.5	15.3		13.3	
Lukens	0	2.84	2.41		−15.1		12.1	16.5	17.9	36.4	8.5	47.9
Granite City	[2]—.5	1.9	3.9		105.3		3.2	6.3	8.7	96.9	38.1	171.9
Copperweld	.4	1.5	5.0	275.0	233.3	1,150.0	4.4	11.8	13.6	168.2	15.3	209.1
Alan Wood	.79	1.96	4.12	148.0	110.2	421.5	7.7	9.6	10.7	24.7	11.4	39.0
Newport	1.0	1.4	1.7	40.0	21.4	70.0	14.9	21.6	22.6	45.0	4.6	51.7
Allegheny-Ludlum	6.6	6.0	6.8	−9.1	13.3	3.0	35.8	39.5	45.1	10.3	14.2	26.0
Studebaker Corp. (including Empire Steel)	.9	9.1	19.1	911.0	109.8	2,022.0	[3]	[3]	83.8			
Continental	.95	1.3	1.63	36.8	25.4	71.6	8.6	8.7	8.1	1.2	−6.9	−5.8
Rotary Electric	.48	.9	2.50	87.5	177.7	420.8	3.0	4.0	3.3	33.3	−17.5	10.0
Northwestern Steel & Wire	.62	2.05	1.79	230.6	−12.7	188.7	4.2	5.3	6.7	26.2	26.4	59.5
Follansbee	1.22	2.84	2.34	132.8	−17.6	91.8	5.1	7.7	7.7	51.0	0	51.0
A. M. Byers	.15	1.69	2.33	1,026.7	37.9	1,453.3	5.7	8.8	10.0	54.4	13.6	75.4
Babcock & Wilcox	2.0	6.8	11.0	240.0	61.7	450.0	[3]	[3]	53.6			
Continental Copper	.97	.46	.87	−52.6	89.1	−10.3	[3]	[3]	3.6			
American Steel Foundries	2.7	3.0	6.0	11.1	100.0	122.2	20.6	23.4	28.3	13.6	20.9	37.3
Latrobe Electric	.6	.43	.54	−28.3	25.6	−10.0	3.0	3.1	3.6	3.3	16.1	16.1
Blaw-Knox	3.4	3.0	4.1	−11.8	36.7	20.6	[3]	24.4	28.2		15.6	

[1] Submitted at request of Congressman Wolcott.
[2] Loss.
[3] Not available.

The above table bears out our statements on pages 571 and 573 of the transcript that profits have increased at a faster rate than wages and salaries during the postwar period. The first three columns of the table entitled "Net Profit as a Percent of Wages and Salaries" on page 566 of the transcript shows essentially the same thing. The reason that United States Steel's profit increases do not show up as favorably as most other companies is due to the fact that these figures are after adjustments for accelerated depreciation. (See p. 574 of transcript.)

The CHAIRMAN. Now the second column undertakes to show that sales on the whole have also increased faster than wages?

Mr. BRUBAKER. That is right.

The CHAIRMAN. The total volume of income received from sales?

Mr. BRUBAKER. And that price increase is added on top of present prices.

The CHAIRMAN. That income received from sales has increased faster than the total amount expended for wages?

Mr. BRUBAKER. That is right.

Senator FLANDERS. I note United States Steel does not show up so unfavorably in this connection as some of the other companies.

Mr. BRUBAKER. In the second set of comparisons it clearly shows up as unfavorably as most any one you could pick out in percent of sales—the first column on United States Steel. And I would be glad to go into that with you if you like.

The major reason for the difference for United States Steel, and it is very easily explainable, is that United States Steel stated profit figures which we used in these reflect those adjustments for accelerated depreciation they talked about. So they have already reduced their profit by that accelerated depreciation figure, and it was a completely uneven figures for these 3 years we have under consideration here.

Mr. RICH. May I ask you who made these figures that you are submitting here?

Mr. BRUBAKER. These figures are our own computations taken directly from company reports without adjustments. They are merely divisions.

Mr. RICH. Have any of the fellows who figured on this worked on steel-company books, or do they know anything about the steel business? Do any of the fellows who made these reports ever audit the steel-company accounts or know anything about the steel business?

Mr. BRUBAKER. I don't quite understand your question.

Mr. RICH. I wondered whether the men who do your auditing and figuring and calculating are men who understand or know the steel business.

Mr. BRUBAKER. Of course, you do not have to know the steel business to make a computation of percentages as we have done here. There are many people, of course, in our own organization who do know the steel business and have worked in the steel business prior to their working for the union.

I can say here certainly that the people who prepared these figures are people who do know accounting practice and do have some experience of that sort. I have had personal experience in bookkeeping and accounting myself, and I know what these company reports are and what they mean. So I am not fooled by them.

Mr. RICH. Have you ever figured the Federal statement as we compile it today?

Mr. BRUBAKER. What do you mean—income statement?

Mr. RICH. No; the statement that is made out by the Treasury every day. Do you watch that?

Mr. BRUBAKER. I do not understand what statement you are talking about.

Mr. RICH. The United States Treasury makes out a daily statement of the Federal Government and from time to time, as I have noted it, they change it. And I wondered whether the system you use here is a good substantial one that has been used over a period of years and is always the same, or whether it can be made to suit the occasion.

The CHAIRMAN. May I interrupt at this point?

Congressman Rich, the figures which appear here at the top of the second column on wages and salaries——

Mr. RICH. I am looking at page 9.

The CHAIRMAN. Yes; on page 9.

Mr. RICH. All right.

The CHAIRMAN. Those figures are identical with the figures presented to us the other day by Mr. Voorhees. He submitted a chart, exhibit 6, which showed how the sales dollar has been divided since 1902. In that chart he showed that in 1946 the employment costs were 47.1; in 1947 the employment costs were 42.6; in 1948 the employment costs were 41.7. So that the statement of Mr. Brubaker coincides exactly with the statement of Mr. Voorhees.

Mr. RICH. Mr. Chairman, you are much smarter than I am and you can figure these things all out and I have to ask questions to get them. So I thank you very much for that information.

The CHAIRMAN. The Congressman compliments me too highly.

Mr. RICH. I couldn't.

The CHAIRMAN. Off the record.

(Discussion off the record.)

The CHAIRMAN. We will recess until 2:30 promptly.

(Whereupon, at 12:10 p. m., a recess was taken, to reconvene at 2:30 p. m., of the same day.)

AFTERNOON SESSION

Present: Senators O'Mahoney (chairman), Myers, Flanders; Representatives Patman, Huber, Buchanan, Wolcott, Herter, and Rich.

Also present: Representative Chase Going Woodhouse.

Theodore J. Kreps, staff director; Grover W. Ensley, associate staff director; and Fred E. Berquist, of the committee staff.

The CHAIRMAN. The committee is in session.

Mr. Brubaker, you may resume your statement.

STATEMENT OF OTIS BRUBAKER—Resumed

Mr. BRUBAKER. If a clincher were needed to prove the invalidity of these company claims regarding labor's responsibility for the industry's actions in increasing prices, it is furnished by a glance at the effective dates of the pension and insurance agreements. The pension agreements are not effective until March 1, 1950, for most of the larger companies. Part of the pension cost for some of the companies—that of bringing already retired former employees up to the new scales where pension plans previously existed—is a deferred cost postponed by contract until Congress amends the Social Security

Act benefits upward. Even insurance agreements, which generally will cost the company less than 1.5 percent of pay roll and less than 0.6 percent of sales, were not due to be effective until January 1, 1950, in most cases, and not until February 1, 1950, in important instances such as U. S. Steel. Yet, in the face of these facts, the companies had the temerity to increase prices in December 1949 and tried to blame the allegedly increased labor costs resulting from the pension and insurance agreements as a major reason for these price increases. The facts as set forth here and in section 7A of this analysis make a mockery of this claim.

The CHAIRMAN. Why not until February 1, 1950, in the case of United States Steel? I asked that question of Mr. Voorhees, and Mr. Voorhees said the cost was retroactive. What do you base this quite different statement on?

Mr. BRUBAKER. It should be very obvious that the cost of an item such as insurance, which is part of our bargaining that becomes effective on February 1 for United States Steel, cannot be retroactive. You cannot buy life insurance retroactive. The costs on the insurance start on February 1. Any statement on the part of Mr. Voorhees or anyone else with regard to insurance cost does not accord with our agreements in saying it would start before that. They do not have to buy any insurance before February 1 under our agreement. So how can costs start before February 1?

Mr. PATMAN. Mr. Chairman, I would like to ask a question on that point of absorbing the cost of insurance and pensions.

One witness testified it would cost more than a dollar to absorb the freight if they returned to the basing-point system—a dollar a ton. Another witness said at least a dollar and a quarter. Another witness said $2. So let us just assume it will cost a dollar and a half a ton. How many tons of steel are produced annually?

Mr. BRUBAKER. Of course, it is a variable amount. In 1948, which we have used as a basis for figuring the cost in the revenue here, it was approximately 66,000,000 tons.

Mr. PATMAN. All right, 66,000,000 tons would be $99,000,000 on the basis of a dollar and a half a ton. If they can absorb $99,000,000 for freight, it occurs to me—how much would the pensions and insurance cost?

Mr. BRUBAKER. Frankly, we do not know for all these companies because many of them have not been willing to submit estimates.

Mr. PATMAN. What would you estimate?

Mr. BRUBAKER. If you would add together all the estimates that have been submitted to you by the big companies that have been in here, you would find, I am sure, they are in the neighborhood of the figure you have just cited. I do not think there is any question but what these companies have the possibilities of absorption of a considerable amount of costs within their present price structure. I shall point out later here that, at the time they did switch over from the prior basing-point system to their present f. o. b. system, they managed to take a windfall which they estimated at that time.

Remember United States Steel gave you an estimate the other day of approximately 80 cents a ton, which just went into their profit pockets. That money is there. It is there as a fund from which you can absorb additional costs, and they indicate they are willing to use

that money if they go back on a freight-absorption basis to absorb costs. So, there is leeway to absorb costs there if the companies want to do it.

Mr. RICH. Are you through, Mr. Patman?

Mr. PATMAN. Go ahead.

Mr. RICH. Mr. Brubaker, you are making a great point in reference to the fact that the steel companies in December had decided to make an agreement with the employees, with the CIO union. You represent the employees. And you have got way up into the thousands of them. And because they were raising the price of steel before they put into effect the insurance program, you disagree.

Mr. BRUBAKER. Yes.

Mr. RICH. You are interested in the employees, are you not?

Mr. BRUBAKER. We are interested in both the employees and the public; yes, sir.

Mr. RICH. And the public. Are you interested in this company continuing in operation for the benefit of your employees?

Mr. BRUBAKER. We certainly are, sir.

Mr. RICH. Are you interested in the company keeping in operation to not only take care of the employees but to take care of the ones who are supposed to be pensioned after they leave the employ of the company?

Mr. BRUBAKER. Why, of course, we are.

Mr. RICH. Then, if they were supposed to pay pensions to these employees that are retired, it is necessary for them to have some money on hand to meet that obligation when the time comes; is it not?

Mr. BRUBAKER. Yes, sir.

Mr. RICH. Then if you are looking after the employees and looking after the agreement which they entered into, should not they have funds laid aside to take care of the people whom they guarantee now to give a pension fund to when the pension fund is due them?

Mr. BRUBAKER. As I told you this morning, Congressman, we have no quarrel with that general approach. But I would like to point out, however, that these companies do have such funds.

I would like also to point out to you their recent earnings record. I am going to get that a little later in the statement.

If you want to, for your own benefit, you might take a quick look at the table they have on page 53 to show you the rate of return on net worth for these companies in the last few months, also the last 2 years. In fact, I think it would be awfully hard for you or for us to arrive at the conclusion that these people are not making enough money to be able to pay all costs. The costs they are talking about are small in relation to these returns on net worth.

Mr. RICH. You show me on page 53 where the insurance company has set up any fund to meet the obligations.

Mr. BRUBAKER. That is not the question you are talking about. The question is are the companies going to have the money to pay when it comes due. We say the money is there.

Mr. RICH. I asked you to show me on page 53 where the companies have set up any fund to take care of the insurance obligation they have agreed to assume on the 1st of February.

Mr. BRUBAKER. Several of these companies have already pension funds in operation. You can talk with Bethlehem, if you want, tomorrow about that. They do have and have had for many years.

United States Steel has a plan in operation. Maybe they are not funded in quite the fashion you would like to see them funded.

We are certainly interested in them paying off. We do not bargain for pensions with the expectation we are not going to get the pensions when the time comes.

Mr. RICH. Do not get the idea I am here talking for the steel companies. I am not. I have no interest in the steel companies. I want to see that when people do business they do it on a sound actuarial business basis, and when they agree to assume an obligation I want to see the money in the bank to assume that obligation when the time comes.

Mr. BRUBAKER. That lecture should be addressed to the steel companies, not to us. They are the people who are financing the pension program.

Mr. RICH. I address it to you for the reason you say you are interested in the steel companies keeping in operation, and interested in the public, and interested in everything. But all I can see is you seem to run the steel companies. If you do, why do you not get out and build a steel company? If you can run one better than the United States Steel Corp., or any of these steel companies, you should. They said yesterday, and you listened to the argument, that we have an opportunity for the greatest competition in the world. Why do you not get out and build a steel company and show how it can be done?

Mr. BRUBAKER. Congressman, I thought that you people wanted business to run business and run management and us only to bargain with them. I thought you wanted to reserve private business as an area of operation and keep Government and the union, of course, and everybody else out of the operation.

If there is any place in my statement you can find any indication we have any desire to run the steel industry, I will be very happy to have my attention called to it and discuss it with you. We have made no such allegation and we are making none such now. We are not interested in running the steel industry, but we do think we have a right to step up and say that the steel industry, as we show you on page 53, is making returns on net worth of investments of stockholders which run to 10, 12, and 20 percent for each of the last couple of years, and there is within that framework the ability to absorb other costs. That is all we are trying to do; we are not trying to run the steel companies.

Mr. RICH. The statement of the steel companies would not indicate that.

Furthermore, before lunch you said you were here to get publicity, and I want you to get some of it. I want you to get it.

Mr. BRUBAKER. We appreciate your concern.

Mr. RICH. I think you are more interested in publicity than you are in trying to give us facts.

Mr. BRUBAKER. I challenge that.

Mr. PATMAN. I do not think that is a fair statement. I do not think it ought to go in the record.

Mr. RICH. That is my opinion .

Mr. PATMAN. It should not be expressed in the record.

Mr. BRUBAKER. I will be willing to state that we have more good hard facts in this statement than in all the statements you have had before you and what you are going to get.

Mr. RICH. That is a good statement.

The CHAIRMAN. Well, let's proceed with the presentation of the facts.

Mr. BRUBAKER. It is apparent from an examination of the price movements in this industry that its prices and price changes are not the result of competition, as that term is commonly understood. Even the second-largest producer in this industry rather clearly admitted before this very committee on March 2, 1948, that it did not, and could not, follow a really independent price policy. It, like all important segments of the industry, follows the leader.

The remarkable degree of price leadership of United States Steel was again manifested in the recent increase. Only a half dozen small producers acted in advance of United States Steel and then normally on only one or two products. The others, including all major producers, waited for United States Steel to act and then apparently duplicated its increases, maintaining, of course, any previously existing area differentials held over from the old basing-point system prices. Obviously, this uniformity of timing and amount by nearly all of the industry was not a conincidence. Even by the most fantastic stretch of the laws of probability, it just could not happen. We have here a uniformity of action, not only in the timing and the amount of the increase, but even in the reasons cited in press releases as to the whys and wherefores of the increase. We have unilateral price fixing for a whole industry by a firmly ingrained system of price leadership which leaves the American people at the mercy of United States Steel Corp. so far as steel prices go. This may well not be monopoly as defined in our antitrust laws, but it certainly produces the same offspring.

We do not charge that there is a system of "administered" prices in this industry—that is for the processes of law to determine. We are convinced, however, that the price system now used is not the product of competition and that it does not produce prices which bear any necessary relation to costs. This is not a healthy situation for our economy.

So that you might see graphically the dominance of United States Steel and the other large companies in the industry, we are submitting exhibit C. It shows distribution of ingot capacity and employment. It was prepared originally for the Fact Finding Board for essentially this same purpose.

United States Steel Corp., in initiating this increase in prices, stated, in part, as follows:

3. Amount of present price increase

The over-all effect of these new mill prices is an average increase of about 10 cents per hundred pounds ($2 per ton) in our announced mill prices. An average further price increase of about 10 cents per hundred pounds ($2 per ton) will result from such adjustments in extras and deductions. Together this produces an average increase of approximately 4 percent in the present average selling price of our subsidiaries' steel products.

The statement continued with an announcement that not all steel product prices would be increased. There was to be an average decrease of $3.30 per ton in tin-mill products and no change in stainless-steel products.

Other companies followed this action of the industry's leader in rapid-fire order. New prices were announced—nearly all increases—and almost without exception, on the same products as United States Steel's increases. Many companies did not even see a need to publish

a list of increases; instead, they merely said their increases would be the same as United States Steel's. Surely we, and you, might have expected some slight variations in these increases, both as to amounts and as to the products to which they were applicable. After all, many of these companies had earlier announced that they had underway studies of their own particular company problems in the light of the higher costs applicable to their own particular companies. Certainly, the costs as they affect different companies, whether they be labor costs or materials costs, are vastly different. This is particularly true of the timing and impact of pension costs. It is the alleged need to cloak these costs in secrecy to protect "competitive" positions which is used by these companies as the reason for refusing to make public these basic facts about the operations of their own companies. Surely, the battery of highly paid cost-accounting talent which was studying individual company costs might have been expected to arrive at conclusions for their individual companies bearing some relation to these differing company costs. They might even have been expected to have arrived at their decisions at different times. Yet, these companies which had been "studying" price action for weeks were suddenly galvanized into action by United States Steel's price announcement. Overnight came action on the part of nearly all of the industry giants. Almost as though there had been a common decision, Youngstown Sheet & Tube, Republic, Armco, J. & L., Wheeling, National, Bethlehem, and others raised prices. The terminology varied slightly, but it all added up to much the same thing, stated variously as "bringing prices into line," "meeting prices," "substantially the same increase," "increases in line with the general pattern," "our company tries to follow the market in setting prices."

And yet this was cloaked under the guise of costs of particular companies.

Mr. RICH. These various steel companies have audits made of their books by independent taxmen and auditors; do they not?

Mr. BRUBAKER. I do not know about the independent taxman. They make up their own tax statements. They do have independent auditors elected by the board of directors.

Mr. RICH. Not men associated with their business.

Mr. BRUBAKER. For their tax returns?

Mr. RICH. Do they not employ accountants that are supposed to be men independent of their own business?

Mr. BRUBAKER. Not for accounting. They do for their auditing.

Mr. RICH. Would these auditors reveal any of the differences between what you claim and the companies claim in their books?

Mr. BRUBAKER. As to actual costs on production of steel?

Mr. RICH. Yes.

Mr. BRUBAKER. No; those costs are not set forth anywhere in the published accounts of any of these companies.

Mr. RICH. And they take no recognition of that fact?

Mr. BRUBAKER. No; that is not their business.

Senator MYERS. Is there any competition as to price on the products of the various steel companies in one area of the country?

Mr. BRUBAKER. If you can find it, Senator——

Senator MYERS. For instance, in the city of Philadelphia, can we purchase steel at different prices from various companies, or does the consumer pay the identical price to every producer?

Mr. BRUBAKER. That obviously would have to be investigated in any particular area. There is, however, and we can say this without question of challenge—there is an almost amazing identity of prices not only on base price, but on extras and everything else in each particular marketing area. If you are a steel producer in Pittsburgh and go around to the various companies trying to buy a certain grade and type of hot-rolled bars, I assure you that without question of challenge you cannot get a slightly lower bid than United States Steel by any producer in that area. That is true if you go to Sparrows Point or where you go; there is uniformity of price in a particular area.

United States Steel charges the purchaser more for the same steel out in San Francisco than in Pittsburgh, so does Bethlehem.

Mr. PATMAN. I am interested in what the consumer may pay in a particular area.

Mr. BRUBAKER. It will be the same.

Mr. PATMAN. The consumer must pay identical prices regardless of from whom they may purchase?

Mr. BRUBAKER. We call them matched prices. They are identical.

Mr. PATMAN. What?

Mr. BRUBAKER. Matched. Some of the people claim that is the product of competition.

Mr. PATMAN. Meeting competition exactly.

Mr. BRUBAKER. I believe that is right.

The height of absurdity was reached when one company official was even quoted as saying that his company had been forced to adjust its prices upward "to meet competition." Apparently, this novel and wholly fallacious view of competition is more common in this industry than one might imagine. You may remember that a spokesman for Bethlehem Steel in 1948 said essentially the same thing before this very committee when explaining the reason for an increase on the part of his company. If Youngstown Sheet & Tube or other companies in this industry were directly interested in price competition, here was a beautiful opportunity to take business away from competitors by refusing to raise prices, or raising them by a lesser amount; i. e., by actually competing on prices. As you know, however, these companies were not interested. They literally fell all over themselves trying to get their prices increased to the identical prices quoted by United States Steel.

Mr. RICH. You made the statement they notified the trade they would have the same identical prices that United States Steel made. What companies were they that made that statement?

Mr. BRUBAKER. I can give you a list of such companies if you want. I have not had one made up because I did not anticipate that question. I have a whole series, however, Congressman, of the price releases which were issued at that time.

(The information referred to is as follows:)

PRESS CLIPPING INFORMATION REGARDING STEEL PRICE INCREASES REQUESTED BY SENATOR O'MAHONEY AND REPRESENTATIVE RICH

(Italics in the following items are ours)

Republic Steel Corp.

The December 20, 1949, issue of the Wall Street Journal stated that Republic Steel price increases averaged about *$4* a ton and *"are in line with the advances announced last Friday by United States Steel Corp."*

This announcement *preceded* the issuance of the detailed price listing to the trade.

Armco Steel Corp.

Also in the December 20, 1949, issue of the Wall Street Journal, Armco Steel announced increases averaging about *$4* a ton, which Armco president, W. W. Seybold, said were "*substantially the same as those announced previously by other companies in the industry.*" These increases were announced *before* price schedules were even worked out by the company. This is borne out by a report in the December 21, 1949, issue of the American Metal Market, which stated as follows: It was learned here today that the Armco Steel Corp. has advanced its prices about *$4* per net ton. *Price schedules are not yet available because the company is still working on the adjustments.*"

Pittsburgh Steel Co., Superior Steel Corp.

The December 20, 1949, issue of the Wall Street Journal stated as follows:

"Two steel companies here announced they plan to increase prices of their steel products *in conformity with boosts announced by other steel firms.*

"A spokesman for Pittsburgh Steel Co. said the company *is working out a new price schedule which will be announced in the very near future.*

"Superior Steel Corp. will increase prices of its carbon steel 'in a day or so', Carl I. Collins, president, said.

"Mr. Collins added that the company *tries to follow the market in establishing price scales.*"

You will note that both of these price increases were announced before the companies had worked out or made available a detailed listing of price increases to the trade. This is also supported by a report on Pittsburgh Steel in the American Metal Market, dated December 21, 1949, which stated in part as follows:

"The new prices are *effective immediately. Details on extras have not yet been compiled.* Mr. Zak said the price rises are *substantially the same as those announced recently by United States Steel and other steel producers.*"

Actually, so far as we have been able to check, the prices finally made effective were not merely substantially the same, but were *identical* with those announced by United States Steel.

Jones & Laughlin Steel Corp.

The Wall Street Journal for December 21, 1949, reported that Jones & Laughlin *had increased* its prices by an average of *4 percent.* It stated significantly, however, that "*Jones & Laughlin did not make the exact amounts of the boosts immediately available.*" Again the amounts of the increases which were made effective were the same as those for United States Steel, as was the estimate of the impact per ton of these price advances, even though both the fact that there was an advance and the estimated impact were announced *before* the price schedules were actually announced.

Wheeling Steel Corp.

The American Metal Market, December 21, 1949, stated as follows:

"Steel price increases *corresponding to those made recently by United States Steel and other producers* have been made by Wheeling Steel Corp.

"These advances were approximately *4 percent* or average about *$4* per ton. They include increases in both base prices and extras.

"Wheeling's higher prices on sheet and tubular products become *effective today.*"

Weirton Steel Corp.

Weirton announced revision of certain of its base prices on December 20, according to the December 21 issue of the American Metal Market, which were "*believed to be in line with those effected by the leading producer last week.*" Yet a day later, in the December 22, 1949, issue of the Wall Street Journal, it is stated as follows:

"Weirton Steel Co. increased the base price of some of its products, *but did not reveal the amounts of the boosts.* Increases in its charges for extras also *will be made shortly*, the company said."

And again in the same report, Ernest Weir, chairman of National Steel Corp., of which Weirton is a subsidiary, announced that his company's steel-making subsidiaries have hiked their prices "about *4 percent* or an average of *$3.50* a ton, *including charges for extras.*"

Acme Steel Co.

The American Metal Market, December 22, 1949, reported:

"The Acme Steel Co. *will follow the prices adopted by the United States Steel Corp.* for hot- and cold-rolled strip steel, it was announced here.

"The new price schedule *became effective* as of Sunday, *December 18.* The company makes hot- and cold-rolled strip steel, box strapping, stitching machines, and wire."

Youngstown Sheet & Tube Co.

The Wall Street Journal for December 23, 1949, announced that this company "is boosting steel prices an average of *4 percent, following the lead of the United States Steel Corp.*" These prices were made effective retroactively to December 17. The increases were *identical* with those of United States Steel.

Granite City Steel Co.

The American Metal Market, December 28, 1949, stated:

"Base prices and extras for most of Granite City Steel Co.'s production are being adjusted, effective with shipments on and after December 27, 1949, *in line with the general price pattern in the steel industry.*

"The general adjustment will result in an average price increase of approximately *$4* a ton."

Wisconsin Steel Co.

The December 30, 1949, issue of the American Metal Market stated that this company was "*following the lead of other steel producers in this territory.*" This announcement, however, *preceded* the issuance of a price list, as is indicated by the further quote: "A letter to customers, sent by H. W. Logan, vice president, states that *revised classifications of extras are being processed and will be forwarded as soon as possible.*"

The CHAIRMAN. You made the statement on page 11 to which the Congressman refers:

Many companies did not even see a need to publish a list of increases. Instead they merely said their increases would be the same as United States Steel.

If you could furnish the committee with a list of press releases of the character that you have just mentioned in connection with that statement, I am sure we would be glad to have them.

Mr. BRUBAKER. I have several such clippings which I will be happy to give to the committee.

Almost uniformly they announced that their price increases were $4 per ton and 4 percent. Such announcements are themselves absurd on their face. National Steel estimated that its $3.50 per ton increase was 4 percent. Thus, for it, $4 per ton would have been 4.6 percent. Unless each company had essentially the same product mix as United States Steel, it could not possibly achieve the same average revenue increase, either per ton or percentagewise, by making the same increase per ton on specific products as did United States Steel.

For instance, a company which makes a larger share of wire and wire products than does United States Steel would show a much greater increase in total revenues than $4 or 4 percent because wire products went up from $7.50 to $11.50 per ton, which figures out as an increase of 6.8 percent to 12 percent over previously existing base prices. Likewise, companies specializing in pipe to a greater extent than United States Steel would show larger increases since the increases in pipe ranged from $5 to $8 and upward with no increase as small as $4 per ton. Yet companies in just such a position, productwise, were quoted in the press as saying that their increase was $4 or 4 percent. This reflects either an inexcusable ignorance on their part or a deliberate attempt to mislead the public as to the size of the increase in the revenues which would be realized by their companies.

Inland varied this chorus by saying that, "It is not possible to make an accurate forecast of the percentage increase in our average selling price." Is it possible that the company does not even know its own product mix within reasonably accurate limits?

You might well have thought from the unanimity of the announcements by the various companies that this meant an increase of $4 over the steel prices which you would find quoted in the trade press. But this apparently was also not true. United States Steel announced that the net over-all effect of its increases in base prices would be $2 per ton in its "announced mill prices." We must assume that by "announced mill prices," it meant the base prices, since these are the only published prices. This would mean that we should have expected to find an average increase of 2 percent in base prices. The increase in "extras" was also announced as $2 per ton. Both increases, it was explained, would affect the company's "average selling prices" by approximately 4 percent. It is possible, of course, that here the company is talking about something different than its "announced mill prices" or base prices. We have assumed, however, that it is appropriate for this analysis to measure the increases in prices against the only generally available—announced—price listings—namely, base prices.

We have attached as exhibit A a listing of the United States Steel base-price increases as these were reported in the trade press. This listing includes the vast majority of the total production of the corporation. Since these prices and increases were adopted by all the major producers, the list actually covers nearly all of the production of the industry. An analysis of the industry's shipments for the year 1948 shows that this list comprises more than 84 percent of all finished steel shipments. Of total shipments in 1948, only 7.4 percent—made up of tin plate, 6 percent; black plate, 1.3 percent; and skelp, 0.1 percent—showed decreases in base prices. There were also other products not on this list which showed no increases in base prices, but which showed increases in "extras." There were only a very few items which showed no change in price.

This listing does not bear out the corporation's claim of a $2 or 2 percent increase in announced mill prices—if these prices mean what they must be assumed to mean; namely, base prices. We invite attention to this listing. It shows decreases only in the base prices of tin plate, black plate, and skelp. It shows no change on statinless steel products and it contains only two products on which the increase was less than $2 per ton and only two others on which the percent increase was less than 2 percent. A scatter chart treatment of these price increases would make a most graphic refutation of the purported $2 or 2 percent increase claim.

It is true, of course, that not quite all steel products are listed, but most products of major tonnage are listed. Remember, the Iron Age Finished Steel Price Composite showed an increase of $262 per ton—not $2—and that index covers all major products except coated products, alloys, and stainless. We believe, from an examination of this listing and other materials, that the increase in base price is seriously understated at $2 per ton or 2 percent.

It is also evident that the stated increase is even further understated when the increases in extras are included. We do not have a full list of extras available to us, much less the materials necessary to show average revenue increases which will result from these changes in extras. We think the committee can, and should, secure such data

from the companies. From the partial listings in the industry press we have compiled a chart showing both base price increases and the average, inescapable increases in extras. In the following list we have added two columns to the material from the trade press to show the total price increase—base increase plus extras—and the percentage relationship of the total increase to the previous base price.

Listing of total price increase of three United States Steel subsidiaries

1. CARNEGIE-ILLINOIS STEEL CORP.

Product	Increase per ton			Total increase as a percent of former base price
	Base price	Extras	Total	
				Percent
Forging ingots	None	$1.00	$1.00	2.0
Forging blooms, billets, slabs	$2.00	1.00	3.00	4.9
Rerolling blooms, billets, slabs	1.00	.50	1.50	2.9
Skelp	−2.00	+5.00	+3.00	+4.6
Hot rolled bars and small shapes	2.00	3.50	5.50	8.2
Concrete reinforcing bars	2.00	1.50	3.50	5.2
Standard structural shapes	3.00	1.50	4.50	6.9
Channel beams	4.00	.50	4.50	7.0
Bearing piles	2.00	.50	2.50	3.9
Sheet steel piling	3.00	None	3.00	3.7
Plates	2.00	2.00	4.00	5.9
Axles	1.00	2.00	3.00	2.9
Standard T rails Nos. 1 and 2 O. H	4.00	None	4.00	6.3 to 6.5
Light rails	4.00	.50	4.50	6.3
Tie plates	3.00	.50	3.50	4.3
Joint bars for standard rails	3.00	None	3.00	3.5
Hot-rolled strip	None	8.50	8.50	13.1
Hot-rolled sheets, 18 gage and heavier	2.00	4.00	6.00	9.2
Cold-rolled sheets, commercial quality	2.00	4.00	6.00	7.5
Vitrenamel sheets	None	4.00	4.00	4.5
Galvanized sheets	None	6.00	6.00	6.8
Electrical sheets (average)	25.00	4.50	29.50	24.8
Long ternes	None	15.00	15.00	15.6
Alloy bars	4.00	None	4.00	5.3
Alloy bar shapes	4.00	None	4.00	5.0
Alloy blooms, billets, and slabs	3.00	None	3.00	4.8
Tin plate	−3.30	None	−3.30	−1.5 to −3.2
Cor-ten products	2.00 to 4.00	None	2.00 to 4.00	2.2 to 4.0
Man-ten products	2.00 to 4.00	None	2.00 to 4.00	2.2 to 4.8
Abrasion-resisting products	2.00	None	2.00	2.2 to 2.3
Floor plates	(1)	(1)		
Tight cooperage hoops		(1)		
Stainless steel products	(1)	(1)		
Alloy ingots, plates, structural shapes, and strip	(1)	(1)		

2. NATIONAL TUBE CO.

Buttweld standard and line pipe—½ to 3 inch	$5.00	(2)	$5.00	(?)
Seamless standard and line pipe	5.00	(2)	5.00	(?)
Seamless casing, all grades	5.00	(2)	5.00	(?)
Seamless oil tubing and drill pipe	8.00	(2)	8.00	(?)
Seamless carbon and alloy mechanical pressure tubing	(3)	(2)	(3)	(?)

3. AMERICAN STEEL & WIRE CO.

Wire rods, carbon	$9.00	(2)	$9.00	13.2
Cold-rolled carbon strip	3.00	None	3.00	3.3 to 3.8
Manufacturers' bright wire, low carbon	7.00	4 $0.50	7.50	8.4 to 9.0
Spring wire, high carbon	7.00	4.50	7.50	6.8 to 7.2
Nails and staples	3.00	4.50	3.50	(?)
Wire, merchant quality, annealed	11.00	4.50	11.50	11.3 to 12.0
Wire, merchant quality, galvanized	7.00	4.50	7.50	6.8 to 7.1
Barbed wire	3.00	4.50	3.50	(?)
Woven fence	7.00	4.50	7.50	(?)
Bale ties	3.00	4.50	3.50	(?)
Fence posts	(1)	(1)		

[1] Unchanged.
[2] Negligible.
[3] Proportionate increase.
[4] Average.

Mr. RICH. Do you know whether they have had increased prices of other commodities they use, such as coal? Has that advanced any in the last several years?

Mr. BRUBAKER. I am going to examine each of the materials they use in a few moments.

Mr. RICH. And freight and coke?

Mr. BRUBAKER. Coke, scrap, transportation.

Mr. RICH. To show the increase?

Mr. BRUBAKER. I am going to examine each of those in the next few moments.

Mr. RICH. Then if you have the increased prices of all the materials they use, is it not possible for you to figure, or get the prices, their sales prices of the materials?

Mr. BRUBAKER. We cannot get the additional sales revenues that will come from extras. The amount you get from an extra price depends on the precise order of the customer. If he orders a particular metallurgical grade or size or quantity, the extras differ. So we do not know. They could give you the list. Take the list of extras on the hot rolled bars. There are lots like that. I defy anybody to look at that and tell me how much additional revenue is going to be produced unless they look at the orders on the hot rolled bars to see the kind and the quantity of the order.

Mr. RICH. If a man furnishes steel for a certain bridge or certain building, there are all kinds of forms and shapes, and many of them have to be made up particularly for that particular structure. And it requires a lot of men to make the drawing and blueprints and plans and specifications, and they turn it over to another division in the plant to see they are carried out. So you could not make out a blueprint in prices for everything they sell because each and every day they have to figure out a different scale on the things they manufacture.

Mr. BRUBAKER. Yes; but you are talking about fabricated products, Congressman. Those prices which are quoted in the industry press are standard products which are not fabricated. They are called finished steel, and then they are taken over by somebody else. Maybe it is another subsidiary of the Steel Corp. or an independent company that takes it over and it is made into other fabricated products like bridges and so on.

That is not reflected in these prices at all. We do not know what that amounts to and we do not pretend to.

In this table we have taken the schedule which is attached to the report. We have added to it the items which were increased after the schedule was released by the industry, and there are a few. That first schedule, you remember, showed only base prices. This now adds average inescapable extras which we did not attempt to compute, but which we took directly from the trade press as estimates of the extras we might expect to find as an average on these products.

Now, we added those two together and computed a percentage of the former base price of each of these items.

The last column shows this percentage increase. If we were to believe the industry, the figures in that column ought to be 4 percent straight down the line except for a minor variation, one higher, one lower, and ought to average out to 4 percent.

If you can get 4 percent average out of that, weighted or unweighted, or anything else, you are a much better statistician than I or anybody

else who worked the calculator. You will notice almost all increases are more than 4 percent and many are substantially more than 4 percent.

Mr. RICH. Did you figure those out on the basis of tonnage or on a particular item?

Just take hot-rolled strip. I do not know what that is. They have increased 13.1 percent. And wheel rolling blooms, billets, slabs have increased 4.9 percent.

You would have to know the proportion and amount of these whole items to determine what the increased costs were.

Mr. BRUBAKER. That is right, and those figures are available as recently as 1948 in the annual statistical report which the American Iron & Steel Institute puts out, which gives a weighted amount of each of those indexes you can apply if you want to.

Mr. RICH. Have you figured them out in your claim it is 4 percent?

Mr. BRUBAKER. We have done a considerable amount of estimating on it, and our conclusion is still what, obviously you are aware of, of course, that the particular shipment of a particular item here is going to vary in 1949 from what it did in 1948 as a percentage of the total. We have picked out for you——

Mr. RICH. I asked if you had figured out these prices. You say 4 percent instead of 2. That is the average you give us. I am trying to get this in my own mind. If you figured it out and it is 4 percent, and you say there is a difference in those, have you added up all the amount of the product that they produced and the increased prices to arrive at your sum total of 4 percent

Mr. BRUBAKER. The only figure I gave you, Congressman, is a different figure from the industry's figure, the 3½-percent figure, which is derived from a weighted index of all of these items, which is worked up by the industry itself. And that came to 3½ percent as compared to the 2 percent they claim.

Mr. RICH. Did you check up on that and see if that is correct?

Mr. BRUBAKER. We do not have the basis of their index available to us. We assume it is an accurate index. The industry itself says it has checked that index with various Government agencies to get it to be the most perfect index they could. So we have taken what we thought were the best possible figures we could get and the least open to challenge, the industry's own figures and the industry's own figures say that 2 percent is a gross understatement of the increase in base prices. What more can we be asked to do?

Mr. RICH. You say the industry says their own statement is incorrect?

Mr. BRUBAKER. I say the composite index of finished steel prices that the industry itself put out shows 3½ percent increase in base prices. They claim 2 percent.

Mr. RICH. I get you now. The industry has come out and told the public it is 2 percent?

Mr. BRUBAKER. That is right.

Mr. RICH. And you figured out, based on the figures that they have submitted, and you claim it is 3½ percent?

Mr. BRUBAKER. We did not figure it out, sir.

The CHAIRMAN. Mr. Witness, all we have to do is turn to your exhibit A. The first column is the old price per ton. That is the price per ton given by Carnegie-Illinois Steel Corp., is it not?

Mr. BRUBAKER. That is right.

The CHAIRMAN. And the next column is the new price?

Mr. BRUBAKER. That is right.

The CHAIRMAN. And that is the price announced by United States Steel, is it not?

Mr. BRUBAKER. That is right.

The CHAIRMAN. And then the percent of change in the base price is just the computation which anybody who knows percentages can make as to the increase of the new price over the old price?

Mr. BRUBAKER. Yes. All he does is subtract the old price from the new price and divide by the old price.

The CHAIRMAN. That is all there is to it.

Mr. BRUBAKER. That is right.

Mr. RICH. I asked him if he did the figuring to determine whether those figures that they had given out were correct.

Mr. BRUBAKER. We have taken their own weighted index for it, which is a sound index. I do not think you or anybody else would care to challenge that index. It is the soundest index they can make. It covers about 85 percent of the total products shipped. It gives them something they can get the weighted index of and the shift in prices of a week, and they put out such an index every week. We took that index.

Mr. RICH. You agree that index is about correct?

Mr. BRUBAKER. I see no reason for us to challenge that, sir. It is as sound an index as any, and the only index that covers directly and solely finished steel products.

We heard criticism before the committee the other day of the BLS index of iron and steel prices. I purposely did not use that index because I did not want to be open to that criticism, because it includes some things the company might buy, like scrap, instead of sell. We said we would take the index that shows nothing but finished steel products. That index shows 3½ percent. Yet, they say it is 2 percent. Can anything be more clear?

Mr. RICH. I am glad you agree with some figures.

Mr. BRUBAKER. We used only the steel company's figures. We do not attempt to construct our own.

The CHAIRMAN. Proceed.

Mr. BRUBAKER. You will note that the above listing includes certain additional products which were not included in exhibit A because they did not have increases in base prices, but which are appropriately shown here because extras were increased. These additional products constitute more than 5 percent of total tonnage.

As you will note, skelp, which was shown as a decrease in base price on exhibit A, ends up as a net increase since the price extras on skelp were increased far more than the base price was decreased. This listing brings to nearly 82 percent of all tonnage those items showing a net increase in price as a result of the recent increases. It should be noted also that there is no guaranty that the other products not here included will not be raised in the near future. In fact, the past history of price increases in the industry suggests the probability that most of these other items not here showing increases will be increased in the next few weeks. Since this listing was first put out by United States Steel on December 16, it has revised upward the increase on certain types of wire and added certain alloy products not on the

December 16 listing. Since then three other items have been increased by smaller independent companies and have been quickly followed by most of the industry leaders—even without public announcements. These items are cold finished carbon bars, cold finished alloy bars, and tool steel. Together they constitute another 2.5 percent of total steel tonnage, which would bring the items already increased to more than 84 percent of all steel tonnage.

Considerable prominence has been given in the industry press to the fact that "extras" were actually reduced on certain sizes and grades of sheet and strip. While it is true that there were certain reductions, there was a substantial net over-all increase for most grades of both of these items as listed on pages 14 and 15. It would be a mistake to overstress these reductions. They are the exceptions, not the rule—even for sheet and strip.

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. Hot rolled sheets, plates, cold rolled sheets and hot rolled carbon bars, which, in that order, in 1948 comprised substantially more than 40 percent of total finished steel shipments, showed increases in the recent announcements respectively of 9.2 percent, 5.9 percent ($4), 7.5 percent and 8.2 percent. For another major item, pipe and tubes, comprising more than 10 percent of tonnage, it is not possible for us to compute a percentage increase; though the dollar increase ranges from a minimum of $5 to $8 per ton and upward. 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 tonnage was below a 4-percent increase. On only 7.3 percent were there decreases and on only 8.2 percent was there no increase.

A frequency distribution of the total increases as percentages of former base prices as shown in the foregoing listing breaks down as follows:

Size of increase:	*Number of items listed*
Above 4 percent	26
Below 4 percent	10
Price Unchanged	5
Percent of increase unknown	9
Total	50

Much has been made of the fact that there was no increase on stainless steel products. To put this matter in perspective, it should be noted that stainless steel production comprised only five-tenths of 1 percent (0.5 percent) of the total steel shipments in 1948. All other alloy steels on which increases have not already been announced comprise approximately another 3 percent—3.5 percent of shipments. The other products which United States Steel specifically listed as not being increased are relatively minor items, such as floor plates for railroad cars, tight cooperage hoops and fence posts.

The only decreases not shown above which would alter this picture as it will be reflected in revenues of the steel companies are the decrease in export prices. The listing for United States Steel showed decreases in all export base prices ranging from 3 to 8 percent. We, of course, can only speculate on the amount of steel exports since they vary greatly. They constituted less than 5 percent of shipments

in 1948. Interestingly enough, these products whose export prices were decreased, with the exception of tin plate, are exactly the same items for which price increases were shown in the domestic price list. You may remember that United States Steel's statement said that its price revisions "have been made pursuant to the long-established policy of United States Steel to sell its steel products at the lowest possible prices consistent with cost." This type of statement was echoed by many other companies. Is it possible that the cost of producing steel for export has decreased while the cost of producing steel for the domestic market has increased? It is a great strain on the credulity of the American people to ask us to accept such an obvious contradiction. It is such little inconsistencies as this which make us raise serious questions as to whether the price and price revisions announced by the industry bear any reasonable relation whatsoever to cost.

It should be evident from this analysis that the total increases recently announced by the industry, and in the process of being further extended by the industry, will substantially exceed $4 per ton or 4 percent. The conclusion is inescapable that the recent price increase has been misrepresented so that it appears to be less than it actually is.

Even if the increase is only $4 per ton, it represents added cost for steel buyers and to the public of $264,000,000 annually, based on 1948 production. (Even Mr. Weir of National Steel estimates the increased revenue at $250,000,000 a year.) The price rise also represents $264,000,000 in increased revenues to the steel industry—an amount far in excess of any demonstrable cost increases—even if concomitant cost decreases are ignored. It also represents a cost to the nonintegrated and semi-integrated producer which makes it that much harder for him to compete.

Turning briefly to the question of the reasons which were cited by the companies in support of their price increase.

The "reasons" which United States Steel has cited for its increase in prices were far from definitive. Mr. Fairless' statement announcing the price increases said:

> These price revisions reflect *actual* and *approaching* changes in the *cost of production* of these products, including the *substantial higher costs* to result when our new insurance and pension programs become effective. They have been made pursuant to the *long-established policy* of United States Steel to sell its products at the lowest possible prices *consistent with cost.* (Italics ours.)

Later in his statement, he suggests that the "reason" for the major revisions in "extras," which constituted half of the price increase, was the establishment of proper relationship of prices for each product so as to "have a proper relationship of costs and profit margin." Obviously this latter "reason," which contemplates a new policy of pricing in line with costs items clearly not so related to costs in the past, is somewhat inconsistent with the above-stated "long-established policy" of selling the various products at prices consistent with costs. Either the policy is a new one, or it has been honored in the breach in the past, or prices have never borne the close relationship to costs which the corporation would like now to make them appear to bear. If it is admitted that prices were not closely related to cost in the past, as it seems to be admitted, it must follow that there were prices which were out of line on the high side and therefore required reductions to bring them in line with costs. Yet what happened? Only tin plate, black plate, and skelp were reduced in base prices and only a very

few grades of sheet and strip were reduced in "extras." Nearly everything else was increased.

Mr. Irving S. Olds, chairman of the board of United States Steel, comments on the corporation's price increase as follows:

> Statements have been made that the steel industry should be able to absorb the pension costs out of existing profits, without price increases. Even if present profits were adequate to bring this about, which is questionable, no one can guarantee that past or present profits will continue at such rate indefinitely into the future. Pension costs, however, are a continuing, constant item to be paid year in and year out, regardless of the extent of current profits.

Mr. Olds apparently is almost willing to concede that past and present profits may be "adequate" to absorb pension costs. Experience with United States Steel has taught that this corporation has an Aesopian language of its own. Thus, when a corporation spokesman uses the word "questionable" in describing the adequacy of profits, he really means that he has no question at all regarding their "adequacy." But because no one can guarantee the continuation of such profits indefinitely into the future, Mr. Olds wants the corporation to store up the dollars now for the depression which lies ahead. This kind of resignation to inevitable depressions merits no rebuttal before this committee. We submit, however, that it is a disappointing illustration of the type of thinking that unfortunately pervades the powers that be in the steel industry.

From these and other vague remarks in the United States Steel statements, we get the following "reasons" for the price increase:

1. Actual and approaching changes in cost of production.
2. Costs to result when pensions and insurance become effective.
3. The need to have "extras" more accurately related to costs of performing these "extra" services.

Surely the corporation must have estimated the cost impact of each significant increase in costs as accurately as it is possible to estimate these costs. This would certainly be true if it has a cost accounting system worth its salt or if its price increases have any relationship to costs. It should be willing to tell this committee precisely what these increased costs are and how they are broken down. But this is not enough because it is not the whole story. It should also tell the committee about its savings during the same period. So also should other companies. Their public statements at the time of the price increases left much to be desired in the way of an explanation of the "reasons" for the increase.

I remember listening to Mr. Voorhees the other day on this particular question citing the increases in costs which the corporation has incurred. And if you will look at page 62, I believe it is, Mr. Voorhees' statement, it simply says transportation costs went up so many million, and something else went up so many million, and four or five items decreased so many million. That is not a valid and sound explanation of what the changes in cost are. If they were going to show you the increase in cost, they ought to show you that scrap decreased so many dollars a ton, and we buy so many tons of scrap, so our decrease is so much. They simply lumped scrap in with the other items and said they went down so many million dollars.

Mr. RICH. They gave them to you in dollars and cents. If they were to break it down and give those figures, it would be a pretty voluminous report, would it not?

Mr. BRUBAKER. Not for items they showed as major cost changes, either up or down. You could get all the figures you needed on that in four or five pages. All you got is a summary table with the suggestion to take it or leave it.

Mr. RICH. If one manufacturer would give that, would it show to another manufacturer the competing operation?

Mr. BRUBAKER. The prices of these things are public knowledge. They are printed in the industry's own trade press every day.

Mr. RICH. I am asking for information.

Mr. BRUBAKER. They are not going to tell us anything if they tell us that, "We use 3,000,000 tons of iron ore and the cost of iron ore in the last year went up a dollar a ton, so it cost us $3,000,000 in increased cost."

They simply say that costs went up so many million dollars and left us high and dry.

Mr. RICH. If one manufacturer gave the complete itemized expense and all the items in connection with his manufacturing, if he had something over the other manufacturer, it would put the other manufacturer wise to what he is doing, would it not?

Mr. BRUBAKER. Obviously he does not need to do that for this purpose—only the particular items changed last year.

Mr. RICH. When he brings it to us it is public property.

Mr. BRUBAKER. We did not ask for a total price picture and you did not. All we ask—you say the price increase has been because of costs going up. All right, show us which costs went up how much. You do not have to show us all costs, secrets and so on, but surely you can tell us how many tons you bought so we can tell whether or not you are telling the truth.

That is all we ask for and we think the committee has the right to ask for it.

Mr. RICH. We suppose all the people who come here are honest and give us the facts. We are not supposed to judge that they are men not sound or honest. We believe that all men are honest until we find them different.

Mr. HUBER. It is more the sin of omission and not commission.

Mr. BRUBAKER. I am very sure the sins of omission in these statements about company cost are far more voluminous than sins of commission. They have just left out whole lots of items on which there have been price changes. We think they should be asked to give enough details to judge it independently.

Mr. RICH. If they gave us all of these we would need accountants, and the only one here who could understand it would be the chairman. We would have to get cost accountants.

Mr. BRUBAKER. That is what you have the staff for, to find out these facts.

Mr. RICH. We would have to get accountants in here and we are spending enough Government money now.

Mr. BRUBAKER. Most companies have been quite general and vague in stating the "reasons" allegedly underlying their price increase actions, or in showing the actual impact of each of these "causes." Most companies have alleged labor, services, and materials costs as the bases for the price actions. Republic mentioned increased costs as compared with 1948 of iron ore, coal, limestone, dolomite, fluorspar, ferromanganese, alloys, freight, and the labor-cost increases resulting

from the pension and insurance plans. It gave no indication of the amount of these or their impact on total costs. Having used 1948 costs as a base for detailing these cost increases, the company then picked a low point in the scrap market for 1949 (August) and alleged an increase in scrap prices as of December 1949. A comparison with the 1948 scrap costs would have shown exactly the opposite; namely, a most substantial decline in costs.

Mr. RICH. Do you mean to tell me when you figure out to show the cost of things you do not take a pretty low year or a low-cost period in order to show the total amount of increases?

Mr. BRUBAKER. I will tell you the precise base we use, and it is the same base United States Steel used, if that is any comfort to you.

Mr. RICH. I am just wondering, if the steel companies can do this unethical thing of taking the low price and then give the high price—I am just wondering whether your organization ever took the low price at a particular time to try to show the high increase. I am wondering whether you do practice what you preach.

Mr. BRUBAKER. I trust you will be the judge of that in terms of what we write and say, not in terms of speculation.

Mr. RICH. You either do or you do not.

Mr. BRUBAKER. I can say flatly we don't. But I want you to look——

Mr. RICH. That is the answer—you don't do it. That is the answer I want.

Mr. BRUBAKER. We don't indulge in practices where we use one base for part of our costs and then shift over and use another base for part of our costs. We use the same base.

Mr. RICH. Thank you very much for that information.

Mr. BRUBAKER. If Republic Steel had used the same base for computing scrap costs as computing other costs, it would have shown a substantial decrease, not an increase but a decrease of 35 to 40 percent in scrap costs, one of its major raw materials.

It argued further that it needed a price increase because corporate income taxes are high, because of the high cost of plant modernization and improvement, and because the costs of pension plans do not diminish with decreased levels of operations. It finally argued that it needed a price increase because the price of steel had gone up less than wholesale commodities since 1939—60 percent as compared with 96 percent.

Many companies have simply stated that higher labor costs resulting from pensions and insurance and higher material costs were to blame for their price increases, Jones & Laughlin and Inland added as a "reason" the need to protect shareholders by setting prices high enough to insure that the stockholders are "fairly paid" for the use of their money, so that funds will be forthcoming in the future for modernization and improvement. J. & L. expressed a concern for the maintenance of steel prices "at the lowest level consistent with adequate returns to our stockholders and the protection of our properties." It alleged that price increases were needed to protect the security of its employees—most of whom are, of course, Steelworker members. Youngstown Sheet & Tube added as a "reason" the depreciated buying power of the dollar. It stressed, however, the need to recoup labor and material cost increases and the necessary adjustment of its prices upward in order "to meet the competition of others in the industry."

Some companies admitted that the labor costs were only anticipated costs. Many, however, did not. Bethlehem added as a "reason" the need "to meet new market conditions"—whatever that may mean. It may well mean the same thing as Youngstown did in talking about "meeting competition." Some nonintegrated producers blamed the higher cost of semifinished steel—i. e., their raw materials—for their price increases. The American Metal Market suggested in advance of the price increase that a steel-price increase might have to be made to offset freight-absorption costs if, and when, the FTC (or Congress) gives a green light to a return to "delivered" prices. A financial writer for the New York Times also suggested (December 18, 1949) that "possibly high management in Steel is trying to retrieve some of the losses it was responsible for in bringing about the recent strike in the first place."

There are two most significant omissions from this listing of reasons. In the first place, not one company mentioned supply and demand or the market for steel as the basis for their price actions—unless Bethlehem's reference to "meet new market conditions" has such veiled reference. Presumably, the market, or supply and demand, determines prices in a free, competitive, capitalistic economy; yet it did not even get honorable mention here. The companies chose to stress costs instead. It should be obvious that, in a period of high demand and short supply, it is not costs but demand which is the prime determinant of steel prices. Unfortunately the same does not hold true in this industry in a period of declining demand. Then steel prices are described as sticky. In the second place, every company in its major price-increase announcement neglected to mention the fact that it was simultaneously decreasing its export prices. Obviously it was the market and not costs which dictated this action also.

This is not the whole gamut of reasons cited by all of the companies but, so far as we can ascertain, it covers most of the major ones—certainly all we could isolate from the mumbo-jumbo which was paraded in the guise of reasons. It should give the committee a good idea of the scope of the investigation which will be necessary if the committee is to probe in any comprehensive manner the validity even of the industry's stated case for price increases.

Mr. HUBER. Mr. Chairman, in view of this discussion here, I have a carbon copy of a letter sent to Mr. Fairless and the questions which he was asked to bring in the answers to. It might be well to put those questions in the record at this point.

The CHAIRMAN. Very well, that will be done.

(The document referred to is as follows:)

Among questions to be considered at the hearing are the following:

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 price, 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-material 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 you modernization program resulted in increasing 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?

The CHAIRMAN. You may proceed.

Mr. BRUBAKER. Let us turn now to the analysis of the reasons for the price increase.

Senator FLANDERS. First, I would like to ask the witness if it is his recollection that Mr. Fairless stated that in all cases the export prices were higher than domestic prices.

Mr. BRUBAKER. Yes; and from my own knowledge I know that that is true. The range of export prices above domestic prices has been narrowed by this action, but the export prices are still higher. The reason is not, however, that it costs more money to produce steel for export than it does to produce steel for domestic markets. They are higher because they are and have always been able to get more for steel sent abroad, because the market is a little better than the market was here.

Mr. RICH. Is that market you are speaking of the ECA market or the market of people in foreign countries that are trying to buy?

Mr. BRUBAKER. These prices given here are public prices quoted by United States Steel to all buyers who want to buy for export, whether ECA or private exporter, or the purchaser from another government, or a company somewhere else.

Mr. RICH. Are they all uniform prices?

Mr. BRUBAKER. That is a question I would prefer you to ask the company. They state that these are their export prices.

Coming back to the analysis, I think that is the heart and meat of the statement we are coming to.

The "reasons" previously listed fall into three main categories:

(*a*) Labor-cost "increases."

(*b*) Materials-and-services cost "increases."

(c) Other "reasons."

An analysis of these three major categories follows:

A. Labor-cost "increases"

The alleged "increases" in labor costs resulting from the pension and insurance settlements are the reason given most prominent mention by industry spokesmen; so it is given first attention here. This claim certainly has less validity than might be supposed. Most industry spokesmen have been positively cagey regarding the amount of this cost—though we are now getting estimates from the various proxy

statements which the companies are filing with the SEC as a prelude to stockholder meetings to ratify the new company pension plans growing out of the pension agreements signed with the steelworkers.

Increases in productivity in the industry and the other benefits attendant on a collectively bargained pension plan will make it possible for the companies to absorb the entire cost of these pension plans without their experiencing increased unit labor costs. The union has little independent information about the probable pension costs to these companies. We have some data and will have more as we acquire actual experience with the operation of these plans.

Mr. RICH. If it is going to be necessary for the company to figure that out, do you not have the same opportunity to figure those pension costs the company would?

Mr. BRUBAKER. There are many of the facts which are necessary to figure those costs, Congressman, which are not available to us. They are peculiarly within the province of the company, and they do not choose to make those available to us in many instances. If they do not make them available to us, we have to do an awful lot of estimating, and we have preferred for the purpose we are here for to take the company figures as they gave them and assume that they have been made as accurate as the companies can make them.

Mr. RICH. Of course, I know nothing about making steel. But they get the raw material from the mines, the ore. And of course that would not advance the cost; that is, the machine costs in extracting that. Then they would have the cost of other things which they have to buy. So, it seems to me since their raw material or the ore you get out of the mountains does not increase, it seems to me the greatest increases they would have would be in their labor costs. I am thinking the same as I would of trying to get clay out of a mine to make brick.

Mr. BRUBAKER. All I can say in answer to that is the companies themselves did not give you that picture on the whole. United States Steel did, but several of the other witnesses who were here showed greater material-cost increases than they did labor-cost increases, and we want to analyze those if you will let us.

Mr. RICH. Go ahead.

Mr. BRUBAKER. To our knowledge, only five or six companies have cited any figures as to the magnitude of these so-called increased payroll "costs" as of the date of preparation of this statement. The companies at the time of their price increases hid behind such generalities as "substantial" or "greatly increased" labor costs without giving any details. Now, in order to obtain stockholder approval of the pension settlements, companies are beginning to reveal cost estimates in their proxy statements. Many of the assumptions underlying these estimates are not stated. The union, therefore, is in no position to judge the accuracy of these estimates, and has no thought of doing so here. These estimates will undoubtedly be revised on the basis of experience as the pension plans continue in operation. They are at best company guesses. It should be noted that most steel companies have had no previous experience with pensions for the vast majority of their workers. Murray Latimer, who has gained wide acceptance in this field as an authority on costs by reason of his long experience in government and elsewhere with the operation of pension plans and who has now been retained by our union to help us on these problems, has said repeatedly that the only way to find out what a pension plan

costs is to try it out. We are confident that he is right. However, since the steel companies have apparently used these estimates of pension costs in reaching their decision to raise prices, the union and this committee should use these same estimates in judging as to whether these decisions were justified.

Bethlehem, one of the few companies which has released an estimate of its pension costs under the Bethlehem "formula," has informed its stockholders in a public proxy statement that its costs in 1948 under its old pension plan which provided a $50 monthly minimum, inclusive of social security, were $3,544,738. These actual costs, it stated, would have been $4,507,163 had the new $100 minimum plan been in effect. The corresponding figures for the first 10 months of 1949 were $1,468,402 actual under the old plan, and $5,585,125 had the new plan been in effect. Bethlehem estimated that its total average costs for the next 5 years for pensions under the new plan would range from 7.5 million dollars to 10 million dollars per year. There would also be an initial outlay when present pensioners are transferred to the new plan of around $10,000,000, but this latter cost would occur only once and would not even occur then until and unless Congress amends the Social Security Act to increase benefits. For Bethlehem the actual pension cost in 1948 under its old plan was only 0.72 percent of its pay roll in 1948. The estimate of cost under the new plan, had it been in effect in 1948, was equal to only 0.92 percent of pay roll. In fact, the 5-year average of 7.5 million dollars to 10 million dollars ranges from only 1.53 percent to 2.04 percent of pay roll. These latter estimates do not take into account the reduction in company cost which will result from the probable amendments to the Social Security Act during this 5-year period. They are based on a rate of retirement "somewhat in excess" of the company's experience at the old $50 minimum. We are unable to verify these estimates; but since they have been publicly submitted by the company, they are a legitimate subject for our analysis. We are inclined to think that the company may have underestimated its costs because these figures apparently do not take into account the increases under the disability provisions of the plan, because the new plan's higher benefits may stimulate retirement at a higher rate than the company expects and because the service qualification has been lowered, under the new plan, from 25 years to 15.

Mr. RICH. Let me ask you this: If social security increases, and if the company and employees are interested in trying to secure a certain amount for the employees when they retire, what difference does it make to you as a union as long as you are trying to see that the members of your organization are going to receive a certain amount of pension, whether it comes from social security or whether it comes from the pension plan of the company?

Mr. BRUBAKER. If you would look at our pension plan, Congressman, you would find we have a combined plan which includes both social-security and company contributions. And if social security goes up and increases in benefits, the amounts the company contributes go down. We are down here campaigning in another committee for an increase in social-security benefits.

Mr. RICH. What for; to help the company or to help your employees?

Mr. BRUBAKER. We help establish what we think is the soundest kind of a social-security system, not just for steelworkers but all per-

sons in the country who grow old and need help or pensions. There are obvious draw-backs to any collectively bargained pension plan which acn be overcome by a sound social-security system, and we do not pretend that collectively bargained pension plans are a substitute for a Federal social-security system. We would like to see both. We would like to see the basic and the main security, however, provided by law. We think that is where it ought to be for many reasons I would rather not discuss here because they are being discussed elsewhere.

Mr. RICH. You mean you are more interested in seeing your pensions come from the Federal Government than you would be from the company?

Mr. BRUBAKER. We are interested in seeing not only that our people get pensions, which they have by contract now——

Mr. RICH. So am I.

Mr. BRUBAKER. We are interested also in seeing all the people are treated properly and fairly, and a lot of people now do not get pensions because they do not have collective bargaining units. They ought to have pensions, too.

Mr. RICH. I am not arguing that question. I am trying to get your point. You made mention of the fact and tried to tie the two in as if the company should be censured because of figuring on increased social security.

Mr. BRUBAKER. You have misunderstood me. I said the estimate of cost which they made did not include the decrease which we think is going to result in their costs.

Mr. RICH. You have not gotten the decrease yet, have you?

Mr. BRUBAKER. That is right.

Mr. RICH. Then why are you figuring? You are complaining about them raising costs to take care of social security, now complaining about them that they might get a reduction in social security.

Mr. BRUBAKER. You misunderstood.

Mr. RICH. No; I did not.

Mr. BRUBAKER. They did not figure they might get an increase. We are criticizing them because they did not figure they might get an increase in social security.

Mr. RICH. Why should they figure on that, if it is wrong for them to figure they ought to increase the price of steel to take care of social security?

Mr. HUBER. I think we would be making more progress, Mr. Chairman——

Mr. RICH. Do not be in a hurry over there, Senator.

Mr. HUBER. Do not call me a Senator.

The CHAIRMAN. Now the Chair must intervene, since he is getting that warning from both sides. I think I will begin to exert a little bit more authority.

Let us try to proceed for the rest of the afternoon in developing facts. And I do beg my good friend, the Senator—I was about to say Senator from Pennsylvania.

Mr. RICH. As we go along, do not we develop the facts? I am interested in this gentleman as much as I was in the steel mills, and am trying to get the facts myself. When a man makes a statement I am here to try to help you on your program. And if the steel companies

have done wrong and the unions can convince me, I am like the old preacher—I want to be "conwinced" with my own "conwincer."

The CHAIRMAN. Let me say this.

Senator FLANDERS. Mr. Chairman, I am making marks and turning down pages as I go along, and I think that would expedite matters if we all did that.

The CHAIRMAN. That is what I was about to say. We have accorded other witnesses the privilege of making their statements without interruption in order that the presentation may be cohesive and easy to read.

Mr. RICH. Mr. Chairman, I can read this faster if I go in my office and sit down and read it than I can listening to him read it here, and I will get more out of it, and I might just as well do that.

The CHAIRMAN. I was going to say——

Mr. RICH. Do you want me to do that?

The CHAIRMAN. No. The Lord sent you, Congressman Rich, just as a buffer to buff at me in the progress of these hearings.

Mr. RICH. Joe, I want to help you all I can. Let's quit perking here. I have no desire to hold this up.

The CHAIRMAN. Surely.

Mr. Witness, you may proceed.

Mr. BRUBAKER. If I may return to Bethlehem's cost figures.

Even these costs do not become effective until March; whereas the price increase was effective immediately on announcement in mid-December. Bethlehem's insurance costs are smaller than its pension costs. The contract calls for 2.5 cents per hour worked. This is equal to 1.43 percent of the actual average hourly earnings (or pay roll) of Bethlehem employees in 1948. Both pensions and insurance together, therefore, if we accept the company's figures, range between 3 percent and 3.5 percent of pay roll. Since pay roll (total employment costs) constituted only 38.5 percent of sales for Bethlem in 1948, the total impact on sales revenues, using these company figures, would be 1.2 percent to 1.3 percent of sales.

Pension costs to the company will likely be decreased by reason of congressional action increasing primary social-security benefits. So, if we accept for these purposes the company's cost estimates, they would scarcely be sufficient to require an increase of more than 4 percent in sales revenues as will result from the recent price increases.

Republic Steel estimated an average cost of pensions of $9,100,000 for each of the next 5 years. This estimate was based on the assumption of 100 percent retirement of everyone eligible, including those who became eligible in the 2 years before March 1, 1950. This is an absurd assumption. The company also admitted that these costs would be substantially reduced if the Social Security Act is amended as proposed. Even with these extreme and unrealistic assumptions, the company's cost is estimated at only 3.7 percent of pay roll, using 1948 figures. But close to one-half of this cost would not be increased pay-roll cost if the Social Security Act is amended, and if less than 100 percent of eligible pensioners retire—both extremely likely assumptions. So, after some of the water is shaken out of this estimate, Republic's estimate of its pension cost appears to be about 2 percent of pay roll—if we accept the company's figures. Its insurance costs are about the same as Bethlehem's. Thus, its total pension and in-

surance costs, as a percent of sales, would be approximately the same as those for Bethlehem—possibly even less, since its pay roll is a smaller percent of its sales, only 31.8 percent.

Youngstown Sheet & Tube has cited a figure of $2,097,000 average cost per year for the next 2 years, or $1,872,000 for the next 5 years, as its estimate of pension costs. This is in addition to an initial cost for those who have retired in the past 2 years estimated at $953,000. This 2-year estimate does not contemplate a revision of the Social Security Act and the lower costs to the company which would thereby result. It assumes retirement at an average age of 68. If we accept the company's figures, its average 2-year cost is 2.1 percent of 1948 pay roll. Insurance for this company would be 1.4 percent of the actual average hourly earnings, or pay roll, of this company's employees in 1948. Since wages and salaries for this company in 1948 were only 26.4 percent of sales, the net cost to this company of pensions and insurance, according to its figures, would have been 0.92 percent of sales.

Mr. RICH. They did not do that all for pensions. They did it for the salary increase and pensions that were supposed to come.

Mr. BRUBAKER. There was not a salary increase, sir. This was pension-cost increase they were claiming as a basis, and the pension went to nearly all of the people in these companies. I should remind you here that we negotiated pensions, of course, only for people in bargaining units.

Nevertheless, every one of the companies after they had been negotiated have extended them to everybody. So we thought it appropriate in measuring the impact of those costs to treat it as though the extension of benefits was as the companies themselves computed and extended to everybody and not just the people in the bargaining units.

The Wheeling Steel Co. has informed its stockholders that pension costs for the next 5 years will range from $635,000 to $790,000 in 1950 to between $750,000 and $980,000 in 1954. Based on 1948 pay roll, these company estimates indicate pension costs will represent a maximum of 1.39 percent of pay rolls in 1950 and 1.72 percent in 1954. Since wages and salaries are only 36.5 percent of sales, the impact would be 0.51 percent to 0.63 percent of net sales.

There is no indication that the company, in making these estimates, has taken account of the probable savings due to future changes in the level of social-security benefits. In fact, we do not know the assumptions on which these estimates are based. Due to absence of man-hours data, it is not possible to compute accurately the cost of the company's 3-cents-per-hour contribution toward social insurance. However, judging from estimates for comparable companies in the industry, this cost will not exceed 1.7 percent of pay roll or 0.62 percent of sales. Thus, total annual costs for social insurance and pensions for this company, if we accept the company estimates, will range from about 1.1 percent to 1.3 percent of sales. It should be noted that these costs are not quite comparable to Bethlehem's costs because Wheeling has computed them in terms of pensions actually to be paid out during each year, not in terms of provisions for eventual payment.

The A. M. Byers Co. has given a combined cost figure for pensions and insurance of $460,000 per year. This is 4.6 percent of its pay roll in 1948. There is again no indication as to whether this figure takes into account possible revision of the social-security law. Since pay

roll was 31.6 percent of sales in 1948, the impact of this increase in pay-roll costs would be about 1.5 percent of sales revenues—if we accept the company's figures.

We have indicated that we think these company pension cost estimates understate the eventual pension costs to the companies. This results from their choosing financing methods which are predicated on minimum immediate costs. Obviously, Bethlehem's costs, as they should be willing to tell you, will be much greater in the long run than is indicated in their proxy statement. Mr. Buck's statements before this committee clearly support this conclusion.

I would like to read for you one clause from our collective-bargaining contract with United States Steel in support of this, in which we say:

> The company and each of the employing companies (the other subsidiaries of United States Steel) is free to determine the manner and means of making provision for the funding and the paying of the pension benefits set forth in part 26 of this agreement.

So we did not agree with United States Steel or some of these other companies as to the precise method they were to use as to funding or financing. We left that to them.

United States Steel's estimates on pension and insurance costs, as shown in its recent proxy statement and as stated before this committee, are considerably greater than the estimates of the other companies which have made public their own cost estimates. We hold no brief here for one particular method of financing as opposed to any other method. We want only a sound pension plan for our members. Opinions obviously differ. Bethlehem has shown funding only as each individual retires. United States Steel has apparently chosen funding of present and future service costs on a level premium basis coupled with a freezing of past service liability. Who is to say which method is better in a particular company situation? Obviously, trained actuaries differ on this question.

Frankly we are delighted to see that United States Steel has apparently chosen the financing method recommended by Mr. Buck. That method, as you know, accepts the recommendations which our own actuary, Mr. Latimer, made with reference to the handling of past service liability. We hope the corporation decides to use this funding method. It should be noted, however, that the corporation is left free by the union contract to choose its own method of financing. Its choice, therefore, is its own. Its proxy statement also leaves complete discretion with the corporation as to the method of funding and financing which will be used. Apparently it has chosen a method which is one of the more expensive methods of financing in terms of immediate costs as these were outlined to you by Mr. Buck.

We have achieved in our recent bargaining a great forward-looking system of pension and insurance arrangements of which we are justifiably proud. We are delighted to see that the corporation has decided to extend the benefits which we negotiated to all of its employees, including those who are already on the retired lists. These benefits, however, are not any excuse for a price increase. We have not seen the corporation's estimates of costs before the issuance of its proxy statement. We do not know all of the assumptions which went into these estimates. We are forced, therefore, to assume that they are reasonably correct and that the combined figure of $78,000,000

as a cost in 1950 is reasonably accurate. It should be abundantly clear, however, that the corporation could readily absorb this cost without unduly decreasing its profits. At the rate of operations which existed during the first 9 months of 1949, the corporation was earning profit, before taxes, at an annual rate in excess of $380,000,000 per year. This was an annual rate of profit, after taxes, even using the corporation's stated net profit, of $177,000,000, instead of an adjusted figure.

Mr. RICH. Let me ask a question right there. In reference to that, when the company figured, they used the figures that were given them by the Internal Revenue Department on their depreciation. Have you figured on your estimates what the company ought to do with the depreciation as given by the Internal Revenue or what these companies claim they should have in order to replace their equipment in case it is worn out?

Mr. BRUBAKER. The figures which we are citing here are the companies' own stated figures which already reflect this adjustment for replacement costs of their facilities.

Mr. RICH. They have to use the figures given them by the Internal Revenue Bureau.

Mr. BRUBAKER. They do when they file a tax return with the Bureau of Internal Revenue, but they don't have to when they file a return with the SEC or the stockholders.

Mr. RICH. What is the basis on which you figure?

Mr. BRUBAKER. This figure is based on their own adjusted figure which does reflect this additional cost which they want to have reflected for the additional cost of modernization.

Mr. RICH. You are using, then, their large depreciation figures?

Mr. BRUBAKER. That is right. And we are using that figure for United States Steel for 1949 and find that they were making a rate of return on their net worth of 9.2 percent based on the first 9 months' operation. If we were to adjust to the tax base used by the Bureau of Internal Revenue, the figure would have been in excess of 12 percent. If we were to offset against United States Steel's costs in 1949 this $67,500,000 which they say is the additional cost accruing to them from this pension settlement, this company would still be earning a rate of return on its net worth in excess of 7 percent. Who can say, frankly, that this is not a fair return. It should be clear that from these profits alone the corporation could, if it wished, absorb this increased cost.

Mr. RICH. Supposing they earned 7 percent the last 2 or 3 years, we are going into a buyers' market. What is going to be the return when they have to cut down their production?

Mr. BRUBAKER. I do not care to indulge in speculation as to how long we will stay on a sellers' market.

Mr. RICH. Any good, sound businessman, you and your own family, or anybody else has got to figure on what conditions may be and take recognition and account of that, and any sensible businessman will do it. It does not make any difference who he is.

Mr. BRUBAKER. I will say to you these steel companies have told us and told the public each year at the time of each price increase since the war, "Now, we are about to enter a buyers' market again, we have got to raise our prices and get these extra costs back in a hurry."

They have asked you, the public, the steel consumer, to finance this modernization and expansion program out of high prices in a hurry because each year "we are just about ready to shift over into this buyers' market."

Down in New York last summer for a month they told us and every steel executive there, ad infinitum, we were entering a buyers' market. Yet 2 months later back in came the sellers' market and it is now right up to our necks in steel. And that is the reason they got this price increase in steel. If it had been a buyers' market, we would not have had the price increase in steel imposed. I will say that flatly, too.

Mr. RICH. One more question. Are you in favor of steel companies operating steel plants or would you rather have the Government in it?

Mr. BRUBAKER. I do not think that is relevant to our consideration here. We will be very glad to testify on that problem if it is ever taken up before Congress and they want our opinion. I do not think that matter is presently under consideration, sir.

Mr. RICH. I think it is.

The CHAIRMAN. No; the Congressman is wrong about that.

Proceed.

Mr. RICH. I would just like to know whether he is interested in having the Government operate the steel industry.

Mr. BRUBAKER. We have never proposed that, Congressman.

Mr. RICH. Sir?

Mr. BRUBAKER. We have never proposed that.

The fact-finding board which investigated this matter so found after lengthy investigation. In addition, the corporation's own actuary admitted to this committee that he has advised the corporation that its costs will be reduced by 28 percent if H. R. 6000 is adopted.

The corporation's estimate of an annual $78,000,000 cost is not all new cost to be covered by a price increase even using its own approach to this matter. Actually, only $67,500,000 of this amount is new cost and part of this represents nonrecurring costs for persons who are already retired or for persons who may have been separated from the pay roll in the last 2 years and who will not be eligible for pensions. Neither of these costs will repeat themselves. We reiterate that we have a fine pension plan but that it certainly is not a basis for a price increase on the part of either the corporation or the industry.

The CHAIRMAN. Do you know how much of the costs of the pension plan are deductible for taxes?

Mr. BRUBAKER. As United States Steel has set up its pension plan and estimated costs for you, they expect to be able to deduct all of that cost as a current cost for purposes of computing their taxes.

The CHAIRMAN. So that means that 38 percent of the $78,000,000 would——

Mr. BRUBAKER. Would be reduced revenue for Uncle.

The CHAIRMAN. Yes; Uncle Sam would be paying that.

Mr. BRUBAKER. Yes.

Senator FLANDERS. And somebody else has to be taxed to make up the difference.

Mr. BRUBAKER. I am not interested in getting into the tax question here.

The CHAIRMAN. It is of interest because we have been pursuing this matter as though the $78,000,000 were on the United States Steel figures coming out of their profit.

Mr. BRUBAKER. That is right.

The CHAIRMAN. Whereas, as a matter of fact, 38 percent is coming out of taxes.

Mr. BRUBAKER. And ten and a half million they admit they were already spending in 1948, and they have some other nonrecurring items in here. So the cost is reduced very substantially below the figure they gave you and would have you believe is actually going to be the average annual new cost.

Mr. RICH. May I ask the Senator a question now?

Should not that be a real urge for us to cut down Government expenses?

The CHAIRMAN. Oh, by all means.

Mr. RICH. By all means?

The CHAIRMAN. Yes, indeed.

Mr. BRUBAKER. It is very interesting to compare the actual costs of pensions and social insurance now published by the companies with their estimates of costs as made before the Steel Industry Board. It gives you a good idea as to some of the reasons for our general skepticism about company figures. For example, A. M. Byers Co., which now expects pensions and insurance to cost $460,000 per year, stated before the Board that it would take $2,300,000 each year to meet the union's pension demands and $515,484 to meet our insurance request, a total of $2,815,484 per year or more than six times its present estimate. Wheeling Steel testified before the Board that the union's pension demand alone would cost in excess of 27 cents per hour or 15.6 percent of its employees' average hourly earnings or pay roll. Now this company releases figures which indicate pension costs equal to less than 2 percent of average hourly earnings or total pay roll. Thus, the original estimate was seven times the present one. While we admit that the union's original pension and social-insurance demands were more liberal than those finally agreed upon, by no stretch of the imagination did the differences warrant the incredible discrepancies evidenced by these companies' figures. It's almost like the ever-present before-and-after advertisements one sees in the more daring pulp magazines. Other companies which made equally exaggerated claims regarding the alleged costs of the union's pension and insurance demands have yet to release their actual cost estimates for 1950–54. The union awaits these figures with considerable anticipation.

The foregoing company estimates of costs which they now expect to experience hardly bear out the impression left by these companies of the large and substantial cost increases resulting to them from the pension and insurance settlements. But more important, even these costs are overstated in terms of the effect of these settlements on the companies' costs. These company estimates omit the attendant cost saving which will result from the retirement of certain less active or less efficient workers who are 65 or older. They also omit the saving which can result from increased production flowing from an increase in worker morale, which certainly will follow upon the removal of this large area of worker insecurity.

Even more important, these company estimates omit any allowance for the increase in productivity which every one of these companies has experienced and is experiencing. This they would have to admit if they were to be completely frank with you. You are aware, I am sure, of the tremendous programs undertaken by the steel industry in the

last 3 years to modernize their existing plant and equipment and to balance production facilities so as to permit more profitable operations.

United States Steel alone has boasted repeatedly that it will have spent more than $1,000,000,000 on such programs when its presently authorized construction is completed. Almost none of this represented expansion of basic capacity. Any of these companies will tell you at great length of the improvements which it has made or is making. These improvements are being made for one reason only—to cut costs, and in the main, to cut labor costs.

The only logical conclusion must be that labor costs per ton have already decreased and are further declining and that productivity, or output per man-hour, is increasing. This must be true, since many of these new facilities have been operating for many months. Official Government estimates of productivity increases in this industry range from an average of 2 percent to 3 percent per year over long periods in the past. It can certainly be assumed with safety that at least a like increase in productivity is presently occurring in the industry.

Yet, balanced against this productivity increase is the fact that there was no labor-cost increase whatsoever for this industry in 1949 and there is none in prospect for 1950 with the exception of such costs as come from the pension and insurance agreements. Yet during these 2 years of 1949 and 1950, we have had productivity increases which at a minimum certainly will range from 2 percent to 3 percent per year. This would mean that the companies could absorb during these 2 years, without any decrease in profit margins, total costs of from 4 percent to 6 percent and even greater labor-cost increases.

Compare these figures with the previous calculations which we have made showing that the cost of the pension and insurance agreements will fall on only a part of one of these two years, and will then—if we can accept the company estimates—be less than 1.5 percent of sales. This percentage, too, may be lowered if the Social Security Act is improved. It is these facts about industry productivity which lead us to the conclusion that the pension and insurance agreements will mean little or no net increase in unit labor costs for these companies.

This conclusion is not fantasy, as the committee can readily establish. A good example to bear out this conclusion has recently come to our attention in the January 2, 1950, issue of Barron's, which could hardly be accused of being a prolabor publication. It discusses the modernization program which is substantially completed at Lukens Steel. It states that Lukens boasts that it has reduced its break-even point during the last 2 years from a figure of 70 to 75 percent to a present figure of 50 to 55 percent of capacity. This is, indeed, a sharp reduction.

The cause cited in major part as being responsible for this cost decrease is the modernization and improvement of its equipment since the end of the war. But this is not all. Further improvements are in progress which will decrease its break-even point and its unit labor cost even more. The electrification of one mill alone, which is now in process, it is estimated, will save $125,000 a year in fuel costs alone and will result in substantially lower unit labor costs, since the operation of this mill will be speeded up by 10 percent. This example bears out beautifully the increases in productivity and the decreases in labor costs which this industry is now experiencing.

We believe any unprejudiced observer looking at these facts would conclude, as we have, that the company pension and insurance agreements will not mean any net increase in unit labor costs this year or, for that matter, for any year during the term of these agreements.

I would like to suggest that the committee staff make available to the committee copies of Barron's Weekly, the most recent issue, for January 23, which has an article entitled "Steel Expansion Spurred by Need To Cut Costs."

In the course of that discussion the writer, who is a regular writer for this periodical, states:

Nobody knows exactly how much of the $3,000,000,000—

this is 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, however, one official of United States Steel hazards a guess that one-third was for a new plant and the balance for improvements.

Mr. PATMAN (presiding). May I ask a question there? Which company is the highest cost producer in the steel business?

Mr. BRUBAKER. I frankly do not know the answer to your question, Congressman. As I said earlier, these companies are extremely reticent about telling us their costs. I think, if you want the answers, you are going to have to find out from someone who knows more about the cost per ton than anyone outside of the company can find out.

I continue with the statement:

Whatever the precise ratio—

and this is the new plant—new capacity and modernization—

steel companies clearly have built a lot of hidden productivity into their plant, and they intend to build more.

Now, the article continues to demonstrate that these companies themselves feel that this modernization-equipment program is going to mean for them—and is already meaning—tremendous reduction in actual unit costs. When you reduce unit costs, as they are doing through this kind of program, you either increase unit profit or you have the ability to absorb some unit-cost increases.

Mr. RICH. What is the object in any company in increasing the size of its plant? If it does that, it has two objectives—one is to make it more efficient and the other would be to increase its production, would it not? What would be the object of any company spending any money to develop its plant?

Mr. BRUBAKER. We assume the primary objective, Congressman, is to reduce costs.

Mr. RICH. I say that any company, it would not make any difference who, or any man that spends money for a plant would have two objectives. The first would be increased production and the second would be to make it more efficient and decreasing costs.

Mr. BRUBAKER. Therefore more profitable.

Mr. RICH. That is the only thing for anybody to do, is it not?

Mr. BRUBAKER. Yes, sir. Yet, before this committee the other day the United States Steel attempted to represent that it actually has not experienced cost savings as a result of this expenditure.

Mr. RICH. We wouldn't be that dumb.

Mr. BRUBAKER. I refer you to the record.

Mr. RICH. We would not believe they came here to tell us they are spending this money just because they want to spend money in their plants. There is not a man up here that would think that.

Mr. HUBER. The safety factor is one thing that probably enters into it, I imagine, a great deal.

Mr. BRUBAKER. It does help, too.

Mr. HUBER. Having worked in steel mills as a young man, I used to work 13 hours a night in a skelp mill, and outside, and it was quite a dangerous job. I imagine jobs like that have been abolished and it is probably a good thing.

Mr. BRUBAKER. There is no question about it.

The only conclusion I want to leave with you is this program of building a new plant has certainly reduced their costs, and insofar as it does reduce costs, it puts them in a position where they are either going to make more profit or where they can absorb some other costs.

Mr. RICH. Let me ask you this question: If you are in the manufacturing business and found an opportunity to buy or purchase any kind of machinery, or any equipment, that would pay for itself and reduce costs within 10 years, and you had the money, you would buy, would you not?

Mr. BRUBAKER. I am not in a manufacturing business, Congressman.

Mr. RICH. Would not any sensible business man do that? You are in business. I am in business. And any machinery or anything we could buy to cut down, we would, because we have got a competitive business. I would buy any machine if I had the money for that which would pay its way in 10 years.

Mr. BRUBAKER. We are not criticizing them for having bought it, we are simply saying that because they have bought it they have reduced their costs.

Senator FLANDERS. Mr. Chairman, I would like to make an observation at this point which, in a way, has no relation to the particular subject, but I just want to pick up the question which Congressman Rich made.

Until I came to the Senate, I had been in the machine-tool industry for 50 years, and I want to say that right at the present time you can offer certain automobile builders machinery which will pay for itself in 2 or 3 years, and they will not buy it. Why, I do not know. That is just off the subject, but I want it in the record.

Mr. RICH. Would you like to sell those machines? I think they are blind if they do not do that.

Senator FLANDERS. So do I.

Mr. PATMAN. Proceed.

Mr. BRUBAKER. We are unable to make any sense out of the repeated allegations that the extra costs resulting from pensions and insurance will not diminish with decreased operations or with a shortened workweek, as stated by Republic; or that pensions are more expensive than a wage increase, as Mr. Fairless is reported to have stated at a press conference preceding the increase in prices. Obviously pension costs do decrease when operations are curtailed. Under our contracts, curtailed operations, and the curtailed earnings which result for individuals, have the effect of cutting the monthly pension rate, because the rate of pension benefits under the pension formula is based directly on the average monthly earnings of individuals during the 10 years

preceding retirement. This would be true whether the curtailment takes the form of lay-offs or of shortened workweeks for individuals who are working. Obviously this would reduce the cost to the companies of pensions. It should be equally obvious that insurance costs decrease, so far as nearly all of the major steel companies are concerned, proportionately with any curtailment of operations or shortening of the workweek. There are a few exceptions but for most, the insurance cost to the companies is fixed by contract at 2.5 cents multiplied by hours worked. Thus, if hours fall 50 percent, a company's cost falls 50 percent.

Likewise, we cannot understand how a pension can cost more than a wage increase which costs as much, as Mr. Fairless seems to have said. Such a statement is absurd on its face. There is a rough variability of pension costs with the level of operations and with the level of employment as noted above.

B. Materials and services cost "increases"

Now let us look for a moment at the alleged increases in the cost of materials and services. We have chosen as a base period August 1948, since the last major general increases in steel prices were made in July, effective August 1948. These steel price increases, as you will remember, were even larger than the present ones. They were purposely made large enough to cover all cost increases which the companies had experienced to date or expected to experience, plus an increase in the rate of profit. This latter conclusion is clearly borne out by evidence from the steel company profit and loss statements for the last half of 1948.

Any attempt to analyze the cost impact of changes in materials and services costs is at best unsatisfactory, because the industry has never been willing to reveal enough about the cost pattern of its production to allow reasonably accurate estimates. In the following analysis, we have used cost impact figures calculated from 1948 consumption figures where these are available. We do not pretend that 1948 is "typical" or "normal," but for purposes of this type of analysis it does not matter provided the period is a relatively recent one and provided the same period is used for estimates of changes in both costs and revenues. We have noted throughout the date of incidence of the increased costs. You will note that nearly all of these increases except transportation, occurred in 1948 or early 1949 and that the companies have had four quarters of operations behind them with these "increased costs." To put it mildly, they are not new costs.

Iron ore: The largest tonnage of any item used in the iron and steel industry is iron ore. There had been a price increase of 65 cents per ton on April 1, 1948, prior to the general steel price increase announced in July of that year. The next price increase on iron ore and the only one since mid-1948 was an increase of $1 per ton effective January 1949. Thus, this increase, insofar as it represents increased cost to these companies, was in effect throughout the entire 1949 operations. It was not a recent cost development. The $1 increase was equal to a 15 to 16 percent increase in ore prices which then ranged from $7.20 to $7.60 per ton. Figures published by the American Iron and Steel Institute show consumption of ore in 1948 in blast furnaces of 107.5 million tons and in steel furnaces of 5.7 million tons, or a total of 113.2 million tons.

There are no figures available which would indicate the amount of ore which is actually purchased by any particular company and for

which this company would, therefore, actually pay this apparent increase in iron ore prices. We cannot, therefore, estimate the impact of this ore price increase. We are certain, however, that it is extremely small for most steel producers. As you know, most major steel companies are fully integrated and do not purchase substantial amounts of ore in the market place. Most of them supply the greater portion of their ore needs, out of their own mines, which they either own and operate or let someone else operate on a cost-plus basis. Or, where an apparently independent ore company owns the mines, a steel company, with only a minority ownership interest, may put up the operating money interest free for a special deal on the ore—a practice which one of the large producers admitted in a recent proxy statement. In neither event would these companies pay this apparent increase in ore prices.

United States Steel would profit handsomely from this ore increase, since it is not a buyer but actually a seller of iron ore.

Mr. PATMAN. That is an interesting statement that United States Steel sells ore and benefits from the price.

Mr. BRUBAKER. It owns 55 to 60 percent of the choice low-cost ore reserves in the Lake Superior district. It owns railroads to transport the ore to the lake ports; it owns docks and handling facilities; it owns lake ore boats and it owns docks and handling facilities and railroads at the receiving ports at the lower lake ports. Ore sales and ore handling have always been a profitable business for the corporation—though it no longer admits the degree of profitability. It is a business where there is little overhead, not a great amount of initial outlay, and no plant which must be kept going. Average earnings in the ore fields are lower than in the steel industry and in most mining industries. The rates for comparable key jobs have risen far less in the ore fields in recent years than in the steel mills. These rates in the iron ore fields have not changed since mid-1948. We should know because these miners are steelworkers and labor is a major cost in iron ore mining. It should be apparent, therefore, that the increase in ore prices can be scratched off the list as an increased cost for United States Steel and for most other companies. They are simply not affected in any substantial fashion by this price rise. And in the particular case of United States Steel, it actually stands to show a handsome profit from this increase.

Coal: The second major tonnage item used in this industry is coal. According to the latest Department of Commerce figures, there was an increase from August 1948 through October 1949 of 31 cents per ton in the wholesale price of mine run bituminous coal, bringing the price to $8.634 per ton. This is an increase of only 3 percent. But this tells only part of the story. The peak price came in February 1949 at $8.832, after which there was a decline, reaching $8.515 in August 1949. The increase since then has only been 12 cents per ton. The consumption of coal by the iron and steel industry for all purposes, including the production of coke, producer gas, steam power, and other purposes, was 97,700,000 tons in 1948, of which 95,200,000 tons was bituminous coal. Few steel companies buy any large portion of their coal needs in the open market, and much of the coal is moved by water, so that neither market prices nor high railroad freight rates greatly affect their coal costs. The typical pattern is "captive" coal mines owned and operated by the steel companies and capable of supplying normal steel company needs.

There has been much talk of the higher costs of producing coal resulting from the 3-day week. We do not profess to have the facts in this situation. It is obvious, of course, that unit overhead costs resulting from an underutilization of coal-producing facilities will increase when production is at low levels. The amount of such increase is not available. It must be remembered, however, that overhead in the coal industry is not a major cost. The miscellaneous overhead such as property taxes, insurance, rentals, amortization and depreciation, operating dues and assessments to management associations, administrative and office salaries and expenses, legal fees, et cetera, were substantially less than 8 percent of costs in this industry, according to an official OPA study of costs in the bituminous-coal-mining industry during each of the years 1943, 1944, and 1945. This percentage excludes selling costs, which obviously should not represent major overhead during periods of low-level operations, since a major portion of selling costs is commissions. According to this study, direct mine labor and mine supplies constitute nearly 80 percent of costs. Obviously, these two items do not continue as costs when there is no production; and they vary in almost direct proportion to the level of operations. Many of the other costs also vary with the level of operations. We do not allege that there has been no increase in costs, but we are certain that the amount of increase is relatively small and that it would take a considerable amount of demonstration to show increased costs from the 3-day week as high as those which have been bruited about in many quarters. It must be remembered that there has been no increase in wage rates or in health and welfare benefits in the coal industry during 1949.

We are aware that some companies are now buying coal in order to keep their coal stock piles up. Others have large enough coal stock piles that they do not need to supplement them and are able to maintain high-level steel operations with the coal output from 3-day operations. In some instances, such as Jones & Laughlin, the company may buy substantial quantities of coal as a regular matter. This spring, however, from a couple of conditions peculiar to J. & L., such as a sustained level of operations above rated capacity and an unbalanced capacity which requires a higher rate of coal consumption than would normally be required for a company with its ingot capacity. Thus, for J. & L., increases in coal costs quickly run into money. But this company's coal situation is not typical of the industry, and there is no reason to believe that most companies need buy coal in such quantity as greatly to affect costs, and even this company has not given figures to indicate the cost impact of the 3-day week on its own coal mining operations. It has talked mainly about the higher cost of the coal it buys. Counterbalancing coal purchases by certain companies are coal sales of substantial tonnages by such companies as Colorado Fuel & Iron.

Such higher costs, however, as may result from the 3-day week are not permanent costs, even where they do represent temporarily higher costs to particular companies. And, even where the 3-day week has resulted in allegedly higher costs, these are minor in character insofar as can be determined. Again, as in the case of ore, for most companies, we can dismiss higher market coal costs from consideration as a serious and permanent increase in steelmaking costs, since most of the steel companies have their own mines, and therefore buy no great

portion of their coal. We cannot estimate increased coal costs for those particular companies buying coal since data regarding net amounts of coal purchased in the industry are lacking.

Mr. HUBER. United States Steel says 19.9 million dollars increase.

Mr. BRUBAKER. We frankly think they could not demonstrate it if they had to give you the precise figures on it.

As you know, that is the complaint we were making earlier. They did not give you and were not asked to give you real justification as to how they arrived at such a figure as 19.9. How can anyone challenge that figure unless they know how many tons they buy, and what the increase is over 1948?

Mr. PATMAN. The companies have agreed to furnish any additional information that we desire. So, if the gentleman will prepare the questions he would like to have propounded to the witnesses who appeared here and those who submitted statements, we will be happy to have it.

Mr. BRUBAKER. I have given the committee, I hope, a very good idea of the kind of questions you ought to ask the companies to substantiate cost increases so we and the public could have a chance to verify them.

Mr. HUBER. The letter I put in the record indicates we did ask that.

Mr. BRUBAKER. You have not got an answer yet.

Mr. HUBER. We have not received one yet.

Mr. BRUBAKER. I hope you keep after them until you get it. If you do not, you will be in the same position we are and have to take composite figures on faith alone.

Coke: In 1948, there were 61 million tons of coke produced, of which 56.4 million tons was byproduct coke. Most coke is used in blast furnaces, though some of the above coke was used in foundries and other operations not connected with the iron and steel industries. The price of Beehive foundry coke was $14 per ton at Connellsville, just prior to the recent steel-price increase. This is a decrease in cost of 5.1 percent from the August 1948 price of $14.75. Since that time, the price of coke has fallen even more to a figure of $13.25 per ton. None of these prices, however, represent the peak price of coke subsequent to mid-1948. That peak came in September–December 1948, when coke sold at $15 per ton. It dropped to $14.25 on January 1, 1949, and changed only 25 cents per ton through December 1949, until the recent 75-cent-per-ton decline. Thus, the cost saving resulting from the decrease in coke prices, where coke is actually purchased, is even greater than the change in prices from August 1948 to November 1949 would make it appear. But, again, it must be remembered that few steel companies purchase any coke. They make their own coke in their own byproduct coke ovens with their own coal. They could certainly not substantiate a cost-increase plea in steel from changes in coke prices, even had there been a price increase in coke. But there was no increase; instead, there was a decrease.

Pig iron: The price of pig iron, as reported in the industry press, increased slightly from August 1948 to November 1949, to a price of $45.60 per ton. The amount of the increase was $1.48 per ton, or 3.35 percent. There was no change in these prices in December 1949, when finished-steel prices were increased. The peak price was reached in November–December 1948, at $42.29. There have been minor decreases since then. The production of pig iron in 1948 was 60.1 million tons. Not all of this was used in the steel industry, though most of it

was. A most significant figure appears in the official industry figures which indicates that 52.9 million tons were produced "for makers' use." Only 7.2 million tons were produced "for sale." And much of the pig iron produced "for sale" was sold outside the industry to the foundry trade and to other industries. Thus, even this small increase in the price of pig iron means virtually nothing to most steel companies, because they are not purchasers of pig iron. Only a few nonintegrated steel makers or semi-integrated companies buy any pig iron. We can, therefore, also dismiss this minor increase in price from consideration when considering the cost impact of the price rise in pig iron on total steel-making costs.

Scrap: The cost of purchased scrap iron and steel is a major cost for many steel producers. It is less of a cost for United States Steel than most, because of the fact that United States Steel's blast-furnace capacity bears a higher ratio to its steel-making capacity than is true of most integrated companies. It therefore uses normally a higher ratio of its own pig iron as compared with scrap than do most other producers. Even so, however, United States Steel is a large scrap buyer. Purchased scrap is a major raw material for such important major steel producers as Bethlehem and Republic, and it is even more of a major cost for many of the smaller producers—particularly certain of the semiintegrated companies, some of which operate entirely from scrap.

There is some slight variation in the market quotations for purchased scrap, but any one of these quotations will show a very substantial decline. Iron Age shows a drop from $43.16 per ton in August 1948 (and late July) to a price of $27.25 on December 13, 1949, just prior to the steel price increase. This is a decline of $15.91 per ton, or 36.9 percent. Steel Magazine, for the same period ending December 15, 1949, shows a decline of $14.58 per ton, or 33.6 percent. The percentage decreases in steel scrap prices is now even larger since the price of scrap has continued to decline since mid-December. The peak price was reached in August–September 1948. There were sharp declines to the trough in July 1949. Prices then rose in August and September. There has been a modest fluctuation up and now down since that time. Purchased scrap is used in both blast furnaces and in steel-making furnaces. In 1948, both types of furnaces used a total of 25,953,203 tons.

The cost saving which would result from the above-indicated decline in scrap prices amounts to more than $320,000,000 when compared with mid-1948 scrap prices. This saving would be reflected in United States Steel's profits less than proportionately for the reasons indicated above; but, even so, it would represent a substantial cost saving. The effort of Republic Steel, for instance, to show an increase in its scrap prices by using a different base period for measuring its scrap-price changes than for measuring its other raw-material-cost changes is certainly a real phony. Republic's scrap prices are included in the above indexes and declined in the same fashion as did the scrap prices of the balance of the industry.

Ferroalloys and alloying metals: The total rated capacity for the production of ferro-alloys as of January 1, 1948, was listed as 1,097,000 tons. However, other furnaces can be diverted to this production if necessary. As a result, production can, and often does, greatly exceed this listed capacity. Of the total capacity, 58.4 percent is owned and operated by major, integrated steel, producers—namely,

United States Steel, Bethlehem Steel, and National Steel—while only 41.6 percent is operated by non-steel-producing companies. It is true that other steel producers must buy ferro-alloys from these three steel producers and from the other independent ferro-alloy producers. Of the 1,856,343 tons of all types of ferro-alloys produced in 1948, only 330,462 tons were tagged as "For makers' use." This means that a sizable chunk of the ferro-alloys produced by these three big steel companies represents sales of the product and not purchases. On these sales, it is apparent that these companies benefited from the increase in ferro-alloy prices. To them, the price increase was a boon, not an increased cost. And it should be noted that the increase in ferro-alloy prices came well before the third quarter of 1949. The total production of ferro-alloys for sale in 1948 was 1,525,881 net tons. More than half of this amount was made up of ferrosilicon—837,781 net tons (748,000 gross tons). Ferromanganese and spiegeleisen made up 487,290 net tons (435,000 gross tons). All other ferro-alloys totaled only 200,810 net tons.

Ferrosilicon, in terms of tonnage, was the most important of these ferro-alloys. It, together with ferromanganese and spiegeleisen, comprised more than 87 percent of all ferro-alloys. It is now priced at $11.30 per gross ton of 50 percent ferrosilicon, which is an increase of 15.3 percent from August 1948 to November 1949. The 1948 price jump for this product, however, came as of October 1, 1948, instead of July and August as for most other steel-making materials and steel products. The increase from October 1, 1948, to November 1949 was only 80 cents per ton, or 7.6 percent. The present price was effective as of January 1, 1949, so the increase is not of recent date. The increase since October 1, 1948, represents an added cost to the industry of only $600,000 annually, even if we assume that the industry uses all of the ferrosilicon which is sold. This is not true, however, since this product is also used for purposes outside the steel industry. Thus, these figures are most conservative and clearly overestimate the amount of increased cost to the steel industry. The 7.6 percent increase in this item, away back on January 1, 1949, offers a most startling comparison, however with the recent 25 percent boost by the steel industry in the price of most products it makes with ferrosilicon. And the industry still pretends that its recent increases merely reflect cost increases.

Ferromanganese and spiegeleisen are the second most important of these products tonnagewise. Eighty percent ferromanganese now averages $173.40 per gross ton. For this product also, the 1948 price increase was delayed until October 1. From August 1949 to November 1949, the price increase was 19.3 percent. However, from October 1, 1948, to November 1949 the increase was only $11.40 per gross ton, or 7 percent. The present price has been in effect since March 1949. Thus, it is no new cost. As of the same date, there was a sharp increase in manganese-ore costs. At that time, ore went up 21 percent as compared with August 1948. Electrolytic manganese metal, however, actually shows a decrease of 6.3 percent during this period. Spiegeleisen was up only $3 per gross ton, an increase which occurred in March 1949. The price of this product is now $65 per ton, an increase of only 4.8 percent over October 1948. We do not have a breakdown of the production of ferromanganese and spiegeleisen. If we assume, however, that the larger cost increase per ton is the appro-

priate one to use and apply it to the combined production of both items, we get a total added annual cost over October 1, 1948, of $4,960,000.

Ferrochrome is the third largest of the ferro-alloys. We have no figure on the precise amount of ferrochrome produced. There are figures, however, which indicate that the total number of pounds of pure chrome used by the industry in 1948 was 212,708,570 pounds. The price of the more common grades of ferrochrome has increased since mid-1948 by 2 cents a pound, or approximately 7.5 percent. This is the equivalent of 2.91 cents per pound of pure chrome, since the common grades of ferrochrome are approximately 68.5 percent chrome. The increase occurred also as of October 1, 1948. It is no new cost—not even a 1949 increase. And counterbalancing this increase is a sharp decrease in the price of imported chrome ores which occurred in October 1949. The decreases were as large as 25–26 percent on the imports coming from Rhodesia and Transvaal. These lower ore prices should certainly mean lower, not higher, ferrochrome prices in the future.

Nickel, the fourth of the alloys, has shown no change from mid-1948 to the present date. The other ferro-alloys are relatively minor in importance and in cost. In the main, they show increases, though such items as ferrotungsten and ferrovanadium show no change since mid-1948.

The conclusion from these facts is that certain of these largest producers have profited from these price increases, because they are sellers of ferro-alloys. Others must buy these ferro products at the increased prices, but their cost increases have certainly not been as large as suggested; and on certain important items alloy costs have not risen or should decrease in the near future. The impact of these costs is not a major one and varies tremendously as amongst companies. It would not justify the recent steel increase either as to uniformity or size. And most importantly it should be noted that not one of these increases occurred after March 1949; so these added costs are already reflected in the operating experience of the first 9 months of 1949, which will be discussed elsewhere, but which was highly satisfactory for most of the industry's leaders.

Nonferrous metals: The declines in prices in this group of steel-industry costs did not even start till late 1948. Prices did not reach their troughs until late May or June 1949 for three of these metals and December 1949 for the fourth. Thus, much of the cost saving from these decreases has not been fully reflected in the 1949 operations.

Zinc is the largest item in this group in terms of tonnage. The steel industry used 252,588 tons in 1948. The price of zinc jumped from 12 cents per pound to 15 cents per pound as of July 28, 1948. It increased further to 17.5 cents in November 1948, after which it dropped precipitately to 9 cents a pound in June 1949. In November and early December, it was 9.75 cents per pound. The decrease over August 1948 was 35.0 percent. It is now fractionally higher at 9.875 cents which still, however, represents a decrease over 1948 of 34.2 percent. The average price of zinc during the third quarter of 1949 was less than 10 cents a pound—about the same as now. The decline in the cost of this product since mid-1948 represents a cost saving of $26,500,000 annually to the steel industry.

Copper is second in importance, tonnagewise, of these metals. The steel industry used 66,588 tons in 1948. There was an increase of 2 cents per pound in July and August 1948, bringing the price to 23.5

cents per pound. It remained at or near this level until April 1949. By June 1949, it had dropped to 16 cents per pound (31.9 percent below the August 1948 peak). The average price during the third quarter of 1949 was about 17.5 cents. The price in November and now is 18.5 cents, which is still 21.3 percent below August 1948. This represents an annual cost saving to the industry of $6,700,000.

Tin usage by the industry in 1948 was 38,363 tons. The price of tin rose from 94 cents to $1.03 per pound as of June 1, 1948. It remained at this level until September 28, 1949, when it dropped to 96 cents. Thus, the price for most of the third quarter was $1.03. There was a sharp price drop thereafter, however, which brought the price to 78.75 cents on December 14, just before the steel-price increase. This is a decline of 23.5 percent. Again, it is most interesting to contrast the decrease in tin prices of 23.5 percent, as compared with 1948, with the decrease in the price of tin-mill products by amounts ranging from 1.5 percent to 3.2 percent as recently announced by the steel industry. The price of tin has dropped even a little further and is now at 77.5 cents a pound. The decline in price as of mid-December represents an annual cost saving of $18,600,000.

Lead is the least important of the nonferrous metals, so far as use in the steel industry is concerned. There were 22,518 tons consumed in 1948. The price had risen 2 cents per pound to a price of 19.5 cents per pound on July 28, 1948. The peak of 21.5 cents was reached in November 1948. There were subsequent declines to 12 cents in May 1949 and a recovery to 15.125 cents per pound in August. The average for the third quarter was about 14.5. There was again a sharp drop in late November which brought the price to 12 cents; this is also the present price. This is a decrease since August 1948 of 38.5 percent. This is equivalent to an annual cost decrease to the steel industry of $3,400,000.

Fuel oil: The Department of Commerce quoted a figure of 11 cents per gallon for western Pennsylvania fuel oil throughout 1948 and January 1949. Then there was a decline, and by May 1949 the price had reached 8.8 cents per gallon. This was also the quoted price in October 1949. It represents a decrease since mid-1948 of 20 percent. There were 2,195,000 gallons used by the steel industry in 1948 for melting, heating, and annealing. This represents an annual cost saving of $26.340,000.

Gas: The BLS wholesale index for gas shows an increase of 1 percent between August 1948 and October 1949. August 1948, however, was the low month of the period. Using either July or September 1948, there is a decrease for the period of approximately 3 percent. The total bill for purchased gas for the industry in 1947, as shown in the Census of Manufacturers' Figures for Blast Furnaces, Steel Works and Rolling Mills, and Coke Ovens was $132,911,000. The percentage which is indicated above, therefore, would not be a major increase or decrease in cost. It is probable that there was a small average increase over the entire period, though the amount is not significant.

Electric power: The BLS wholesale index for electric power shows no quotation since September 1949. The increase from August 1948 to September 1949 was 5.2 percent. Again, August 1948 was the low month of the period. Using either July or September 1948, the increase for the period approximates 3.8 to 3.9 percent. There was approximately $84,637,000 worth of purchased electric power used by

the industry in 1947, according to the census of manufactures. This yields an estimated increase in costs for the industry on an annual basis of about $3,500,000.

Tar and pitch: A considerable amount of these materials is used for melting purposes. Little, if any, however, is purchased. These products are secured from the carbonization of coal in byproduct coke ovens.

Fluxes: Prices are not quoted for limestone and lime which are the major fluxing materials. These items, however, are normally produced by the integrated companies themselves so that price changes would not be very significant. The price of fluorspar is now $37 per ton. It shows an increase of 5.7 percent since August 1948. This item, however, like certain of the ferro-alloys, was not increased in 1948 until October 1. There has been no increase since that date. There were only 226,594 tons of fluorspar used by the industry in 1948.

Refractory brick: There has been no change in the price of this product since May 1948.

Dolomite: The price of this product increased 3.4 percent in January, 1949. The total amounts consumed, however, are not indicated. They are not large.

Transportation costs: In addition to the materials shown above, transportation costs represents a rather sizable cost in this industry. As you may remember, the industry reaped a revenue windfall in mid-1948 when it converted its delivered prices into f. o. b. prices. The amount of this windfall is not known, though it was estimated variously at that time as close ot $1 per ton of finished steel. This would have been close to $66,000,000 in extra gross profit on 1948 sales. The industry, however, still pays freight on incoming raw materials.

Since mid-1948, there have been two increases in freight rates. There was an interim increase January 1949 which averaged 5.2 percent on both rail and water freight rates. This increase was made permanent and there was added a further increase averaging 3.7 percent on September 1, 1949. The total of these two increases was about 9.0 percent. The increase on coal, coke, and iron ore was limited to 35 cents per ton. There was, however, no increase on the rates applicable to iron ore at the head of the Great Lakes where the haul is by rail to ports for transshipment by water. The increase on such a key haul as Ashtabula to Pittsburgh was only 16 cents per ton.

No precise figures are available as to the additional cost to the steel industry resulting from these freight-rate increases. Figures, however, were published by both Iron Age and Steel Magazine after the increases were allowed by the ICC, indicating the probable total additional revenues to the railroads from the proposed increases. There are also figures available from the ICC on the tonnage of steel-making materials carried during 1947. By use of these figures and a 1948 shipments base, we have arrived at an estimated increase over mid-1948 freight costs of 65 cents per ton of finished steel for the full 9 percent freight increase . This seems to be a wholly reasonable figure. We note that Standard & Poors, in its steel and iron analysis for October 29, 1947, estimated that a 17 to 18 percent freight increase would cost the steel industry in 1947 approximately $1.25 per ton. That was at a time when there was still some freight absorption on finished steel products. So only a part, though admittedly the major

part, of this $1.25 per ton was traceable to freight on raw materials. It must be remembered that much of the movement of coal and ore is by water or by company-owned carrier. United States Steel, in particular, is in a most favorable position on this score, since it has its own railroads, its own boats, and its own handling facilities, as well as its own river barges.

Recapitulation: The above list comprises most of the steel-making materials and expenses which can be subjected to separate treatment. It is not a selected list. It contains all of the steel-making materials and services which the industry's association, the American Iron & Steel Institute, finds significant enough to detail in its annual statistical reports. In addition, we have added transportation costs. For purposes of recapitulating these alleged material costs for United States Steel, and for the industry as a whole, from the period of the previous general increases in steel and material costs in mid-1948 up to the time of the recent steel price increase in December 1949, we have listed these items in tabular form as follows:

Material or service	Price change-over, mid-1948	United States Steel	Steel industry
Iron ore	15 to 16 percent increase.	Sells ore, so benefits from price increase.	Few of large companies buy significant amounts of ore; little effect on most companies.
Coal	3.0-percent increase	Not a regular buyer; so little effect.	Most coal comes from captive mines, so little general effect; a cost to some companies.
Coke	5.1-percent decrease	Not a buyer; no effect.	Little purchases, so little effect.
Pig iron	3.35-percent increase	do	Few buy; little effect.
Purchased scrap	33.6 to 36.9-percent decrease.	Not a large buyer, in terms of total metal used, but a significant one.	A most significant cost for many companies—a decrease of $400,000,000 annually.
Ferro-alloys and alloying metals.		United States produces ferro-alloys for sale, so benefits from increase.	Bethlehem and National also producers. For others this is increased cost, especially for alloy producers, highly variable.
Ferrosilicon	7.6-percent increase (since October 1948).		$600,000 added cost annually.
Ferromanganese.	7-percent increase (since October 1948).		$4,960,000 added cost annually.
Spiegeleisen	4.8-percent increase (since October 1948).		Cost included above.
Manganese metal.	6.3-percent decrease		
Manganese ore	21 percent increase		
Ferrochrome	No change (since October 1948).		
Chrome ore (imported).	25 percent decrease		
Chrome ore (domestic).	No change		
Nickel	do		
Other alloys	Increases, in the main, though no change for some.	Minor effect	Minor materials costwise.
Nonferrous metals:			
Zinc	35.0-percent decrease	Makes some of own zinc; will still realize large saving.	$26,500,000 cost saving annually.
Copper	21.3-percent decrease	Proportionate cost saving.	$6,700,000 cost saving annually.
Tin	23.5-percent decrease	do	$18,600,000 cost saving annually.
Lead	38.5-percent decrease	do	$3,400,000 cost saving annually.
Fuel oil	20-percent decrease	do	$26,340,000 cost saving annually.
Purchased gas	Minor change, probably small increase during period.	Minor effect	Minor effect.
Purchased electrical power.		Proportionate cost increase.	$3,500,000 additional cost annually.
Fluxes	Mostly no change	Not a buyer	Little purchased.
Refractory brick.	No change		
Dolomite	3.4 percent increase	Minor effect	Minor effect.
Transportation costs.	9.1 percent increase	$13,400,000 additional cost annually.	$43,000,000 additional cost annually.

Mr. HUBER. Mr. Chairman, it looks to me as though if we are not careful we may end up being another fact-finding committee, if we depend on the statements of Tom, Dick, and Harry. It seems that there should be something more concrete here than what we have heard thus far.

Mr. PATMAN. Well, we have an understanding with the witnesses who appeared here and those who filed statements that if we desire additional information we will submit the questions to them and they will answer them for the record.

I think we should pursue the line of questioning this witness has indicated.

Mr. BRUBAKER. I would like to point out one thing that hit me squarely between the eyes in looking over the testimony you have had already. On page 6 of Mr. Voorhees' statement on Tuesday you find there a figure on which he says the increased costs, net, of materials to United States Steel is 29 cents a ton. They got down to where they had almost no net increase of material costs to them. We think we can show a net decrease, not only to them but to the industry.

They said labor is responsible for this $78,000,000 in pension and insurance costs.

These other witnesses came in yesterday, though, and started telling you how much materials' cost had gone up in addition to pensions and insurance, and several made a case that materials had gone up far more than pension and insurance costs.

Republic said to you yesterday their costs of materials and freight went up $3.65 a ton during this period.

Now I would challenge that there could possibly be that amount of discrepancy in the actual costs per ton.

I told you before we do not have the actual costs per ton of these companies. But their situations are not that different. They are both fully integrated companies; they are both large companies; they both have their own coal mines and their own oil mines, and so on, and they are literally just not in such a position that this difference indicates.

Mr. PATMAN. In the event we did not get satisfactory replies, I am sure the chairman, at the request of members of the committee, would ask the witnesses to come back.

Mr. HUBER. Otherwise I do not see how we can ever arrive at any conclusion or satisfactorily evaluate the information we have received.

Mr. PATMAN. I personally agree with you, and I think we should pursue that line of questioning.

Mr. BRUBAKER. I would like to point out, for instance, Jones & Laughlin told you yesterday that the price of fuel oil for them had increased 28 percent. Our figures, the official Department of Commerce figures, say the decline was 20 percent, not an increase, but the decline was 20 percent in the period.

What is wrong is very clear. Jones & Laughlin picked the third quarter of 1949 as their base period. They say they have suffered an increase in fuel costs of that much in that period. Yet the official quoted prices do not show any such figure.

They said the price of scrap which they buy has increased 12 percent and 28 percent since that time. There was a small increase in the price of scrap from the summer of this year because scrap hit its trough

during the summer. But if we go back to the time of the last price increase, there was a tremendous decline in the cost of scrap. They showed an increase in the cost of refractories of 8 percent. I checked the price of refractories in the latest copies of Iron Age, and I have it with me, just out this week, and there has not been one penny change in the quoted price of refractories.

Several of these companies gave you not one item of material and services which they buy which increased their costs. Yet they claim total increase in cost.

I say to you, if you want to examine the validity of these statements they have made you have got to go back to them and say, "Now, just exactly how do you derive those figures? Where do they come from?"

Without that we are just shooting in the dark at a problem which deserves an awful lot of light, frankly.

I note another one here, Republic. For instance, they have indicated that their refractories increased 10 percent. Again, refractories did not go up at all in this period.

They said ferrochrome went up 10 percent to them. I have their official industry publication of the price of ferrochrome, and the price went up not 10 percent, it went up 7.5 percent in this period.

They said nickel went up 15 percent. I would challenge them to go back to the records of their own industry publications and check the price of nickel. For example, the price of nickel has shown not one penny of change during this entire period.

I am sorry I cannot go over the notes we made from the testimony yesterday. I have scores of just such charges of the kind of represented cost increases which just do not accord with the costs in prices which are shown in the publicly listed prices. Surely if they buy this, they must buy it at public prices. That is what we have to check against if we are going to see whether these statements they make have any real validity.

The total cost savings as indicated in the above estimates on an annual basis amount to more than $55,000,000 from the decreases in nonferrous metals alone, plus a savings of $26,000,000 from the decrease in fuel oil costs. There is an additional saving of $400,000,000 on purchased scrap. The added costs, mainly from ferroalloys and transportation, total more than $52,000,000. Thus, the decreases in nonferrous metals alone cancel out the increased costs of ferroalloys and transportation. The major decline in costs from scrap is pure gravy. So also is the decline in fuel oil costs. They cancel out many times over any additional coal costs which we could not estimate or others which may have been omitted.

It is obvious that these savings are not distributed evenly as amongst companies. Those companies which specialize in the production of alloy steel suffer disproportionately, in the main, from the higher costs of ferroalloys. They are, however, also disproportionately greater users of scrap. The decline in the latter material is so much greater than the increase in ferroalloy costs as to make a comparison of net gain or loss from these cost changes utterly ridiculous for most companies.

The foregoing hardly supports the allegation of increased material and service costs. Even though we may have underestimated certain

of these increased costs because adequate factual material was not available to us, it is clear that there would still remain a large net decline in materials and services costs for most, if not all, companies. Certainly, there would be a large net gain for United States Steel and Bethlehem and all major producers.

C. Other reasons

Most of the other reasons cited as bases for the steel price increase need little discussion. The argument advanced by one company about the high level of corporate taxes does not even have any new flavor about it. Corporate tax rates, with the exception of a decrease resulting from the abolition of excess profits taxes, have not changed in many years. If high tax rates are a reason for a price increase, they can be trotted out each year and chased around the track for a new price pay-off.

The high cost of plant improvement and modernization has been exercised each year since the end of the war. It, too, must be getting a little weary of these repeated work-outs. Each time steel prices have been raised, the companies have said that the increase was made, in part, to compensate for high plant replacement costs. Steel buyers have paid this charge three or four times already. And even though the United States Treasury refused to permit the steel companies to represent this modernization and replacement cost in their profit-and-loss statements as current depreciation cost, the companies have devised a substitute, for which they apparently have SEC approval, which for the present accomplishes much the same purpose costwise. Its use has resulted, in our opinion, in an understatement of net profits during the last 2 or 3 years, both to stockholders and to the public. If this were not enough, it might be pointed out that most companies in the industry have completed or nearly completed, these plant modernization and expansion programs and many have already done so in substantial part, if not entirely, out of high steel prices. Several, including United States Steel, did not even have to borrow so much as one thin dime for their programs. High steel prices were sufficient for them to produce enough additional revenue to finance these programs. Now the steel-buying public is being asked to pay again for these necessary and, in most cases already completed, or nearly completed, new plants and equipment. The committee has already had a fuller discussion of this problem from another CIO representative, Everett Kassalow, who recently appeared before this committee.

The argument that the price increase is warranted because steel prices have gone up less than the average for all commodities shown on the BLS Wholesale Price Index is nothing but rubbish. There is no reason why all prices should go up by the same amount or even by roughly similar amounts. This is particularly an invalid assumption when there was no reasonable parity of prices at which to start. That there was no such parity is a commonly accepted fact because of the price system in use in this industry up until mid-1948. The increase has been substantially more than 60 percent in this industry since 1939 because of the use of extras. Thus, even if such a comparison were appropriate, the 60-percent figure used by some of the companies is far too low, also.

Factors such as volume affect profits in this industry even more than do prices. When volume is high, as it has been in this industry ever since 1939, there is no excuse for high prices. We shudder to think of the profit-taking which would have resulted in the industry had it raised its base prices, or even its total prices, as much as the wholesale prices of all commodities. Such price levels would obviously have borne no relation to costs as the industry alleges its prices do. They would have resulted in profits which would have surpassed even the scandalous ones reaped by certain major producers in other industries in the last couple of years.

The plea that higher steel prices were necessary at this time to insure that shareholders are fairly paid for the use of their money likewise should fall on deaf ears. The union is not opposed to the principle that investors should make a fair return on their money. We support a fair return. However, the return on net worth or investment for the leading steel companies in the industry, which will be discussed in section 6, is certainly not unreasonably low. In fact, it is higher, certainly, than the level which most persons have come to accept as fair and reasonable.

The fact that the steel companies, like most corporations, do not choose to pay out these ever-higher profits as dividends, but rather to retain them to make their companies ever larger without anyone investing a penny more in equity capital, is neither the union's nor the public's fault. It certainly is no reason for a price increase. This policy of retention of profits the CIO has also officially criticized more fully before a subcommittee of this committee in previous testimony. If this policy has resulted or should result in a cutting off of the flow of equity capital, as some steel companies pretend to fear, they will have no one to blame but themselves. They will have killed the goose that laid the golden eggs in this industry.

In any event, certainly the conclusion that equity capital cannot be secured in this industry because prices are too low is not warranted by the facts. Most companies have not sought equity capital to finance their vast modernization—yes, and even expansion—programs of the postwar period. When companies can finance both modernization and expansion programs without turning either to the bond market or the equity-capital market, as several of these companies have done, they can hardly complain that their prices are too low. We doubt, however, that we, or you, can reach any agreement with the leaders of this or other major industries as to what constitutes a fair profit or a fair price.

One company even suggested that the depreciated buying power of the dollar was a reason why it needed a price increase. The only thing wrong with this argument is that it is a couple of years too late. It might have been used with some basis in 1947, or even early 1948—as, incidentally, it was used then—as an excuse for the price increases which occurred at that time. The public has already paid in the form of price increases for the depreciated buying power of the dollar in this industry. It can hardly be expected to repeat that costly venture each year, however.

Since August 1948 the purchasing power of the dollar as measured by the Wholesale Price Index, according the the latest issue of the

Survey of Current Business, published by the Department of Commerce, has risen from 47.5 percent of the 1935–39 average to 52.8 percent as of October 1949. This is an increase in buying power of more than 11 percent during this period. If this argument of buying power has any validity, and we do not deny that it has validity, it should have brough a cut in steel prices at this time—not an increase.

The argument that one must raise prices in order to meet competition shows such a distorted idea of how prices should function in our economy as to be unworthy of discussion. It is certainly to be deplored, however, that persons in leadership in this industry apparently subscribe to such a theory.

We trust that none of the price increase is for the purpose suggested as a possibility by the American metal market; namely, to take care of freight absorption when the companies again feel that they can freely absorb freight on shipments of finished steel. As we pointed out elsewhere, the companies have already pocketed an extra profit—the amount of their former freight-absorption bill—at the time when they shifted to f. o. b. prices without taking this freight-absorption cost out of the base prices of finished steel. The least the industry could do now, if it does again decide to abosorb freight on an extensive scale, is to take this cost back out of its profit pocket, instead of again reaching into the steel consumer's pocket.

We hope the industry is not trying to recoup its strike losses through higher prices—as has been suggested by some. We have taken our loss as a union and as steelworkers as part of the price of resolving our differences. We trust the companies expect to pay for their own losses of lowered profits—not out of a price increase.

We are impressed with the almost universal omission of any reference to supply and demand as the reasons cited for this steel increase. Has the industry foresworn this approach to the setting of steel prices? Is it possible that we have in this industry a price system in which prices are not actually set by the free forces of the market? Or is the industry perhaps being just a little less than candid in not admitting that it is taking what profit it can while the market for steel production is good enough that the industry can earily command this price boost? We are inclined to believe it would have raised prices—cost increases or no cost increases—as long as it could do so.

6. Profits: A primary consideration behind any decision to raise prices is its effect upon the company's or the industry's profit position. There are numerous possible objectives which such a price increase may be designed to achieve. Three of those which might be applicable in the present situation are listed below. The recent price increase might have been designed to—

(*a*) Increase profit margins and total profits while maintaining or increasing sales volume.

(*b*) Increase profit margins to maintain current profits or to recoup losses in face of declining volume.

(*c*) Maintain existing profit margins in face of increasing costs.

In order to determine which of these objectives motivated the latest steel price increase, it is pertinent to examine the industry's present profits and try to reach some conclusions as to the effect of the increase upon future profits. Industry spokesmen would have us believe that

the industry had no alternative but to raise prices in the face of rising costs due to freight-rate increases, higher labor costs and material cost (reason: (*b*), above).

These price increases were designed, presumably, to cover such increased costs—no more, no less—leaving the industry profit margins untouched and total profit dependent only upon sales volume. We have already demonstrated that the increase in steel prices was far in excess of the amounts necessary to meet any increased costs which have occurred or are in prospect.

The question before us is, therefore, whether a further increase in profits, or even maintenance of steel profits at existing levels, is in the public interest. If the answer is "No," as we believe it is, would it not have been desirable for the steel industry to have absorbed such minor increased costs as have occurred, or may occur, without a price increase? The ensuing discussion will provide factual data on this subject.

Steel profits in 1949 at peak levels: We shall not review for this committee the voluminous data on profits presented by the union before the Steel Fact Finding Board this past summer. For the committee's information, however, we are submitting as exhibit D to my statement, a union exhibit before the Steel Fact Finding Board entitled "Fact Sheets Showing the Financial Positions of Individual Companies as Compiled by the Research Department of the United Steelworkers of America." The detailed materials you will find in this exhibit.

We have summarized these data for 1939–48 in three tables, called exhibit B, for the 20 largest steel producers under contract with the USA-CIO which furnish financial data. These tables show profits after taxes, return on net worth, and return on sales for each of these 20 companies, as well as totals for the group as a whole.

After careful examination of these data, and all other evidence presented, the Steel Fact Finding Board, as you know, concluded that steel companies could afford to absorb the costs of pensions and insurance up to 10 cents per hour within their then existing price structure. Furthermore, the Board stated that, as the industry's program of modernization and expansion bore the fruits of lower costs, price decreases might be expected by the public.

We should like to examine in some detail with the committee the available profit data for the periods following the steel price increase of July 1948, the last one prior to the one under discussion. These figures have special significance, as they show what happened after that price increase, which, according to industry spokesmen at that time, had the same alleged purpose as the present increase—to cover higher costs of producing steel due to higher material costs, labor costs, transportation costs, and other anticipated cost. What happened to steel profits after this increase?

Table 1 shows sales and profits for the first three quarters of 1949 and 1948 for the 17 largest producers which have issued financial statements covering the third quarter of 1949. (Fourth-quarter figures for 1949 have not yet been published.)

TABLE 1.—*Comparison of net sales and reported profits after taxes, first three quarters 1949 and 1948*

[In millions of dollars]

Company	Net profits			Net sales		
	9 months, 1949	9 months, 1948	Percent change	9 months, 1949	9 months, 1948	Percent change
United States Steel	$133.2	$88.0	+51.3	$1,916.8	$1,754.7	+9.2
Bethlehem	82.9	53.2	+55.9	1,041.4	923.5	+12.8
Republic	35.3	29.8	+18.6	555.7	553.9	+.3
Jones & Laughlin	20.0	20.2	−1.0	316.6	315.5	+.4
National	35.9	27.2	+32.0	337.9	311.2	+8.6
Youngstown	28.6	23.3	+22.4	287.2	267.1	+7.6
Armco [1]	22.7	20.4	+11.4	273.3	271.7	+.6
Inland	23.8	24.8	−3.9	285.4	280.8	+1.6
Sharon	3.5	6.6	−46.4	76.8	83.8	−8.4
Wheeling	8.3	9.7	−14.6	121.4	111.8	+8.6
Colorado Fuel & Iron	6.2	5.5	+12.5	98.5	93.9	+4.9
Pittsburgh	2.0	3.9	−49.3	70.4	71.2	−1.2
Portsmouth	4.3	3.0	+41.6	39.6	42.4	−6.6
Granite City	2.2	2.4	−7.8	34.4	29.8	+15.3
Copperweld	1.4	3.0	−53.0	37.2	53.8	−30.9
Alan Wood	1.8	2.4	−23.0	27.7	33.5	−17.4
Allegheny-Ludlum	1.4	4.4	−68.9	79.3	89.7	−11.6
Total	413.6	328.0	+26.1	5,599.6	5,200.2	+7.7

[1] Does not include foreign subsidiaries in 1949 and therefore not directly comparable with 1948.

During the first 9 months of 1949, these companies reported net profits after taxes of 414 million dollars as compared with 328 million dollars during the corresponding period of 1948—an increase of more than 26 percent. During this same period, revenue from sales increased by only 7.7 percent—5.2 billion dollars in 1948 to 5.6 billion dollars in 1949. The difference in percentage increases in profits and sales indicates higher profit margins per dollar of sales during the latter period. Actually, net profits as a percent of net sales rose from 6.3 percent to 7.4 percent. Return on net worth or stockholders' equity showed an increase from 10.3 percent, at an annual rate, during the first 9 months of 1948 to 12.1 percent in 1949. Even when the highly profitable fourth quarter of 1948 is included in 1948 figures, the rates of return on sales of 6.8 percent and on net worth of 12 percent are still below the corresponding measures for the first 9 months of 1949.

Now, what accounted for the higher profit margins and higher returns on net worth in 1949 as compared with 1948? Was the industry operating at a higher rate of capacity during the latter period, thus reaping the benefits of lower costs which come with such high level operations? No; as a matter of fact, the average operating rate during the first 9 months of 1949 at 90.4 percent of capacity was somewhat below the average of 92.2 percent during the corresponding period of 1948. Examination of available data reveals that the major causes of the higher 1949 profits were lower net materials costs and higher prices—or, where costs rose, prices rose even more, so that the profit margins were greater.

The weight of these combined factors was more than enough to overbalance any increased costs resulting from the wage increase granted the steelworkers in July 1948, or the other cost increases of mid-1948. This was true despite protestations by the industry that the February and July 1948 price increases were designed only to counterbalance higher operating costs, not to increase the already high profits or profit margins of 1947 and early 1948.

Industry spokesmen appearing before this committee in February 1948, and in their public statements in July 1948, did not have the temerity to state that price increases announced during those months were designed primarily to raise profits. So, too, are they reluctant to admit that the inevitable result of the latest price increase will be to skyrocket steel profits to new heights at the expense of fabricators and steel users and ultimately at the expense of the consumer. Yet, experience has shown that higher prices in 1948 meant higher profits. Given the present capacity demand for steel products, members of this committee can judge for themselves whether we are not to see recent history repeat itself within the very near future.

United States Steel, leader in price increase, leads in profit increase over 1948: As members of this committee know, it was United States Steel, the largest steel producer in the country, which first announced general price increases for its products. Within a week most other producers, large and small, either issued new price lists or announced their intention to increase prices. The follow-the-leader pattern should occasion little surprise from anyone conversant with the industry and its slavish adherence to decisions made by "the corporation" or, on rare occasion, by one or another of the Big Three in the industry. And yet, looking at the comparative profit data in table 1, one cannot help but wonder whether it would not have been wise, from a public-relations viewpoint, for "the corporation" to have permitted the smaller producers to take the lead on prices. Certain of the smaller companies have experienced sharp profit declines in 1949. Some of them cannot control costs as well as the larger ones; some are less efficient; some have less modern facilities. Eventually some of these smaller companies who were being squeezed on costs—and not all of them are—might have announced price increases in this steel-scarcity market. Certainly a few of these companies, on the basis of comparative 1948 and 1949 sales and profits, could put up a better case than the big fellows. If anyone needed an increase, they did. Had they, and only they, increased prices, we would not be here today. We have no objection to a company pricing its product in line with its costs. Competition would take care of their prices as the scarcity of steel is overcome. But it was not these smaller companies with the inadequate profits and the higher costs which led off this series of price increases. It was United States Steel and other large companies similarly situated which led off. They certainly can make no such claim regarding their costs or profits.

Examination of table 1 reveals an amazingly high positive correlation between size of company and the trend of profits during the last 2 years. Thus, the two largest producers, United States Steel and Bethlehem, show the greatest increase in profits during the first three quarters of 1949 over 1948, 51.3 percent and 55.9 percent respectively. Going down the line we find that the third largest producer, Republic, increased its profits by 18.6 percent; of the next five producers, three showed sizable increases varying from 32 percent for National to 11.4 percent for Armco, while two companies registered slight declines of less than 4 percent. But when we consider the performance of the 9 relatively small companies in our group of 17, we find that 7 showed

lower profits in 1949 than in 1948, and only 2 succeeded in increasing their profits. Four of these companies reported profit declines of approximately 50 percent. This, of course, does not necessarily mean that their 1949 profits were inadequate.

The above-cited record might lead to the startling conclusion that United States Steel, in making its latest move toward economic instability, was acting in the interests of the small producers rather than to better its own already excellent financial position. But this, of course, is not the case, and even Mr. Fairless in his testimony before this committee has not pretended that it is. Actually, with some two or three exceptions, even the smaller companies which suffered sharp declines in profits in recent quarters cannot make a case to support a general price increase. Their reduced profit levels still represent most satisfactory returns on their stockholders' investment.

And with capacity operations in store for at least six more months, even if we are to believe industry estimates, there is only one direction in which profits can go—up. The price increase only serves to give added impetus to the profitable operations already certainly in store for steel producers as the result of market forces operating in the industry today. That such impetus was unnecessary in July 1948 to assure highly satisfactory profit levels has already been demonstrated. That the same situation prevails today is evident from the testimony presented before this committee on the cost-price-profit position of the industry.

Industry leaders have suggested that we can expect capacity steel production for the next 6 months, and 85 percent of capacity for the rest of the year. We have learned to discount the industry's predictions on rate of operations. They are always conservative. Before the steel board they were fearing a quick return in 1949 to the low operation rates of the 1930's. You know how wrong they were. If they say 6 months at peak operations, you may be sure they privately are thinking at least a year or more.

Profit levels already too high: When the steel companies and the union appeared before the steel industry board this past summer, there was general agreement among all three parties that the steel industry's postwar profits left no cause for complaint. It is true that the adjectives used by industry spokesmen in describing the industry's profits—"substantial," "satisfactory," "high level"—were more restrained than those employed by union representatives—"exorbitant," "swollen," "astounding." But then this difference is one of degree. No one thought steel profits too low. The board thought them high enough to absorb a 10-cent-per-hour cost for pensions and insurance and even then give promise of price reductions in the near future. The most common opinion expressed by industry representatives ran about as follows:

Yes, profits have been high in 1947, 1948, and during the first quarter of 1949. But remember that during these years operations were consistently at 90 percent to 100 percent of capacity. Now we are operating at only 70–80 percent and who knows but that in a few months we'll be back to our prewar average of 65–85 percent of capacity. Profits at this lower level of operations will not be

able to sustain the increased costs entailed by the union's demands. The industry recognizes postwar capacity operating levels as a temporary phenomenon and must be ever prepared to resume the lower levels which must inevitably follow.

As members of this committee know from previous testimony, the steelworkers and the CIO reject this type of boom-and-bust philosophy. One of the purposes for which this very committee was set up was to help establish policies which would assist this country in achieving economic stability at high levels of production and employment. This view needs no further elaboration. Even as the industry spokesmen were stating their position to the board, operating rates in the industry crept up to more than 82 percent from a temporary low of about 71 percent in July 1948. Today the industry is operating at close to 100 percent of capacity and expects to continue at this rate for at least another half year and then expects operating levels only "a little lower"—possibly 85 percent. The industry's outlook, therefore, is far better now than when the steel board considered its profits sufficient to absorb moderate pension and social insurance benefits and leave room for possible price decreases. An examination of steel profits since the July 1948 price increases will demonstrate the soundness of the board's conclusion in this regard.

Table 2, on the following page, shows a quarterly break-down of profits for these 17 large producers from the third quarter of 1948 through the third quarter of 1949. During this five-quarter period, peak profits were attained in the fourth quarter 1948 at 179 million dollars and first quarter 1949 at 171.5 million dollars. Expressed as percentages of net worth, these profits represented annual rates of return of 16.8 and 15.6 percent on stockholders' equity. Even during the lowest profit period of this five-quarter period, the third quarter 1949, total profits after taxes of these 17 companies came to 10.4 percent of their combined net worth, which can hardly be called unsatisfactory. During this quarter the industry as a whole operated at an average rate of only 78.8 percent of capacity. When the five quarters are combined, we find that the 17 companies earned 726.3 million dollars after taxes or an annual rate of 13.2 percent of their combined net worth.

TABLE 2.—*Reported profits after taxes third quarter 1948 through third quarter 1949*

[In millions of dollars]

Company	Total five quarters	Third quarter 1949	Second quarter 1949	First quarter 1949	Fourth quarter 1948	Third quarter 1948
U. S. Steel [1]	209.4	39.2	44.1	49.9	41.6	34.6
Bethlehem	142.6	23.0	26.7	33.1	37.2	22.6
Republic [1]	64.9	9.9	10.2	15.3	16.6	12.9
Jones & Laughlin	39.9	4.9	5.3	9.9	11.0	8.8
National [1]	60.0	10.0	11.1	14.8	12.9	11.2
Youngstown	49.7	7.5	9.0	12.0	12.4	8.8
Armco	42.7	6.6	7.7	8.4	11.7	8.3
Inland	47.5	7.6	7.0	9.3	13.8	9.8
Sharon	8.9	.1	.5	2.9	2.6	2.8
Wheeling	17.5	2.1	2.1	4.0	5.4	3.9
Colorado Fuel & Iron	11.9	1.4	2.0	2.8	3.3	2.4
Pittsburgh	5.8	−.5	.3	2.2	1.6	2.2
Portsmouth	6.9	.4	1.9	2.0	1.5	1.1
Granite City	4.6	.6	.8	.9	1.5	.8
Copperweld	4.1	.2	.1	1.1	1.8	.9
Alan Wood	4.7	.1	.4	1.4	1.7	1.1
Allegheny-Ludlum	5.2	−.2	0	1.5	2.4	1.5
Total	726.3	112.9	129.2	171.5	179.0	133.7
Return on net worth (annual rate) [2] percent	13.2	10.4	11.6	15.6	16.8	12.8
Operating rate (percent capacity)	92.7	78.8	91.2	101.5	99.5	92.7

[1] Profits for following companies are after extra charges not authorized for income-tax purposes by Federal Bureau of Internal Revenue:

U. S. Steel, extra depreciation:	
Third quarter 1948	$13.5
Fourth quarter 1948	15.6
First quarter 1949 (estimated)	13.1
Second quarter 1949 (estimated)	11.4
Third quarter 1949 (estimated)	7.3
Republic, extra depreciation:	
Third quarter 1948 (estimated)	1.7
Fourth quarter 1948 (estimated)	1.7
First quarter 1949 (estimated)	1.7
Second quarter 1949 (estimated)	1.9
Third quarter 1949 (estimated)	2.6
National, extra depreciation:	
Third quarter 1948	2.5
Fourth quarter 1948	4.0
First quarter 1949	2.0
Second quarter 1949 (estimated)	3.0
Third quarter 1949 (estimated)	3.4
Possible inventory loss: First quarter 1949	.7

[2] Net worth as of Dec. 31, 1948, used to compute returns for third and fourth quarters, 1948. Average of net worth Dec. 31, 1948, and estimated net worth Dec. 31, 1949, used to compute returns for first, second, third quarters, 1949, and totals.

One thing stands out boldly from table 2. Profits and rates of operation are intimately related. The two highest profit quarters were also the two top periods in terms of capacity operation. It is interesting to note that the quarter with the highest level of operation, 101.5 percent, yielded slightly lower profits than the next highest quarter when operations were at 99.5 percent of capacity. This may, in part, reflect the inefficiencies and higher costs which creep in at over-capacity operating levels. Similiarly third quarter 1948 and second quarter 1949, with operating rates of 92.7 percent and 91.2 percent respectively, showed almost identical profit figures. There is no reason to expect that this relationship between profits and rates of operation will not continue during the next 6 months—or a year or more—when it is anticipated that operations will be at near-capacity levels.

We stated earlier that, even after the sharp declines in earnings

experienced by some smaller companies in 1949, as compared with 1948, their profits were still generally at very satisfactory levels. This conclusion is borne out by comparative 1948 and 1949 returns on sales and net worth figures in the table which follows.

TABLE 3.—*Reported profits after taxes as percent of net worth and sales for three quarters 1949 and full year 1948*

Company	Return on net worth (annual rate) [1]		Return on sales	
	9 months 1949	Full year 1948	9 months 1949	Full year 1948
United States Steel	9.2	7.1	7.0	5.2
Bethlehem	15.2	14.0	8.0	6.9
Republic	13.2	14.1	6.4	6.0
Jones & Laughlin	9.9	12.4	6.3	7.0
National	18.2	17.5	10.6	9.1
Youngstown	16.4	17.4	9.9	9.4
Armco	15.3	17.2	8.3	8.4
Inland	18.1	24.4	8.4	9.8
Sharon	11.2	23.8	4.6	7.7
Wheeling	9.1	13.3	6.8	9.7
Colorado Fuel & Iron	12.0	13.9	6.2	6.7
Pittsburgh	5.3	11.2	2.8	5.4
Portsmouth	24.5	23.3	10.9	7.6
Granite City	15.0	23.4	6.5	9.5
Copperweld	11.9	32.7	3.8	6.6
Alan Wood	11.3	21.2	6.6	8.7
Allegheny-Ludlum	3.4	12.6	1.7	5.4
Total	12.1	12.0	7.4	6.8

[1] Reported profits for three quarters 1948 projected for full year, used to compute return on net worth 1949. Net worth 1949 estimated by adding to latest available net worth figures the 1949 profits projected for fourth quarter and deducting dividend payments.

Senator FLANDERS. May I ask a question at this point?

Mr. BRUBAKER. Yes.

Senator FLANDERS. On these returns on net worth of United States Steel, after taxes, is the net worth calculated the same as the company calculated it?

Mr. BRUBAKER. Exactly, sir. Net worth—we use the accounting definition of net worth, which is the value of the business which is owned by the stockholders. This is stockholders' equity, if you want. It does not include bonded debt. That is not stockholder investment, that is bondholder investment. The reported profits, however, which are used here are profits after the payment of the interest on the bonded debt.

For most of the steel companies, however, the ratio of bonded debt to net worth is a relatively small one. For United States Steel, for instance, in a net worth of more than $1,900,000,000, the amount of bonded debt is only about $70,000,000. That is a little more favorable than some of the others, but for the industry as a whole the bonded debt is not large.

Senator FLANDERS. What is the basis on which its physical properties are assessed for this net worth?

The difference in earnings look fantastic, and they are so great that it seems to me there must be some other answer than sheer efficiency of operation. That is if you take the difference between United States Steel, for instance, and the last nine companies.

Mr. BRUBAKER. We have tried to explain that for you in the text. I am very sure there are some outstanding differences in material costs

for those companies because of the integration of the main companies up at the top of your list.

Senator FLANDERS. I will not delay you at this point.

Mr. BRUBAKER. To answer your other question, capital facilities for purposes of the computations are used exactly as they appear on the company's books. They are on the company's books at cost, as you know, less the amount of depreciation which the companies have charged off on their own books.

In our table we have given a rate of return on net worth for each of these companies for the last 9 months, and for the last full year of operation in 1948. They show for the industry as a whole, this part of the industry, which is most of the industry, incidentally, a rate of return of 12 percent in 1949, a rate of return of 12.1 percent for the first 9 months of 1949 at an annual rate.

Senator FLANDERS. Just a minute. I am clear now. These are not percentages in table 2. They are millions, and I withdraw all questions based on that misapprehension.

Mr. BRUBAKER. Thank you, sir. I did not realize the basis of your question or I think we could have cleared that up quickly.

Despite the decreases in profits during recent quarters, only 2 of the 17 companies showed returns on net worth for the first 9 months of 1949 that could be considered even relatively unsatisfactory by any reasonable standards. These companies are Pittsburgh Steel, with a return of 5.3 percent and Allegheny-Ludlum, whose three-quarters profit represented only 3.4 percent of its stockholders' equity at an annual rate. These same companies also showed the lowest return on sales. Two other companies with relatively low returns on sales were Copperweld, 3.8 percent, and Sharon, 4.6 percent. Again, it is significant that all of these less profitable companies are found among the smallest 9 of our 17 largest producers. Only two of the largest eight producers, United States Steel and Jones & Laughlin, showed returns on net worth below 10 percent; namely, 9.2 percent and 9.9 percent respectively. The six other large companies ranged from 13.2 percent to 18.2 percent of net worth. None of these large companies showed profits of less than 6 percent of net sales.

As I read these figures, some of the members of this committee may be wondering what is considered to be a fair or satisfactory rate of return on sales or net worth. Return on sales will, of course, vary depending upon the industry and the volume. In general, our American economy has been built upon the premise that mass production should result in lower profit margins and resultant lower prices, with an accompanying reward to the producer through increased profits due to greater volume. Profits of these 17 companies during the first 9 months of 1949 were 7.4 percent of net sales, the highest level reached during any of the last 10 years with the exception of 1940. But in 1940, total sales in the industry came to less than 40 percent of the volume achieved in 1948 and 1949; and even tonnage of finished steel was only about 70 percent of 1948 tonnage. Should we not expect this substantial increase in volume to result in a narrowing of profit margins? Instead, the industry has acted to increase its profit per dollar of sales by increasing prices far beyond experienced or anticipated cost increases.

How about the concept of return on net worth or stockholders' equity? What constitutes a fair return? Quite frankly, gentlemen,

your guess is as good as ours. In previous years, we thought that through decisions of public utility commissions we had developed some idea of a fair return on net worth—from about 6 percent to as high as 8 percent was most generally considered quite satisfactory by these commissions. Looking back over operations in previous years in the steel industry, we find that a rate of 8 percent on net worth was rarely achieved, let alone exceeded. But the postwar years with skyrocketing profits in all industries made 6 to 8 percent seem mighty low. The steel industry was no exception with profits in 1948 going to more than 20 percent of net worth for some of our 17 companies and to more than 10 percent for all but United States Steel. United States Steel's rate of return, based on reported profits, was 9.2 percent. This, however, results from a substantial understatement of this company's actual profits as will be shown in a later section. As members of this committee know, a profit rate of 8 percent, if continued, would enable the stockholders to regain their original investment in a business within a period of 10 to 12½ years, either in the form of dividends or increased equity in the net worth of the enterprise. This would certainly seem to be a more than satisfactory return on stockholder investment. Examination of steel company profits in recent years shows hardly any instances of returns on net worth even approaching this level. Those few that do appear to be below 10 percent, such as United States Steel, are generally due to understating net profits by using accounting devices unacceptable for income tax reporting purposes. Even without attempting to set up any objective measure of satisfactory profits, the fact remains that during the first three quarters of 1949 steel industry profits and return on net worth reached new peaks. They would not appear to need bolstering by any price increases at this time.

1949 United States Steel profit understated by over $30,000,000: It might be well to explain briefly our statement that some companies, notably United States Steel, are still using accounting methods which are open to criticism to decrease their net income as shown in statements for public consumption. Since 1947, United States Steel has been reporting depreciation of its machines and equipment at an "accelerated" rate, which results in charges greater than those permitted by the Bureau of Internal Revenue for income tax purposes. The rate charged by the corporation is presumably dependent upon its level of operations in each period; though we have never yet been able to ascertain the formula used and we can only estimate the amount of depreciation cost which it produces. We have estimated that during the first 9 months of 1949, these "extra" depreciation charges, beyond those allowed for income-tax purposes, amounted to $31,800,000. Thus, using the more commonly accepted accounting methods, this company's actual profit for this period was $165,000,000 and not $133,200,000 as reported. This results in raising its return on net worth from 9.2 percent to 11.4 percent and its return on sales from 7.0 percent to 8.6 percent. Only two other companies appeared to be following this practice in 1949: Republic Steel understated its net profit by about $6,200,000, and National by an estimated $8,400,000. These, as well as other similar deductions from net income for other years are shown as footnotes in table 2 and in our appendix D.

We are aware that there is considerable controversy over the propriety of using accelerated depreciation and other methods to account

for higher costs of replacement of facilities, possible inventory losses due to price declines, and other contingencies. Our own views and those of the CIO have been presented to this committee on previous occasions and need not be repeated at this time. The fact remains that both the Government and the American Institute of Accountants, as well as most reputable accountants, have repudiated such methods of providing for contingencies and for higher replacement costs. As a result of this widespread repudiation, most companies which showed "extra" depreciation, contingency reserves, inventory reserves, et cetera, as costs of doing business and charges to income during 1946, 1947, and 1948, have since abandoned these practices. Consequently, with the few exceptions noted, 1949 stated net profits appear to be accurate representations of actual earnings.

Net worth increase by one-half 1939 to 1949: Return on net worth as a measure of profitability has sometimes been questioned on the ground that profits are stated in current dollars, while net worth is made up of dollars of previous periods. For more extensive comments on the replacement concept as applied to profits, we refer the committee to recent testimony on this subject by Everett Kassalow, executive secretary of the CIO full employment committee. We should, however, like to call the committee's attention to the large increase in net worth which has taken place in the steel industry during the last 10 years.

Net worth comparison 1949 and 1939 [1]

[In millions of dollars]

Company	Net worth, Dec. 31, 1949 [2]	Net worth, Dec. 31, 1939	Percent increase, 1939–49
United States Steel	$1,920.2	$1,314.8	46.0
Bethlehem	726.1	473.9	53.2
Republic	355.9	239.1	48.8
Jones & Laughlin	269.9	164.7	63.8
National	263.2	131.2	100.6
Youngstown	232.7	144.1	161.5
Armco	197.7	127.1	55.5
Inland	175.0	99.0	76.8
Sharon	42.1	15.6	169.9
Wheeling	120.3	82.0	46.7
Colorado Fuel & Iron	68.2	19.8	244.4
Pittsburgh	49.5	34.9	41.8
Portsmouth	22.9	(3)	
Granite City	18.7	11.8	58.4
Copperweld	16.0	6.9	131.9
Alan Wood	21.3	14.5	46.9
Allegheny-Ludlum	52.8	27.1	94.8
Total	4,552.5	2,906.5	56.6

[1] Net worth as defined includes preferred and common stock, capital or paid-in surplus, surplus, and earned surplus.
[2] Estimated by adding to latest available net worth, 1949 net profits projected for 4th quarter and deducting dividend payments.
[3] Portsmouth facilities owned by and reflected in Wheeling figures.

The above table shows that during this period, the 17 large steel producers increased their net worth from 2,906.5 million dollars to 4,552.5 million dollars, an increase of 56.6 percent. This means that assets paid for by inflated dollars at the last decade amount to more than half of the industry's net worth in 1939 and more than one-third of its current net worth. Even more significant, more than 77 percent of this increase in net worth occurred during the high-price period

1946–49. For some companies, such as National Steel, Youngstown Sheet & Tube, Sharon Steel, Colorado Fuel & Iron, and Copperweld Steel, the bulk of the present worth of the company was built up in recent years. Thus, whatever validity there may have been to this argument against use of return on net worth as a measure of profitability is rapidly disappearing as companies' assets are made up more and more of current vintage dollars. Comparisons of 1948 and 1949 profits and rates of return on net worth are, of course, beyond such criticisms as average prices in 1949 were lower than those in 1948.

Gentlemen, in summary we believe we have demonstrated a number of things with reference to the steel industry's recent price increases which are important to remember:

1. The average increase was well above $4 per ton or 4 percent as claimed by the industry. Products comprising over 65 percent of total steel tonnage, including all major items, showed increases of more than 4 percent.

2. Total steelmaking costs have declined sharply since mid-1948—scrap by over $320,000,000 annually. Other significant savings in costs of nonferrous metals and fuel oil totaling over $80,000,000, are more than sufficient to offset increased prices of ferroalloys, electric power, and transportation, and any increase in labor costs.

3. The industry has made wholly specious attempts to deposit this unwanted child, or at least responsibility for it, on the union's doorstep by crying "pension costs." Actually the costs of pensions and social insurance will not approach the additional revenues which will be derived from the price increases and the demonstrable cost savings. The industry apparently wants the increase but does not want to pay the price of public condemnation.

4. The steel industry is unwilling to absorb, or even try to absorb, costs as long as the market for steel will permit a price increase.

5. Increased productivity and other savings in the industry would permit cost absorption and lower steel prices.

6. The industry has displayed a determination to take outrageously higher profits from the American people in the form of higher prices—$264,000,000 worth—and higher profit margins per unit of output.

You remember that the Steel Fact-Finding Board said that if this industry did not absorb pension and insurance costs and did not pass on cost savings in the form of lower prices "there would be justification of the union to renew its demand for increase of wage rates in order better to participate in the industry's prosperity." There has been much idle speculation as to the course which the union will follow. There need not have been. We accepted the board's recommendations in good faith, hoping the industry would do likewise in the public interest. The industry finally granted pensions and insurance, but only after a costly strike. It has now chosen to ignore the price part of the board's recommendation. But the union has signed a contract which forecloses further bargaining on wages until November 1, 1950. The union has prided itself in keeping its pledged word. It will continue this policy of honoring its contracts despite the industry's bad faith.

We sincerely regret the action taken by the industry. It may well mean higher prices for many steel products—which one of your witnesses today indicated was a real possibility for them—and may endanger economic stability. It will put an even more serious squeeze

on the nonintegrated members of this industry and tend toward further monopoly within the industry. It represents a kind of private redistribution of the national income in favor of this industry which should not be countenanced.

Such actions as this price increase are vitally important to the health of our economy. Yet they are taken on private information, on a sheltered set of facts which are not made generally available. And the industry, in taking such an action, has not felt called upon to do more than make a perfunctory "explanation" of the basis of its price increase until called before this committee. You have heard some facts from the industry spokesmen who appeared before you—but only some. We challenge the industry to lay the full facts on the table before you and the American people. We urge you to continue this investigation until you find an answer. But you, and we, must find an answer or resign ourselves to "boom and bust" and the eventual physical and moral bankruptcy of our system of free enterprise.

(Exhibits A and B submitted by Mr. Brubaker are as follows: Exhibit C, "Ingot distribution," and Exhibit D, "Fact sheets," will be found in the files of the committee.)

EXHIBIT A.—*United States Steel increases in base prices*

CARNEGIE-ILLINOIS STEEL CORP.

Products	Old price (ton)	New price (ton) effective Dec. 16	Base price change (ton)	Percent change in base price
Carbon steel products:				
Blooms, billets, slabs, forging quality	$61	$63	+$2	+3.3
Blooms, billets, slabs, re-rolling quality	52	53	+1	+1.9
Skelp	65	63	−2	−3.1
HR bars and small shapes	67	69	+2	+3.0
Concrete reinforcing bars (new billet)	67	69	+2	+3.0
Standard structural shapes	65	68	+3	+4.6
Channel beam sections	64	68	+4	+6.3
Bearing piles (CBP sections)	64	68	+4	+6.3
Sheet steel piling	81	84	+3	+3.7
Plates	68	70	+2	+2.9
Axles	104	105	+1	+1.0
Standard T rails:				
No. 1 O. H.	64	68	+4	+6.3
No. 2 O. H.	62	66	+4	+6.5
All No. 2 O. H.	63	67	+4	+6.3
Light rails	71	75	+4	+5.6
Tie plates	81	84	+3	+3.7
Joint bars for standard rails	85	88	+3	+3.5
Hot rolled sheets (18 gage and heavier)	65	67	+2	+3.1
Cold rolled sheets (commercial quality)	80	82	+2	+2.5
Corrugated galvanized culvert sheets (16 gage—24 to 30 inches wide):				
1. Copper bearing	100	104	+4	+4.0
2. Pure iron	107	109	+2	+1.9
3. Copper bearing	107	109	+2	+1.9
Electrical sheets (electric grade-cut lengths)	Varied	Varied	[1] +25	[1] +20.0
High strength steel products:				
United States Steel Cor-ten:				
Standard structural shapes	99	103	+4	+4.0
Plates	104	107	+3	+2.9
CB sections	99	102	+3	+3.0
Bars and small shapes	102	104	+2	+2.0
HR sheets	99	101	+2	+2.0
CR sheets	121	124	+3	+2.5
United States Steel Man-ten:				
Standard structural shapes	84	87	+3	+3.6
Plates	89	91	+2	+2.2
CB sections	84	88	+4	+4.8
Bars and small shapes	83	85	+2	+2.4
HR sheets	82	84	+2	+2.4
United States Steel abrasion resisting:				
Bars and small shapes	90	92	+2	+2.2
Plates	91	93	+2	+2.2
HR sheets	88	90	+2	+2.3

[1] Average.

EXHIBIT A.—*United States Steel increases in base prices*—Continued

Products	Old price (ton)	New price (ton) effective Dec. 16	Base price change (ton)	Percent change in base price
Alloy steel:				
HR bars	$75	$79	+$4	+5.3
Bar shapes	80	84	+4	+5.0
Blooms, billets, and slabs	63	[2] 66	+3	+4.8
Tin mill products:				
Electrolytic tin plate, 0.25-pound coating	129	[3] 127	−2	−1.6
Electrolytic tin plate, 0.50-pound coating	134	[3] 132	−2	−1.5
Electrolygic tin plate, 0.75-pound coating	140	[3] 137	−3	−2.1
Hot dipped tin plate, 1.25-pound coating (pot yield)	150	[3] 146	−4	−2.7
Hot dipped tin plate, 1.50-pound coating (pot yield)	155	[3] 150	−5	−3.2
Can making quality blackplate, 55 to 128 pounds	115	[3] 112	−3	−2.6
Special coated manufacturing ternes	133	[3] 130	−3	−2.3
Stainless steel products: (No change in price)				
NATIONAL TUBE CO.				
Buttweld standard and line pipe, ½ to 3 inches	(?)	(?)	+5	(?)
Seamless standard and line pipe	(?)	(?)	+5	(?)
Seamless casing, all grades	(?)	(?)	+5	(?)
Seamless oil-well tubing and drill pipe, all grades	(?)	(?)	+8	(?)
Seamless carbon and alloy mechanical and pressure tubing	(?)	(?)	[4]	(?)
AMERICAN STEEL & WIRE CO.				
Wire rods, carbon:				
Donora, Cleveland, and Joliet	68	77	+9	+13.2
Worcester	74	83	+9	+10.7
Cold rolled carbon strip:				
Cleveland	80	83	+3	+3.8
New Haven	90	93	+3	+3.3
Wire, manufacturers bright, low carbon:				
Cleveland, Donora, Joliet, Rankin, Duluth, and Waukegan	83	90	+7	+8.4
Worcester	89	96	+7	+7.9
Spring wire, high carbon:				
Cleveland, Donora, Duluth, and Waukegan	104	111	+7	+6.7
New Haven, Trenton, and Worcester	110	117	+7	+6.4
Nails and staples	(?)	(?)	[1]+3	(?)
Wire, merchant quality, annealed:				
Cleveland, Donora, Duluth, Joliet, and Rankin	96	107	[5]+11	+11.3
Worcester	102	113	[5]+11	+10.5
Wire, barbed: Donora, Duluth, Joliet, Rankin	(?)	(?)	[1]+3	(?)
Woven fence: Donora, Duluth, Joliet, Rankin	(?)	(?)	[1]+7	(?)
Bale ties: Donora, Duluth, Joliet	(?)	(?)	[1]+3	(?)

[2] Dec. 22.
[3] Jan. 1.
[4] Proportionate increase.
[5] Revised.

TENNESSEE COAL, IRON & R. R. CO.

The prices per ton and the increases per ton as shown in the new price lists for this company are exactly the same as those shown for Carnegie-Illinois Steel Corp., in all cases where the products made are similar, with one exception. The exception is tin-mill products where TCI's decreases are the same but the prices of the product are uniformly $2 per ton higher. The listing also includes nails and staples, barbed wire, woven fence, and bale ties where the amounts of the increases are not stated. These, however, are the same as shown in the American Steel & Wire listing.

COLUMBIA STEEL CO.

The increases per ton shown in the new price list for this company are also the same as for Carnegie-Illinois Steel Corp. in cases where the products made are the same. Prices, however, are from $3 to $19 per ton higher for the same products. Mostly, the range is from $14 to $19 per ton higher. The tin-mill-product decreases are the same per ton, though the prices are $15 per ton higher.

GENEVA STEEL CO.

The increases and the prices are the same as for Carnegie-Illinois Steel Corp. for the items which are made at this plant—namely, plates and structural shapes.

EXHIBIT B.—*Reported profits after taxes, 1948–1939* [1]

[In millions of dollars]

Company	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939
United States Steel	$129.7	$127.1	$88.6	$58.0	$60.8	$62.6	$71.2	$116.2	$102.2	$41.1
Bethlehem	90.3	51.1	41.7	34.9	36.2	32.1	25.4	34.5	48.7	24.6
Republic	46.4	31.0	16.0	9.5	10.1	12.0	17.2	24.0	21.1	10.7
Jones & Laughlin	31.2	19.2	10.7	8.4	8.3	9.9	9.9	12.3	10.5	3.1
National	40.1	26.8	20.5	11.1	10.8	11.7	11.9	17.1	15.1	12.6
Youngstown	35.7	26.3	14.3	7.5	7.9	8.0	10.3	16.1	10.8	5.0
Armco	32.0	25.0	18.6	13.4	5.1	6.1	7.8	11.2	7.6	4.0
Inland	38.6	29.9	15.6	9.9	10.2	10.8	10.7	14.8	14.5	10.9
Sharon	9.2	6.7	2.9	1.0	1.1	1.5	1.4	1.8	1.4	.4
Wheeling	15.1	11.7	5.4	4.0	3.9	4.2	4.4	6.1	5.7	5.6
Colorado Fuel & Iron [2]	6.2	5.1	−.3	2.0	1.7	1.4	2.6	2.3	1.7	.1
Crucible	3.6	2.1	.5	4.8	3.9	4.9	4.9	7.4	6.1	2.8
Pittsburgh	5.5	4.0	.1	−.7	.7	1.7	2.4	3.2	1.6	.6
Portsmouth	4.5	3.9	[3] 1.2	[4]	[4]	[4]	[4]	[4]	[4]	[4]
Lukens [5]	2.4	2.8	0	2.8	.4	1.3	1.2	2.2	.7	.1
Granite City	3.9	1.9	−.5	.1	.2	.6	.6	.5	.3	.3
Copperweld	5.0	1.5	.4	.7	.9	1.1	1.3	1.5	1.3	.9
Alan Wood	4.1	2.0	.8	.3	.1	.7	.7	1.1	1.2	.7
Newport [6]	1.7	1.4	1.0	.9	.8	.8	1.1	.9	[7]	[7]
Allegheny-Ludlum	6.8	6.0	6.6	3.4	3.6	3.9	4.1	5.1	3.8	2.0
Total	512.0	385.5	244.1	172.0	166.7	175.3	189.1	278.3	254.3	123.5

[1] Reported profits are all after various deductions for accelerated depreciation, replacement and contingency reserves, reserves for possible future inventory losses, etc. For detailed account of such deductions by companies see individual company fact sheets (exhibit D).
[2] Figures are for fiscal year ending June 30.
[3] For last 6 months only.
[4] Company not in operation.
[5] Figures are for 52-week fiscal years ending in October and November (except 1947 which is a 56-week year).
[6] Figures are for fiscal years ending Oct. 31 (except 1941 which is a 10-month year ending Oct. 31).
[7] Not comparable.

NOTE.—Table includes all producers under contract with USA-CIO with over 500,000 net tons ingot capacity for which data are available (also Allegheny-Ludlum with 496,360).

EXHIBIT B–2.—*Reported profits after taxes as percentage of net worth 1948–1939* [1]

Company	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939
United States Steel	7.1	8.4	6.1	4.1	4.3	4.4	5.0	8.2	7.5	3.1
Bethlehem	14.0	9.0	7.7	6.7	7.1	6.5	5.2	7.1	10.3	5.2
Republic	14.1	10.6	5.8	3.6	3.7	4.5	6.5	9.4	8.5	4.5
Jones & Laughlin	12.4	8.4	5.2	4.1	4.2	5.0	5.1	7.0	6.1	1.9
National	17.5	13.4	11.3	6.6	6.5	7.3	7.6	11.4	10.7	9.6
Youngstown	17.4	14.4	8.4	4.7	4.6	4.8	6.4	10.2	7.3	3.4
Armco	17.2	15.4	12.8	8.5	3.5	4.3	5.6	8.2	5.8	3.1
Inland	24.4	21.7	12.2	8.1	8.6	9.3	9.6	13.5	14.0	11.0
Sharon	23.8	22.3	11.8	4.9	5.7	8.0	7.6	10.1	8.4	2.6
Wheeling	13.3	11.5	5.8	4.3	4.3	4.7	5.0	7.1	6.7	6.8
Colorado Fuel & Iron [2]	10.7	10.1	-----	6.7	6.0	5.5	10.6	9.3	8.1	0.3
Crucible	5.3	3.2	.7	6.9	5.8	7.3	7.5	11.7	10.4	2.9
Pittsburgh	11.2	9.3	.1	-----	1.7	4.1	5.9	8.2	4.4	1.7
Portsmouth	23.3	23.8	17.6	[3]	[3]	[3]	[3]	[3]	[3]	[3]
Lukens [4]	13.5	17.9	-----	20.1	3.2	11.6	12.2	29.3	10.4	11.7
Granite City	23.4	13.3	-----	.8	1.5	4.5	4.6	4.0	2.5	2.5
Copperweld	32.7	12.5	3.6	6.3	8.2	10.3	12.6	15.3	14.8	13.0
Alan Wood	21.2	11.4	4.8	2.0	.9	4.4	4.7	6.8	8.0	4.7
Newport [5]	11.3	10.1	7.9	7.6	14.8	22.9	27.5	45.0	[6]	[6]
Allegheny-Ludlum	12.6	15.1	18.2	10.6	11.7	11.9	12.9	16.9	13.3	7.3
Total	11.8	10.4	7.0	5.1	5.0	5.3	5.8	8.7	8.3	4.1

[1] Profits used to derive percentages are all after various deductions for accelerated depreciation, replacement and contingency reserves, reserves for possible future inventory losses, etc. For detailed account of such deductions by companies see individual company fact sheet (exhibit D).
[2] Figures are for fiscal year ending June 30.
[3] Company not in operation.
[4] Figures are for 52-week fiscal years ending in October and November (except 1947 which is a 56-week year).
[5] Figures are for fiscal years ending Oct. 31 (except 1941 which is a 10-month year ending Oct. 31).
[6] Not comparable.

NOTE.—Table includes all producers under contract with USA-CIO with over 500,000 net tons ingot capacity for which data are available (also Allegheny-Ludlum with 496,360).

EXHIBIT B–3.—*Reported profits as percentages of net sales 1948–1939* [1]

Company	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939
United States Steel	5.2	6.0	5.9	3.3	2.9	3.2	3.9	7.2	8.9	4.1
Bethlehem	6.9	4.9	5.3	2.6	2.1	1.7	1.7	3.6	8.1	5.9
Republic	6.0	4.8	3.9	1.9	1.9	2.2	3.3	5.0	6.9	4.6
Jones & Laughlin	7.0	5.5	4.3	3.0	2.9	3.5	4.2	5.7	6.8	2.7
National	9.1	8.1	8.5	4.0	4.3	4.5	5.4	8.5	9.5	9.5
Youngstown	9.4	8.6	6.6	3.3	3.3	3.6	4.7	7.1	7.5	4.3
Armco	8.4	8.0	8.0	6.1	2.5	3.1	4.3	6.6	6.8	4.2
Inland	9.8	9.5	7.2	4.6	4.6	5.3	5.6	7.3	10.2	9.5
Sharon	7.7	7.1	5.3	2.5	2.9	3.5	3.7	5.2	6.0	2.2
Wheeling	9.7	8.8	4.9	2.8	2.9	3.4	3.7	4.6	6.1	6.5
Colorado Fuel & Iron [2]	5.2	5.4	------	3.5	3.0	2.8	5.0	5.9	5.3	9.3
Crucible	2.8	1.9	.6	3.4	2.1	2.3	2.6	5.8	7.9	5.8
Pittsburgh	5.4	4.7	.1	------	1.2	2.6	3.4	5.2	4.6	2.1
Portsmouth	7.6	7.9	7.1	[3]	[3]	[3]	[3]	[3]	[3]	[3]
Lukens [4]	3.9	5.3	------	6.1	.7	2.5	2.6	7.1	3.7	.7
Granite City	9.5	7.4	------	.5	.9	3.5	3.4	2.7	2.6	2.9
Copperweld	6.6	2.8	1.6	2.1	2.5	3.3	4.4	4.4	10.6	8.7
Alan Wood	8.7	5.4	3.1	1.2	.5	2.3	2.4	3.8	5.1	4.6
Newport [5]	2.5	2.0	2.5	2.5	2.7	4.2	6.1	9.9	[6]	[6]
Allegheny-Ludlum	5.4	5.6	6.9	3.4	3.4	3.4	4.0	5.6	7.0	5.3
Total	6.6	6.1	5.5	3.1	2.6	2.8	3.4	5.9	8.3	5.2

[1] Profits used to derive percentages are all after various deductions for accelerated depreciation, replacement and contingency reserves, reserves for possible future inventory losses, etc. For detailed account of such deductions by companies see individual company fact sheets (exhibit D).
[2] Figures are for fiscal year ending June 30.
[3] Company began operations in 1946.
[4] Figures are for 52-week fiscal years ending in October and November (except 1947 which is a 56-week year).
[5] Figures are for fiscal years ending Oct. 31 (except 1941 which is a 10-month year ending Oct. 31).
[6] Not comparable.

NOTE.—Table includes all producers under contract with USA-CIO with over 500,000 net tons ingot capacity for which data are available (also Allegheny-Ludlum with 496,360).

EXHIBIT C

IN THE MATTER OF UNITED STEELWORKERS OF AMERICA—CIO AND UNITED STATES STEEL CORP., ET AL.—DISTRIBUTION OF STEEL COMPANIES ACCORDING TO INGOT CAPACITY AND EMPLOYMENT

In order to assist the Board in evaluating the relative importance in the steel industry of the various companies involved in this proceeding, the union has prepared the attached charts 1, 2, and 3. A brief analysis of these charts follows.

CHART 1. STEEL PRODUCERS BY RATED INGOT CAPACITY

On January 1, 1949, the 49 companies involved before this Board had an annual rated ingot capacity of 88,664,140 tons, according to figures released by the American Iron and Steel Institute. Of this total tonnage, the United States Steel Corp., itself, accounts for over 31,000,000 tons, or 32.5 percent of the entire industry. The two next largest producers, the Bethlehem Steel Corp., and Republic Steel Corp., have a rated capacity of 14.2 and 8.6 million ingot tons, respectively. Together these three largest companies represent over 54,000,000 ingot tons out of the total 88,700,000 tons capacity of all companies here involved and the 96,000,000 ingot tons of the entire industry.

There are 10 other companies with annual capacities of over 1,000,000 ingot tons, but under 5,000,000 tons. Of these, there are five—Jones & Laughlin, National, Youngstown, Armco, and Inland—each of whom can produce between 3 and 5 million ingot tons annually. Five others—Sharon, Wheeling, Colorado Fuel & Iron, Cricible and Pittsbugh Steel—have an annual rated capacity of between 1 and 2 million tons each.

There are 24 other companies in this case which have some rated ingot capacity. The total annual rated capacity for all 24 of these producers is about 7,500,000 ingot tons. Their capacities range from 980,000 tons for the Kaiser Co. to 12,000 tons for the Latrobe Electric Steel Co.

The remaining 12 companies are fabricators with no steel ingot capacity whatsoever.

CHART 2. PERCENTAGE DISTRIBUTION OF RATED INGOT CAPACITY AMONG COMPANIES

Companies here involved represent 92.2 percent of the entire capacity of the industry. Three companies—United States Steel, Bethlehem, and Republic—account for 56.2 percent of the industry capacity and over 60 percent of the capacity of companies here represented. The five medium-size producers, with a capacity of over 20,000,000 ingot tons, represent 20.9 percent of the industry. The next five companies, with a rated capacity of over 7,000,000 tons, account for 7.3 percent of the total industry capacity.

Thus, the 13 largest companies account for 84.4 percent of the total capacity of the industry, and 91.5 percent of the capacity of companies involved in this case. The remaining 24 producers represent less than 8 percent of the industry's ingot capacity.

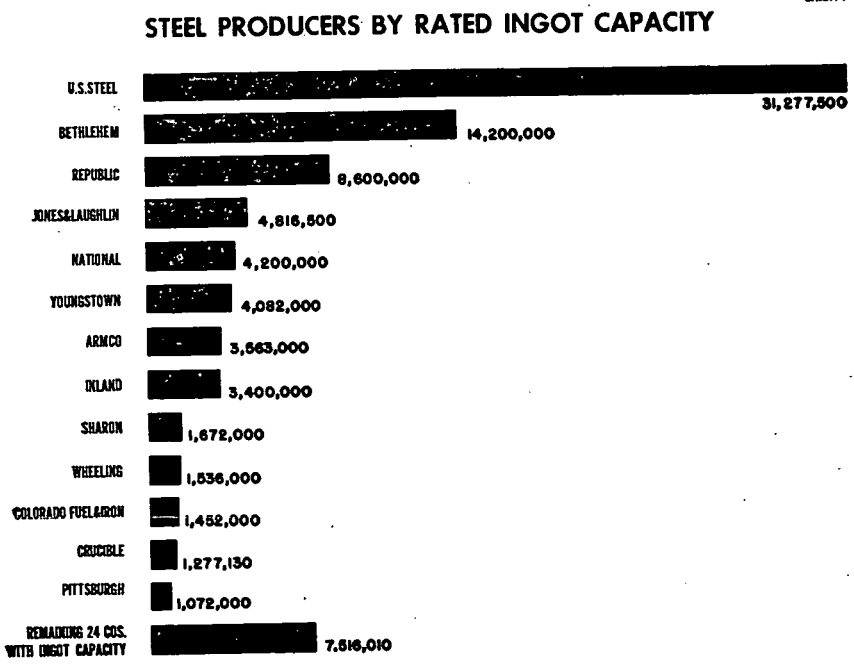
CHART 3. PERCENTAGE DISTRIBUTION OF EMPLOYMENT AMONG COMPANIES

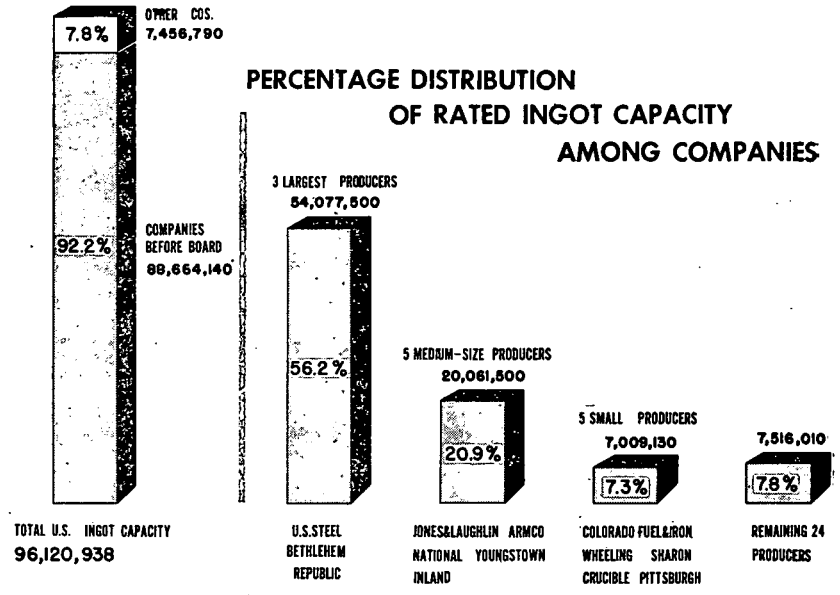
An examination of the employment of the steel companies involved in this proceeding reveals almost the identical picture as was shown in charts 1 and 2 with regard to ingot capacity. The 49 companies employ a total of 874,603 workers according to latest information available in their annual reports and Moody's Industrials. Except for Studebaker, this represents total employment of these companies, including workers employed in nonsteel producing activities. For most companies, it was not possible to separate these two categories of employees from official information available to the union.

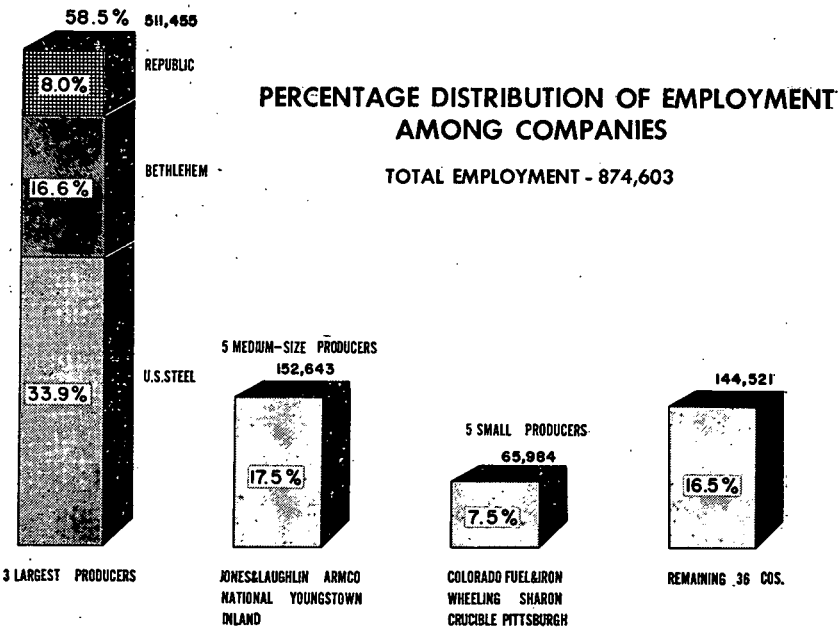
The three largest producers—United States Steel, Bethlehem, and Republic—employ 511,455 or 58.5 percent of the total. The five medium-size producers with 152,643 represent 17.5 percent of total employment. The remaining five companies, with ingot capacity of over 1,000,000 tons, employ a total of 65,984 workers or 7.5 percent of the total of all companies here represented.

Other companies involved in this proceeding—36 in all, including both companies with and without ingot capacity—employ 144,521 workers, or only 16.5 percent of the total. There are several companies in this latter group whose steel-producing activities represent only a minor portion of their operations and employment. The recommendations of this Board will, of course, not apply to the large majority of the employees of these latter companies who are encompassed in collective bargaining units represented by other unions.

CHART I







IN THE MATTER OF UNITED STEELWORKERS OF AMERICA-CIO AND UNITED STATES STEEL CORP., ET AL.—FACT SHEETS SHOWING THE FINANCIAL POSITIONS OF INDIVIDUAL COMPANIES AS COMPILED BY THE RESEARCH DEPARTMENT OF THE UNITED STEELWORKERS OF AMERICA

SUMMARY OF CONCLUSIONS

This folio of company fact sheets presents significant information relevant to the operations of each of the companies (and its subsidiaries) invited to appear before the Steel Industry Board, except in those instances where the companies

make no financial information available. It shows as many of the changes and deletions from the list of companies originally invited as was possible as of the date of preparation of this summary.

It is evident from even a cursory examination of these data and the earlier financial history of these companies that the past decade has been the best in the history of most, if not all, of these companies. These facts and figures speak for themselves in support of the union's position that the basic steel industry, company-by-company, can grant the union's wage proposals, without impairment of its financial position. With regard to the measures used, there is no significant distinction between the companies which have ingot capacity and those which do not.

The following facts are high lighted in these fact sheets for the 42 companies for which financial information is available:

Net profits (stated).—An examination of the net profit figures as reported by the individual companies indicates that:

1. For almost all companies, profits for either 1948 or 1949, or for both years, represented an all time peak.

2. For every one of these companies 1948 was a better year, profitwise, than was 1939, and for most companies it was better by as much as five to six times.

3. With the exception of 4 of the 42 companies, 1948 was a better profit year than the admittedly good year of 1941, a year when most companies were engaged in war production but were not subject to excess profits taxes.

4. For all except one company, 1948 profits were even higher than the average during the war years 1942–45.

5. For all except five of the companies, profits in 1948 were higher than in 1947, a year which most companies, at that time, at least, termed a "satisfactory" year.

6. Except for 12 companies, the 1949 annual rate of profit was even higher than the already excessive 1948 profit.

When the stated profits of recent years are adjusted to reflect the amounts not considered to be appropriate deductions as costs—such as extra depreciation charges, inventory and contingency reserves, the doubling up of vacation charges during a single year and other improper charges—net profit and return on net worth are even higher for many companies than the stated figures.

Sales.—Sales have shown a steady increase for almost every one of these companies through the entire decade. This is partially the result of higher levels of operation and partially due to excessively high steel prices.

Net worth.—Net worth for every company but one has grown steadily during this decade. With few exceptions, companies showed a minimum increase in net worth of 33 percent since 1939, and for many companies the increase was several times greater than this. Only one company showed a decrease in net worth during the decade. This decrease was the result of a complete capital reorganization which reduced the stated capitalization by about 40 percent.

In general, increases in net worth in recent years have resulted from retention of earnings. Thus, capital investment, both for individual companies and for the industry, has become less and less a risk of new venture capital and is, therefore, entitled to a lower return on net worth, according to generally accepted economic concepts.

Return on net worth.—1948 and 1949 on an annual basis, represent the two peak years in the decade for all except 12 of the companies, in terms of return on net worth. In only 7 instances did the rate of return in both 1948 and 1949 fail to exceed the rate shown for any other year in the decade. In a few of these 7 instances the failure of 1948 and 1949 profits to show a higher return on net worth was solely the result of an understatement by the companies of actual profits. These return on net worth figures are conservative ones as they are based on year-end net worth, not on the average net worth for the year involved.

Much has been made of the argument that profits in recent years have been made up of dollars which are worth less than the dollars represented by net worth. Any validity this argument may have had is becoming less and less true as net worth is coming to be made up more and more of current profits and current dollars retained in the business as additional investment.

Return on net worth is by far the best available measure for judging the size and equity of the profits of an individual concern or of an industry. It is the only significant operational measure which permits meaningful comparisons amongst various industries.

Return on sales.—Net profit taken as a percentage of the sales dollar, gives an equally good picture for most companies. It shows that return on sales for

most companies reached a 10-year peak either in 1948 or 1949. While this ratio of return on the sales dollar is certainly less meaningful as a measure of profitability than return on net worth or on investment, it has some significance. Return on sales should decrease during periods of high operating levels, such as those recently experienced by the industry and by most companies. Companies which refuse to be content with lower profits per dollar of sales during periods of high-level activity obviously are unwilling to share their prosperity either with their workers or with consumers.

Wages and salaries, and material costs as percentages of the sales dollar.—An examination of these ratios for the decade shows several serious and alarming trends. Despite the sizable wage increases of the postwar period, the proportion of wages and salaries to sales has declined steadily during recent years to a level well below the average for the period. Annual reports of the United States Steel Corp., for instance, show that wages and salaries between 1946 and 1949 dropped 7.5 cents out of each dollar of sales—a fall of approximately 18 percent. In contrast, material costs, as a percentage of sales, show a substantial increase during this same period for almost all companies.

These facts should lay to rest the myth that increases in employment costs have been primarily responsible for price increases in the industry. Wages and salaries, as a share of the sales dollar, have not only not increased, but they have actually lost ground for a number of years. The conclusion is inescapable that most of these companies would prefer to increase profits at the expense of wages and salaries, if permitted to do so. It is also evident that these companies do not regard wages and salaries as belonging in the same category of necessity as material costs. They seem to consider increases in material costs as inescapable, i. e., as something determined by market conditions beyond their control. Wages are another matter. The industry would have us accept the premise that they can and should control wages by the simple expedient of refusing to grant a wage increase.

It should be noted that many companies conceal this shift in the distribution of the sales dollar by refusing to make cost break-downs available to the public—hence the abundance of "N. A.'s" in the wages and salaries and materials cost columns of the accompanying fact sheets.

Net profit as a percentage of wages and salaries.—This ratio also shows that most companies are making an ever larger profit per dollar of wages and salaries paid to their employees. For many companies, this ratio is currently the highest in the entire decade. For most others, it approximates the best previous year. It is interesting to observe, for instance, that in 1948 Inland Steel made a net profit of more than 42 cents for each dollar of wages and salaries paid to its employees. Rotary Electric Steel Co., in 1948, reported more than 75 cents net profit for each dollar paid out as wages and salaries.

Again, it should be noted that it is not possible to compute this ratio for many companies because they do not make the necessary data available.

TECHNICAL NOTE

The figures shown on the accompanying fact sheets were taken either directly from published reports of the companies involved or are simple derivations from figures shown in these reports. Wherever possible, company annual reports to stockholders have been used as a source of information, particularly for 1939–48 data. Moody's Industrials, the financial section of the Wall Street Journal and industry publications served as sources for 1949 data and also for earlier years where annual reports were not available or did not carry full information. There follows a brief description of specific sources and methods used to derive percentages and unpublished data, particularly for 1949.

Ingot capacity.—Tonnage shown represents latest available information which is as of the beginning of 1949.

Number of employees.—Figures represent either average employment for 1948 as reported in company annual reports or employment as of the end of 1948 as reported by the companies in Moody's Industrials.

1. Selected measures of operations

Stated net profit.—The annual profit for 1949 was derived from a simple projection of first quarter or first half 1949 figures or other available calendar or fiscal 1949 data. In all cases the latest revised net-profit figures were used.

This resulted in a number of differences between these figures and those shown in other union exhibits. These differences were due largely to two factors:

1. Many companies which had formerly shown net profit after deducting contingency and inventory reserves and other extraordinary charges which are not permitted by the Bureau of Internal Revenue for income-tax purposes, now show these deductions as charges against surplus. This change has often been made retroactive to prior years.

2. Net-profit figures in a number of years have been revised in the latest company reports to reflect renegotiations of Government contracts, prior years' tax adjustments, and other adjustments made to profits.

Sales.—Figures for 1949 were derived by a simple projection of quarterly or other 1949 data shown in Moody's and the Wall Street Journal. Due to contract renegotiations and other revisions, there may also be some minor differences between these figures and those shown in other union exhibits.

Net worth.—This represents the stockholders' equity, both common and preferred, in the business. 1949 figures were derived by adding to the net worth at the end of 1948 the estimated net profits for 1949 less estimated dividend payments, both preferred and common, for the year. This method tends to overtake net worth and thereby understate return on net worth as it does not provide for other normal year-end charges to earned surplus.

Long-term debt.—Data for 1949, where shown, represent long-term indebtedness at the end of the first quarter of 1949 or other available period of the current fiscal year.

Common-stock dividends.—Dividends for 1949 were estimated by a simple projection of available declared regular dividends, plus extras, for 1949 as published in Moody's Dividend Record.

2. Significant ratios

Return on net worth.—This represents stated net profit divided by net worth.

Net profit as a percentage of the sales dollar.—These percentages were derived by dividing stated net profit by sales.

Wages and salaries as a percentage of the sales dollar.—Wages and salaries data used to derive these percentages were taken from company annual reports where such information was available. When annual reports did not contain these figures, annual pay rolls for 1946, 1947, and 1948, as carried in Steel magazine, were used. Unless otherwise noted, wages and salaries represent only direct payments to employees and do not include such other employment costs as pensions, social-security payments, etc.

Materials as a percentage of the sales dollar.—Wherever possible cost of materials and services was taken directly from company annual reports. Where such data were not shown in company reports, cost of materials was derived by deducting wages and salaries or employment costs from cost of sales or cost of products and services sold, as reported in the company's profit-and-loss statement. Percentages of materials cost to sales for various years are directly comparable for any one concern, as care was taken to maintain uniformity with regard to the figures used for each company.

Net profit as a percentage of wages and salaries.—These percentages were derived by dividing net profit as shown in section 1 by wages and salaries data described above.

3. Percentage changes—selected periods

These percentages were derived from figures in the appropriate columns of section 1 of the fact sheet.

4. Proper adjustments to stated net profits

Many companies have reported net profit after charges to income which are not permitted by the Bureau of Internal Revenue for income-tax purposes. In order to show adjusted profits earned during 1947, 1948, and 1949 on an annual basis, stated net profit figures have been adjusted to include these nonpermissible deductions. All adjustments have been footnoted by a designation of the particular type of adjustment made. In 1949, adjustments made for part of the year have been projected for the entire year. While we understand that a change-over in the method of showing vacation-pay charges from a cash to an accrual basis has, in some cases at least, apparently been permitted by the Bureau of Internal Revenue, the resultant decrease in net profit has been shown an adjustment because it results in two charges for vacation pay in one year.

Obviously two such deductions cannot properly be considered chargeable to any 1 year's operations from an economic point of view.

In order to take account of these adjustments in deriving the actual return on net worth, the adjustments made in any particular year have been added to the company's net worth as reported at the end of that year.

The notation "N. A." as used on fact sheets indicates that the information was not available.

Listing of parent companies[1] showing ingot capacity and number of employees

Name of company	Ingot capacity[2]	Number of employees[3]
1. Companies publishing some financial data—listed in descending order of ingot capacity:		
United States Steel Corp	31,277,500	29[illegible], 785
Bethlehem Steel Corp	14,200,000	144,670
Republic Steel Corp	8,600,000	70,000
Jones & Laughlin Steel Corp	4,816,500	43,474
National Steel Corp	4,200,000	28,299
Youngstown Sheet & Tube Co	4,082,000	26,659
Armco Steel Corp	3,563,000	30,617
Inland Steel Co	3,400,000	23,594
Sharon Steel Corp	1,672,000	9,721
Wheeling Steel Corp	1,536,000	15,178
Colorado Fuel & Iron Corp	1,452,000	15,226
Crucible Steel Co. of America	1,277,130	16,059
Pittsburgh Steel Co	1,072,000	9,800
Portsmouth Steel Corp	720,000	4,436
Lukens Steel Co	624,000	5,248
Granite City Steel Co	620,000	2,900
Copperweld Steel Co	554,400	3,000
Alan Wood Steel Co	550,000	3,320
Newport Steel Corp	500,000	7,488
Allegheny Ludlum Steel Corp	496,360	12,645
Studebaker Corp (Empire Steel Corp.)	390,320	20,329
Barium Steel Corp	379,000	4,000
Continental Steel Corp	364,000	2,500
Rotary Electric Steel Co	340,000	700
Northwestern Steel & Wire Co	321,000	1,825
Follansbee Steel Corp	136,080	4,000
Harrisburg Steel Corp	100,750	1,231
A. M. Byers Co	75,000	2,900
Universal-Cyclops Steel Corp	54,120	2,400
Babcock & Wilcox Co	50,400	14,442
National Supply Co	40,950	9,792
Borg-Warner Corp	24,000	24,570
Continental Copper & Steel Industries, Inc	20,730	3,000
Latrobe Electric Steel Co	12,000	957
2. Alphabetical listing—for companies with no ingot capacity:		
Acme Steel Co	None	4,060
Aetna-Standard Engineering Co	None	889
American Chain & Cable Co	None	8,500
American Steel Foundries	None	8,247
Blaw-Knox Co	None	6,670
Mackintosh-Hemphill Co	None	656
Pittsburgh Screw & Bolt Corp	None	2,930
Superior Steel Corp	None	1,310
3. Companies issuing no financial data—listed in alphabetical order:		
Judson Steel Corp	76,500	225
Kaiser Co., Inc	980,000	6,000
Mather Stock Car Co	None	200
Pacific States Steel Corp	176,400	700
Parkersburg Steel Co	None	450
Shenango Furnace Co	None	1,200
Shenango-Penn Mold Co	None	150
Worth Steel Co	460,000	850

[1] The listing of each company name comprehends inclusion for this purpose of all ingot capacity and o all subsidiaries consolidated in its financial statements.

[2] As of Jan. 1, 1949.

[3] 1948 figures where available.

Fact sheet—United States Steel Corp. and subsidiaries

Ingot capacity 31,277,500
Number of employees 296,785

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	101.5	$199.7	486	$2,659.6	314	$1,910.5	([2])	$52.2
1948	93.8	129.6	315	2,481.5	293	1,833.1	$71.6	52.2
1947	96.7	127.1	309	2,122.8	251	1,510.8	77.2	45.7
1946	72.9	88.6	216	1,496.1	177	1,454.6	81.2	34.8
1945	82.0	58.0	141	1,747.3	207	1,426.0	78.6	34.8
1944	94.7	60.8	148	2,082.2	246	1,428.0	92.9	34.8
1943	97.8	62.6	152	1,972.3	233	1,428.1	129.0	34.8
1942	98.1	71.2	173	1,863.0	220	1,425.3	139.7	34.8
1941	96.8	116.2	283	1,622.3	192	1,413.5	181.2	34.8
1940	82.5	102.2	249	1,079.1	128	1,357.0	191.7	34.8
1939	61.0	41.1	100	846.0	100	1,314.8	216.5	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries [3]	Materials	
1949 [1]	10.5	7.5	39.6	39.7	18.9
1948	7.1	5.2	41.7	40.9	12.5
1947	8.4	6.0	42.6	39.7	14.1
1946	6.1	5.9	47.1	39.4	12.6
1945	4.1	3.3	47.2	38.4	7.0
1944	4.3	2.9	46.0	39.1	6.4
1943	4.4	3.2	46.3	37.0	6.9
1942	5.0	3.9	42.0	36.1	9.1
1941	8.2	7.2	38.7	37.3	18.5
1940	7.5	8.9	43.0	33.2	22.0
1939	3.1	4.1	45.7	34.7	10.6

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+54.1	+7.2	+4.2
1947 to 1948	+2.0	+16.9	+21.3
1942–45 to 1948 (average)	+104.1	+29.5	+28.5
1941 to 1948	+11.5	+53.0	+29.7
1939 to 1948	+215.3	+193.3	+39.4

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1949 [1]	$199.7	$56.0	$255.7	13.0
1948	129.6	70.3	199.9	10.5
1947	127.1	29.8	156.9	10.2

[1] Where 1949 is used it refers to 1st quarter figures projected to an annual rate.
[2] Not available.
[3] Wages and salaries include social-security taxes and pensions.
[4] 1949, accelerated depreciation, $56. 1948, accelerated depreciation, $55.3; changed vacation pay charges to accrual basis, $19.9; war costs (credit), $4.9. 1947, accelerated depreciation, $26.3; war costs (credit), $2.5 extension of LIFO to remaining inventories, $6.
[5] Net worth for this purpose includes stockholders equity revised to include selected reserves.

Fact sheet—Bethlehem Steel Corp. and subsidiaries

Ingot capacity 14,200,000
Number of employees 144,670

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	105.2	$132.4	538	$1,454.0	350	$749.4	[2]	$21.5
1948	97.2	90.3	367	1,315.2	317	645.2	$121.8	21.5
1947	99.8	51.1	208	1,034.9	249	565.4	123.8	17.9
1946	77.6	41.7	170	791.7	191	539.0	125.8	17.9
1945	91.7	34.9	142	1,329.5	320	521.7	120.9	17.9
1944	102.8	36.2	147	1,750.4	422	510.3	162.7	17.9
1943	100.9	32.1	131	1,906.2	459	498.3	156.5	17.9
1942	98.0	25.4	103	1,497.7	361	484.8	162.2	17.9
1941	101.5	34.5	140	962.2	232	483.9	173.2	17.9
1940	93.3	48.7	198	603.1	145	473.2	177.2	14.9
1939	70.8	24.6	100	414.9	100	473.9	181.3	4.8

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries [3]	Materials	
1949 [1]	17.7	9.1	[2]	[2]	[2]
1948	14.0	6.9	38.5	46.6	17.8
1947	9.0	4.9	41.4	46.8	11.9
1946	7.7	5.3	50.2	38.6	10.6
1945	6.7	2.6	49.0	40.1	5.3
1944	7.1	2.1	50.3	37.7	4.2
1943	6.5	1.7	48.6	39.1	3.5
1942	5.2	1.7	44.6	40.4	3.8
1941	7.1	3.6	39.0	42.4	9.2
1940	10.3	8.1	36.2	44.4	22.4
1939	5.2	5.9	39.6	43.2	14.9

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+46.6	+10.6	+16.2
1947 to 1948	+76.7	+27.1	+14.1
1942-45 to 1948 (average)	+180.4	−18.9	+28.1
1941 to 1948	+161.7	+36.7	+33.3
1939 to 1948	+267.1	+217.0	+36.1

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1949 [1]	$132.4	None	$132.4	17.7
1948	90.3	None	90.3	14.0
1947	51.1	$10.0	61.1	9.8

[1] Where 1949 is used it refers to 1st quarter figures projected to an annual rate.
[2] Not available.
[3] Wages and salaries are total employment costs, including social security, pensions, etc.
[4] 1947, inventory changed to LIFO.
[5] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Republic Steel Corp. and subsidiaries

Ingot capacity ---------- 8,600,000
Number of employees ---------- 70,000

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	[2]	$61.2	572	$862.0	372	$376.3	[2]	$11.4
1948	96.8	46.4	434	772.0	333	328.2	69.5	[3] 20.5
1947	92.9	31.0	290	649.8	280	293.1	77.2	11.3
1946	70.3	16.0	150	415.7	179	275.0	61.4	5.7
1945	79.2	9.5	89	500.8	216	266.3	65.8	5.7
1944	99.8	10.1	94	531.2	229	269.4	69.6	5.7
1943	100.4	12.0	112	552.3	238	267.0	72.2	5.7
1942	99.6	17.2	161	521.1	225	263.0	78.8	7.1
1941	99.5	24.0	224	483.8	209	255.6	95.2	11.3
1940	78.0	21.1	197	305.3	132	248.7	95.8	2.3
1939	66.2	10.7	100	232.0	100	239.1	87.5	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries [6]	Materials	
1949 [1]	16.3	7.1	[2]	[2]	[2]
1948	14.1	6.0	31.8	50.8	18.9
1947	10.6	4.8	33.8	50.9	14.1
1946	5.8	3.9	38.6	47.8	10.0
1945	3.6	1.9	33.8	52.3	5.6
1944	3.7	1.9	33.9	49.5	5.6
1943	4.5	2.2	31.4	51.4	6.9
1942	6.5	3.3	29.9	45.7	11.0
1941	9.4	5.0	29.0	47.3	17.1
1940	8.5	6.9	32.8	46.1	21.1
1939	4.5	4.6	35.9	44.5	12.8

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+31.9	+11.7	+14.7
1947 to 1948	+49.7	+18.8	+12.0
1942–45 to 1948 (average)	+280.3	+46.7	+23.2
1941 to 1948	+93.3	+59.6	+28.4
1939 to 1948	+333.6	+232.8	+37.3

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1949 [1]	$61.2	$6.8	$68.0	17.7
1948	46.4	7.0	53.4	15.9
1947	31.0	4.0	35.0	11.8

[1] Where 1949 is used it refers to first quarter figures projected to an annual rate.
[2] Not available.
[3] Includes a $7.7 stock dividend.
[4] 1949, accelerated depreciation; 1948, accelerated depreciation; 1947, property replacement reserve.
[5] Net worth for this purpose includes stockholders' equity revised to include selected reserves.
[6] Wages and salaries are total pay-roll figures.

Fact sheet—Jones & Laughlin Steel Corp. and subsidiaries

Ingot capacity ---------- 4,816,500
Number of employees ---------- 43,474

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	108	$39.5	1,274	$467.6	412	$282.8	$60.0	[2] $6.4
1948	97	31.2	1,007	446.1	393	251.2	60.0	5.3
1947	95	19.2	619	350.1	308	228.2	60.1	5.0
1946	80	10.7	345	246.3	217	206.4	28.2	4.7
1945	88	8.4	271	284.7	251	202.0	28.2	3.3
1944	101	8.3	268	290.1	255	199.8	30.2	3.2
1943	102	9.9	319	280.7	247	198.4	43.9	3.2
1942	103	9.9	319	235.0	207	195.0	47.9	3.5
1941	99	12.3	397	216.0	190	175.7	40.4	1.7
1940	85	10.5	339	153.3	135	173.1	42.2	None
1939	60	3.1	100	113.6	100	164.7	45.4	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	14.0	8.4	[3]	[3]	[3]
1948	12.4	7.0	33.9	45.2	20.6
1947	8.4	5.5	38.9	41.9	14.1
1946	5.2	4.3	42.2	40.1	10.3
1945	4.1	3.0	38.6	46.3	7.6
1944	4.2	2.9	40.9	42.8	7.0
1943	5.0	3.5	37.7	40.0	9.4
1942	5.1	4.2	36.0	33.5	11.7
1941	7.0	5.7	32.3	35.8	17.6
1940	6.1	6.8	36.4	36.7	18.8
1939	1.9	2.7	39.2	37.0	7.0

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+26.6	+4.8	+12.6
1947 to 1948	+62.5	+127.4	+10.1
1942–45 to 1948 (average)	+254.5	+63.6	+26.4
1941 to 1948	+153.7	+106.5	+43.0
1939 to 1948	+906.5	+292.7	+52.5

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [5]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]	$39.5	None	$39.5	14.0
1948	31.2	$0.4	31.6	12.6
1947	19.2	3.3	22.5	9.7

[1] Where 1949 is used it refers to first quarter figures projected to an annual rate.
[2] Plus a 5-percent stock dividend.
[3] Not available.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.
[5] 1948, noncontributory pensions, $0.4; 1947, noncontributory pensions, $0.3; changed vacation pay charges to accrual basis, $1.9; extension of LIFO to remaining inventories, $1.

Fact sheet—National Steel Corp. and subsidiaries

Ingot capacity 4,200,000
Number of employees 28,299

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	[2]	$59.0	468	[2]	[2]	$275.5	$40.0	$12.3
1948	[2]	40.1	318	$439.1	331	228.8	40.0	[3] 30.1
1947	[2]	26.8	213	330.8	250	199.8	40.0	8.9
1946	[2]	20.5	163	242.1	183	181.9	40.0	7.2
1945	[2]	11.1	88	274.1	207	167.7	40.0	6.6
1944	[2]	10.8	86	254.0	192	165.2	54.5	6.6
1943	[2]	11.7	93	257.7	194	161.1	56.0	6.6
1942	[2]	11.9	94	221.2	167	155.8	57.9	6.6
1941	[2]	17.1	136	201.7	152	150.3	60.9	7.1
1940	[2]	15.1	120	159.1	120	140.9	62.4	5.5
1939	[2]	12.6	100	132.5	100	131.2	65.6	3.7

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	21.4	[2]	[2]	[2]	[2]
1948	17.5	9.1	24.4	52.4	37.5
1947	13.4	8.1	27.2	53.0	29.7
1946	11.3	8.5	30.1	50.0	28.2
1945	6.6	4.0	26.3	55.6	15.4
1944	6.5	4.3	26.8	54.2	15.9
1943	7.3	4.5	24.1	53.3	18.9
1942	7.6	5.4	23.8	48.3	22.6
1941	11.4	8.5	23.3	50.8	36.5
1940	10.7	9.5	25.5	52.0	37.2
1939	9.6	9.5	[2]	[2]	[2]

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+47.1	[2]	+20.4
1947 to 1948	+49.6	+32.7	+14.5
1942–45 to 1948 (average)	+251.8	+74.4	+40.8
1941 to 1948	+134.5	+117.7	+52.2
1939 to 1948	+218.3	+231.4	+74.4

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1949 [1]	$59.0	$10.6	$69.6	24.3
1948	40.1	13.6	53.7	22.2
1947	26.8	3.5	30.3	14.9

[1] Where 1949 is used it refers to first quarter figures projected to an annual rate.
[2] Not available.
[3] Includes a 10 percent stock dividend valued at $19.
[4] 1949, inventory reserve, $2.6; accelerated depreciation, $8. 1948, accelerated depreciation, $10.5; supplementary retirement program, Weirton Steel Co., $1; changed vacation pay charges to accrual basis, $2.1. 1947, accelerated depreciation, $3.5.
[5] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Youngstown Sheet & Tube Co. and subsidiaries

Ingot capacity 4,082,000
Number of employees 26,659

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	106.3	$48.0	960	$426.4	364	$234.5	$30.0	$10.1
1948	99.1	35.7	714	378.0	323	204.6	30.0	8.4
1947	98.9	26.3	526	306.2	262	183.2	30.0	8.4
1946	81.0	14.3	286	216.3	185	169.3	30.0	5.0
1945	93.8	7.5	150	230.4	197	160.1	36.1	3.4
1944	106.4	7.9	158	238.8	204	172.3	51.9	3.4
1943	101.1	8.0	160	224.9	192	166.4	60.2	3.4
1942	99.8	10.3	206	217.9	186	161.9	68.6	4.2
1941	103.3	16.1	322	226.2	193	157.2	74.8	5.0
1940	82.1	10.8	216	143.1	122	147.1	82.5	2.1
1939	64.4	5.0	100	117.0	100	144.1	85.5	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	20.5	11.3	[2]	[2]	[2]
1948	17.4	9.4	26.4	51.6	35.8
1947	14.4	8.6	26.6	52.8	32.3
1946	8.4	6.6	29.7	49.5	22.2
1945	4.7	3.3	[2]	[2]	[2]
1944	4.6	3.3	[2]	[2]	[2]
1943	4.8	3.6	[2]	[2]	[2]
1942	6.4	4.7	[2]	[2]	[2]
1941	10.2	7.1	[2]	[2]	[2]
1940	7.3	7.5	[2]	[2]	[2]
1939	3.4	4.3	[2]	[2]	[2]

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+34.5	+12.8	+14.6
1947 to 1948	+35.7	+23.4	+11.7
1942–45 to 1948 (average)	+320.0	+65.8	+23.8
1941 to 1948	+121.7	+67.1	+30.2
1939 to 1948	+614.0	+223.1	+42.0

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [2]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [3]
1949 [1]	$48.0	None	$48.0	20.5
1948	35.7	$2.5	38.2	18.4
1947	26.3	None	26.3	14.4

[1] Where 1949 is used it refers to first quarter figures projected to an annual rate.
[2] 1948, changed vacation pay charges to accrual basis.
[3] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Armco Steel Corp. and subsidiaries

Ingot capacity ---------- 3,563,000
Number of employees ---------- 30,617

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$34.4	860	$402.0	424	$210.4	$66.2	$9.6
1948	97.1	32.0	800	382.6	403	186.5	69.2	7.8
1947	93.9	25.0	625	311.7	328	162.6	37.0	6.5
1946	81.8	18.6	465	231.9	244	144.9	38.5	4.1
1945	90.9	13.4	335	220.1	232	158.0	14.0	2.3
1944	(2)	5.1	128	200.8	212	145.7	14.8	2.3
1943	(2)	6.1	153	199.3	210	142.7	17.8	2.9
1942	(2)	7.8	195	181.0	191	140.5	24.8	2.9
1941	(2)	11.2	280	169.2	178	136.0	23.3	4.0
1940	(2)	7.6	190	112.4	118	130.4	9.5	0.7
1939	(2)	4.0	100	94.9	100	127.1	2.0	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries [3]	Materials	
1949 [1]	16.3	8.6	(2)	(2)	(2)
1948	17.2	8.4	28.1	55.4	29.8
1947	15.4	8.0	30.3	53.5	26.5
1946	12.8	8.0	32.9	51.3	24.3
1945	8.5	6.1	33.0	54.0	18.4
1944	3.5	2.5	32.7	54.9	7.8
1943	4.3	3.1	28.8	56.8	10.6
1942	5.6	4.3	27.2	53.9	15.8
1941	8.2	6.6	26.4	54.7	25.1
1940	5.8	6.8	28.9	57.3	23.4
1939	3.1	4.2	32.9	58.0	12.8

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+7.5	+5.1	+12.8
1947 to 1948	+28.0	+22.7	+14.7
1942–45 to 1948 (average)	+295.1	+91.0	+27.1
1941 to 1948	+185.7	+126.1	+37.1
1939 to 1948	+700.0	+303.2	+46.7

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first-quarter figures projected to an annual rate.
[2] Not available.
[3] Wages and salaries are total employment costs.
[4] None.
[5] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Inland Steel Co. and subsidiaries

Ingot capacity 3,400,000
Number of employees 23,594

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	103.3	$37.2	341	$406.8	353	$185.5	(2)	$9.8
1948	103.9	38.6	354	392.7	341	158.1	$73.3	14.7
1947	97.0	29.9	274	315.0	273	138.0	54.0	12.2
1946	82.7	15.6	143	217.7	189	127.7	57.0	9.0
1945	103.2	9.9	91	217.4	189	122.1	30.9	7.3
1944	108.4	10.2	94	221.2	192	119.6	32.5	7.3
1943	107.4	10.8	99	203.7	177	116.8	34.3	7.3
1942	102.3	10.7	98	189.6	164	112.1	37.4	7.3
1941	104.5	14.8	136	202.8	176	109.7	46.7	8.2
1940	94.0	14.5	133	142.2	123	103.3	48.2	8.1
1939	81.2	10.9	100	115.3	100	99.0	50.7	6.5

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	20.1	9.1	(2)	(2)	(2)
1948	24.4	9.8	23.3	53.8	42.2
1947	21.7	9.5	24.4	51.3	38.8
1946	12.2	7.2	27.3	50.9	26.2
1945	8.1	4.6	27.6	51.7	16.5
1944	8.6	4.6	25.9	51.5	17.8
1943	9.3	5.3	25.4	49.0	20.9
1942	9.6	5.6	24.1	46.8	23.5
1941	13.5	7.3	22.0	49.1	33.1
1940	14.0	10.2	25.7	47.0	39.6
1939	11.0	9.5	28.0	45.8	33.7

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	−3.6	+3.6	+17.3
1947 to 1948	+29.1	+24.7	+14.6
1942–45 to 1948 (average)	+286.0	+88.8	+34.3
1941 to 1948	+160.8	+93.6	+44.1
1939 to 1948	+254.1	+240.6	+59.7

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]	$37.2	None	$37.2	20.1
1948	38.6	None	38.6	24.4
1947	29.9	$1.6	31.5	22.6

[1] Where 1949 is used it refers to first-quarter figures projected to an annual rate.
[2] Not available.
[3] 1947, changed vacation pay charges to accrual basis.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Sharon Steel Corp. and subsidiaries

Ingot capacity ---------- 1,672,000
Number of employees ---------- 9,721

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$11.6	2,900	$135.2	760	$49.0	(2)	$1.2
1948	77.7	9.2	2,300	118.8	667	38.6	$9.9	1.5
1947	76.6	6.7	1,675	94.1	529	30.0	4.0	1.2
1946	59.1	2.9	725	55.0	309	24.5	4.5	.8
1945	94.7	1.0	250	40.6	228	20.3	5.0	.7
1944	(2)	1.1	275	38.5	216	19.2	1.6	.7
1943	(2)	1.5	375	42.4	238	18.8	None	.7
1942	(2)	1.4	350	38.1	214	18.5	.9	.7
1941	(2)	1.8	450	34.6	194	17.8	1.6	.7
1940	(2)	1.4	350	23.5	132	16.7	2.0	.4
1939	(2)	.4	100	17.8	100	15.6	.6	.3

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	23.7	8.6	(2)	(2)	(2)
1948	23.8	7.7	29.8	52.4	26.0
1947	22.3	7.1	30.3	52.8	23.5
1946	11.8	5.3	32.7	52.7	16.1
1945	4.9	2.5	32.0	52.7	7.7
1944	5.7	2.9	26.5	53.0	10.8
1943	8.0	3.5	(2)	(2)	(2)
1942	7.6	3.7	(2)	(2)	(2)
1941	10.1	5.2	(2)	(2)	(2)
1940	8.4	6.0	(2)	(2)	(2)
1939	2.6	2.2	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+26.1	+13.8	+26.9
1947 to 1948	+37.3	+26.2	+28.7
1942–45 to 1948 (average)	+736.4	+197.7	+101.0
1941 to 1948	+411.1	+518.8	+116.9
1939 to 1948	+2,200.0	+567.4	+147.0

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]	$11.6	None	$11.6	23.7
1948	9.2	$0.5	9.7	24.8
1947	6.7	None	6.7	22.3

[1] Where 1949 is used it refers to first-quarter figures projected to an annual rate.
[2] Not available.
[3] 1948, changed vacation pay charges to accrual basis.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Wheeling Steel Corp. and subsidiaries

Ingot capacity 1,536,000
Number of employees 15,178

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$16.0	286	$163.2	188	$124.8	(2)	$2.8
1948	92.5	15.1	270	156.0	180	113.4	$42.1	1.6
1947	91.2	11.7	209	132.6	153	101.8	42.9	1.0
1946	76.5	5.4	96	111.3	129	92.9	23.5	.9
1945	95.7	4.0	71	144.0	166	92.2	27.8	.9
1944	102.6	3.9	70	136.2	157	91.0	31.2	.9
1943	99.3	4.2	75	122.3	141	89.7	32.4	.9
1942	97.7	4.4	79	119.9	138	88.2	33.6	.9
1941	99.9	6.1	109	132.0	152	85.8	34.8	1.1
1940	85.2	5.7	102	93.9	108	85.2	30.8	None
1939	74.8	5.6	100	86.6	100	82.0	31.5	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	12.8	9.8	(2)	(2)	(2)
1948	13.3	9.7	36.5	37.0	26.5
1947	11.5	8.8	37.1	36.6	23.8
1946	5.8	4.9	40.2	40.0	12.1
1945	4.3	2.8	37.6	45.5	7.4
1944	4.3	2.9	39.0	43.4	7.3
1943	4.7	3.4	37.5	44.8	9.2
1942	5.0	3.7	35.2	44.0	10.4
1941	7.1	4.6	31.6	44.7	14.6
1940	6.7	6.1	34.9	42.7	17.4
1939	6.8	6.5	35.3	42.0	18.3

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+6.0	+4.6	+10.1
1947 to 1948	+29.0	+17.6	+11.4
1942–45 to 1948 (average)	+251.1	+19.4	+25.6
1941 to 1948	+147.5	+18.2	+32.2
1939 to 1948	+169.6	+80.1	+38.3

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]	$16.0	None	$16.0	12.8
1948	15.1	None	15.1	13.3
1947	11.7	$0.8	12.5	12.2

[1] Where 1949 is used it refers to first-quarter figures projected to an annual rate.
[2] Not available.
[3] 1947, changed vacation pay charges to accrual basis.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Colorado Fuel & Iron Corp. and subsidiaries

Ingot capacity ---------- 1,452,000
Number of employees ---------- 15,226

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year [1]	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [2]	([3])	$ 11.1	18,833	$142.1	643	$66.3	$7.9	$2.3
1948	94.8	6.2	10,333	118.9	538	58.1	8.8	1.4
1947	93.8	5.1	8,500	94.7	429	50.6	9.8	.5
1946	76.4	[4] .3	[4] 500	58.1	263	47.7	9.5	.5
1945	104.8	2.0	3,333	57.2	259	29.7	10.3	.6
1944	110.0	1.7	2,833	56.2	254	28.3	14.2	.6
1943	101.0	1.4	2,333	50.3	228	25.3	15.0	.6
1942	97.6	2.6	4,333	52.1	236	24.5	11.2	1.0
1941	79.7	2.3	3,833	39.2	177	24.8	15.7	.6
1940	72.1	1.7	2,833	31.9	144	21.0	15.7	None
1939	42.5	.06	100	22.1	100	19.8	15.7	None

2. SIGNIFICANT RATIOS

Year [1]	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [2]	16.6	7.7	([3])	([3])	([3])
1948	10.7	5.2	41.0	28.6	12.7
1947	10.1	5.4	42.9	27.0	12.6
1946	([4])	([4])	47.3	25.6	
1945	6.7	3.5	43.0	23.8	8.1
1944	6.0	3.0	43.2	24.9	7.0
1943	5.5	2.8	([3])	([3])	([3])
1942	10.6	5.0	([3])	([3])	([3])
1941	9.3	5.9	([3])	([3])	([3])
1940	8.1	5.3	([3])	([3])	([3])
1939	.3	.3	([3])	([3])	([3])

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [2]	+77.4	+19.5	+14.1
1947 to 1948	+21.6	+25.6	+14.8
1942-45 to 1948 (average)	+226.3	+120.2	+115.2
1941 to 1948	+169.6	+203.3	+134.3
1939 to 1948	+10,233.3	+438.0	+193.4

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year [1]	Net profit (stated)	Adjustment [5]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [6]
1949 [2]	$11.0	$1.0	$12.0	17.8
1948	6.2	None	6.2	10.7
1947	5.1	None	5.1	10.1

[1] Fiscal years ending June 30 of year listed.
[2] Where 1949 is used it refers to figures for the first 3 fiscal 1949 quarters projected to an annual rate.
[3] Not available.
[4] Loss.
[5] 1949, contingency reserve.
[6] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

61914—50——24

Fact sheet—Crucible Steel Co. of America and subsidiaries

Ingot capacity 1,277,130
Number of employees 16,059

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$6.8	243	(2)	(2)	$73.6	(2)	None
1948	(2)	3.6	129	$130.8	273	68.4	24.1	None
1947	(2)	2.1	75	110.2	230	65.2	24.5	None
1946	(2)	.5	18	88.1	184	67.8	25.0	None
1945	(2)	4.8	171	141.4	295	69.7	12.2	$0.9
1944	(2)	3.9	139	184.6	385	67.6	12.2	1.3
1943	(2)	4.9	175	209.4	436	66.9	12.2	1.3
1942	(2)	4.9	175	187.2	390	65.2	13.4	.9
1941	(2)	7.4	264	127.8	266	63.0	15.0	.4
1940	(2)	6.1	218	77.7	162	58.7	15.0	None
1939	(2)	2.8	100	48.0	100	97.4	10.0	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	9.2	(2)	(2)	(2)	(2)
1948	5.3	2.8	42.2	37.2	6.5
1947	3.2	1.9	45.6	35.6	4.2
1946	.7	.6	49.3	35.1	1.2
1945	6.9	3.4	43.6	40.4	7.8
1944	5.8	2.1	41.5	32.0	5.1
1943	7.3	2.3	35.6	34.1	6.6
1942	7.5	2.6	35.0	35.0	7.5
1941	11.7	5.8	(2)	(2)	(2)
1940	10.4	7.9	(2)	(2)	(2)
1939	2.9	5.8	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+88.9	(2)	+7.6
1947 to 1948	+71.4	+18.7	+4.9
1942–45 to 1948 (average)	−21.7	−27.6	+1.5
1941 to 1948	−51.4	+2.3	+8.6
1939 to 1948	+28.6	+172.5	−24.4

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first-quarter figures projected to an annual rate.
[2] Not available.
[3] None.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Pittsburgh Steel Co. and subsidiaries

Ingot capacity ---------- 1,072,000
Number of employees ---------- 9,800

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$8.8	1,467	$122.0	427	$56.4	$7.0	None
1948	91.1	5.5	917	101.8	356	48.9	7.0	None
1947	93.9	4.0	667	85.1	298	43.2	6.7	None
1946	78.2	.05	8	54.2	190	39.7	7.0	None
1945	(2)	(3).7	[3] 117	53.6	187	40.0	7.5	None
1944	(2)	.7	117	59.7	209	41.0	8.0	None
1943	(2)	1.7	283	66.6	233	41.4	7.1	None
1942	(2)	2.4	400	71.0	248	40.9	8.2	None
1941	(2)	3.2	533	61.5	215	39.2	8.3	None
1940	(2)	1.6	267	34.8	122	36.2	6.0	None
1939	(2)	.6	100	28.6	100	34.9	4.7	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries [2]	Materials	
1949 [1]	15.6	7.2	(2)	(2)	(2)
1948	11.2	5.4	36.6	48.6	14.7
1947	9.3	4.7	39.0	47.2	12.0
1946	.1	.1	45.9	45.9	.2
1945	(3)	(3)	42.2	48.5	(3)
1944	1.7	1.2	39.9	49.6	2.9
1943	4.1	2.6	33.6	50.5	7.6
1942	5.9	3.4	29.2	50.7	11.6
1941	8.2	5.2	29.9	52.2	17.4
1940	4.4	4.6	37.1	46.8	12.4
1939	1.7	2.1	36.0	48.6	5.8

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+60.0	+19.8	+15.3
1947 to 1948	+37.5	+19.6	+13.2
1942-45 to 1948 (average)	+428.8	+149.5	+19.9
1941 to 1948	+71.9	+65.5	+24.7
1939 to 1948	+816.7	+255.9	+40.1

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1949 [1]	$8.8	None	$8.8	15.6
1948	5.5	$0.8	6.3	12.7
1947	4.0	None	4.0	9.3

[1] Where 1949 is used it refers to first-quarter figures projected to an annual rate.
[2] Not available.
[3] Loss.
[4] 1948, changed vacation-pay charges to accrual basis.
[5] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Portsmouth Steel Corp. and subsidiaries

[Company began operations in 1946]

Ingot capacity 720,000
Number of employees 4,436

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate (percent of capacity)	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$8.2		$74.8		$25.3	None	$2.0
1948	98.2	4.5		58.9		19.3	None	1.3
1947	101.1	3.9		49.5		16.4	None	1.0
1946 [3]	(2)	1.2		16.9		13.6	None	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	32.4	11.0	(2)	(2)	(2)
1948	23.3	7.6	26.0	58.9	29.4
1947	23.8	7.9	27.3	57.4	28.9
1946	17.6	7.1	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+82.2	+27.0	+31.1
1947 to 1948	+15.4	+19.0	+17.7
1942–45 to 1948 (average)			
1941 to 1948			
1939 to 1948			

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first-quarter figures projected to an annual rate.
[2] Last 6 months of year only. However percentages are on an annual basis.
[3] None.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Lukens Steel Co. and former subsidiaries

Ingot capacity	624,000
Number of employees	5,248

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year [1]	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [2]	(3)	$4.92	6,150	$75.8	637	$22.5	$0.9	$0.3
1948	103.8	2.41	3,013	61.5	517	17.9	.9	.5
1947	102.1	2.84	3,550	52.8	444	15.9	None	.4
1946	80.0	.0007	0.9	30.3	255	13.7	.8	None
1945	92.2	2.75	3,438	45.2	380	13.7	1.5	.1
1944	(3)	.38	475	54.6	459	11.7	2.4	.3
1943	(3)	1.32	1,650	52.3	439	11.4	3.2	.4
1942	(3)	1.17	1,463	44.0	370	10.4	4.0	.3
1941	(3)	2.20	275	30.9	260	9.6	4.4	.2
1940	(3)	.71	888	18.8	158	7.5	4.0	None
1939	(3)	.08	100	11.9	100	6.8	3.8	None

2. SIGNIFICANT RATIOS

Year (b)	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [2]	21.9	6.5	(3)	(3)	(3)
1948	13.5	3.9	29.2	60.7	13.5
1947	17.9	5.3	31.3	55.8	17.2
1946	.01		39.9	55.6	.005
1945	20.1	6.1	34.9	57.3	17.4
1944	3.2	.7	34.0	57.3	2.0
1943	11.6	2.5	32.8	(3)	(3)
1942	12.2	2.6	30.3	(3)	(3)
1941	29.3	7.1	27.8	(3)	(3)
1940	10.4	3.7	29.4	(3)	(3)
1939	11.7	.7	34.0	(3)	(3)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [2]	+104.1	+23.3	+25.7
1947 to 1948	−15.1	+16.5	+12.6
1942–45 to 1948 (average)	+270.0	+25.5	+51.7
1941 to 1948	+9.5	+99.0	+86.5
1939 to 1948	+2,912.5	+416.8	+163.2

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year (b)	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1949 [2]	$4.92	$0.6	$5.52	23.9
1948	2.41	None	2.41	13.5
1947	2.84	None	2.84	17.9

[1] These are 52-week fiscal years ending in October or November (except 1947 which is 56 weeks).
[2] Where 1949 is used it refers to 52-week projection of operations for 24 weeks ending Apr. 16, 1949.
[3] Not available.
[4] 1949—accelerated depreciation.
[5] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Granite City Steel Co.

Ingot capacity 620,000
Number of employees 2,900

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$3.7	1,233	$46.8	459	$19.3	(2)	$0.8
1948	79.6	3.9	1,300	41.1	403	16.7	$2.9	.9
1947	88.1	1.9	633	25.8	253	14.3	4.2	.4
1946	38.6	[3] .5	[3] 167	8.5	83	12.8	3.0	None
1945	(2)	.1	33	18.9	185	13.3	None	.1
1944	(2)	.2	67	21.7	213	13.3	1.8	None
1943	(2)	.6	200	17.2	169	13.2	2.1	.2
1942	(2)	.6	200	17.7	174	12.9	2.6	.1
1941	(2)	.5	167	18.7	183	12.4	3.1	.1
1940	(2)	.3	100	11.7	115	12.0	3.6	.1
1939	(2)	.3	100	10.2	100	11.8	3.6	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	19.2	7.9	(2)	(2)	(2)
1948	23.4	9.5	21.2	59.4	44.8
1947	13.3	7.4	24.4	58.5	30.2
1946	(2)	(3)	37.1	(2)	)
1945	.8	.5	(2)	(2)	(2)
1944	1.5	.9	(2)	(2)	(2)
1943	4.5	3.5	(2)	(2)	(2)
1942	4.6	3.4	(2)	(2)	(2)
1941	4.0	2.7	(2)	(2)	(2)
1940	2.5	2.6	(2)	(2)	(2)
1939	2.5	2.9	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	−5.1	+13.9	+15.6
1947 to 1948	+105.3	+59.3	+16.8
1942–45 to 1948 (average)	+954.1	+117.5	+26.5
1941 to 1948	+680.0	+119.8	+34.7
1939 to 1948	+1,200.0	+302.9	+41.5

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first quarter figures projected to an annual rate.
[2] Not available.
[3] Loss.
[4] None.
[5] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Copperweld Steel Co.

Ingot capacity 554,400
Number of employees 3,000

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$2.4	267	(2)	(2)	$17.0	None	$0.6
1948	(2)	5.0	556	$75.6	727	15.3	None	1.4
1947	107.3	1.5	167	53.3	513	12.0	$3.1	.4
1946	56.6	.4	44	25.4	244	11.0	2.8	.4
1945	(2)	.7	78	33.5	322	11.2	1.4	.4
1944	(2)	.9	100	35.4	340	11.0	2.1	.4
1943	(2)	1.1	122	33.6	323	10.7	2.2	.4
1942	(2)	1.3	144	29.4	283	10.3	2.8	.4
1941	(2)	1.5	167	33.9	326	9.8	3.3	.4
1940	(2)	1.3	144	12.3	118	8.8	1.7	.4
1939	(2)	.9	100	10.4	100	6.9	1.9	.3

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	14.1	(2)	(2)	(2)	(2)
1948	32.7	6.6	18.0	65.5	36.8
1947	12.5	2.8	22.1	66.8	12.7
1946	3.6	1.6	17.3	71.3	9.1
1945	6.3	2.1	(2)	(2)	(2)
1944	8.2	2.5	(2)	(2)	(2)
1943	10.3	3.3	(2)	(2)	(2)
1942	12.6	4.4	(2)	(2)	(2)
1941	15.3	4.4	(2)	(2)	(2)
1940	14.8	10.6	(2)	(2)	(2)
1939	13.0	8.7	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	−52.0	(2)	+11.1
1947 to 1948	+233.3	+41.8	+27.5
1942–45 to 1948 (average)	+415.5	+129.1	+41.7
1941 to 1948	+233.3	+123.0	+56.1
1939 to 1948	+555.6	+626.9	+121.7

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first half figures projected to an annual rate.
[2] Not available.
[3] None.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Alan Wood Steel Co. and subsidiaries

Ingot capacity ---------- 550,000
Number of employees ---------- 3,320

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$3.54	521	$55.3	376	$22.9	(2)	(2)
1948	96.5	4.12	606	47.6	324	19.4	$6.3	$0.5
1947	81.8	1.96	288	36.1	246	17.2	None	None
1946	63.3	.79	116	25.4	173	16.5	None	None
1945	(2)	.31	46	26.1	178	15.8	None	None
1944	(2)	.14	21	28.6	195	15.7	None	None
1943	(2)	.70	103	30.1	205	15.9	None	None
1942	(2)	.74	109	30.3	206	15.7	None	None
1941	(2)	1.05	154	27.8	189	15.5	None	None
1940	(2)	1.21	178	23.6	161	15.1	None	None
1939	(2)	.68	100	14.7	100	14.5	None	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	15.5	8.1	24.3	55.5	33.4
1948	21.2	8.7	22.5	58.0	38.5
1947	11.4	5.4	26.6	60.1	20.4
1946	4.8	3.1	30.3	60.6	10.3
1945	2.0	1.2	(2)	(2)	(2)
1944	.9	.5	(2)	(2)	(2)
1943	4.4	2.3	(2)	(2)	(2)
1942	4.7	2.4	(2)	(2)	(2)
1941	6.8	3.8	(2)	(2)	(2)
1940	8.0	5.1	(2)	(2)	(2)
1939	4.7	4.6	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	−14.1	+16.2	+18.0
1947 to 1948	+110.2	+31.9	+12.8
1942–45 to 1948 (average)	+776.6	+65.3	+22.8
1942 to 1948	+292.4	+71.2	+25.2
1939 to 1948	+505.9	+223.8	+33.8

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first half figures projected to an annual rate.
[2] Not available.
[3] None.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Newport Steel Corp. and subsidiaries

Ingot capacity ---------- 500,000
Number of employees ---------- 7,488

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year [1]	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1942=100)	Amount	Index (1942=100)			
1949 [2]	([3])	$3.7	336	$80.4	447	$18.8	([3])	None
1948	([3])	1.7	155	69.3	385	15.1	$6.1	None
1947	([3])	1.4	127	71.7	398	13.8	5.2	$0.6
1946	([3])	1.0	91	40.8	227	12.6	1.5	.9
1945	([3])	.9	82	36.2	201	11.9	.7	.7
1944	([3])	.8	73	29.3	163	5.4	None	.5
1943	([3])	.8	73	19.0	106	3.5	None	.4
1942	([3])	1.1	100	18.0	100	4.0	None	.4
1941	([3])	.9	----------	9.1	----------	2.4	None	.3
1940 [4]	----------	----------	----------	----------	----------	----------	----------	----------
1939 [4]	----------	----------	----------	----------	----------	----------	----------	----------

2. SIGNIFICANT RATIOS

Year [1]	Return on net worth (percent)	Sales dollar (percents)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [2]	19.7	4.6	([3])	([3])	([3])
1948	11.3	2.5	32.6	59.6	7.5
1947	10.1	2.0	30.1	62.2	6.5
1946	7.9	2.5	36.5	51.7	6.7
1945	7.6	2.5	18.2	70.2	13.6
1944	14.8	2.7	21.2	64.8	12.9
1943	22.9	4.2	24.2	56.3	17.4
1942	27.5	6.1	23.3	([3])	26.2
1941	45.0	9.9	24.2	38.5	40.9
1940 [4]	----------	----------	----------	----------	----------
1939	----------	----------	----------	----------	----------

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [2]	+117.6	+16.0	+24.5
1947 to 1948	+21.4	−3.3	+9.4
1942–45 to 1948 (average)	+88.9	+170.7	+143.5

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [5]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [6]
1949 [2]	----------	None	----------	----------
1948	----------	None	----------	----------
1947	----------	None	----------	----------

[1] Figures are for fiscal years ending Oct. 31, with exception of 1941 for which figures represent 10 months' operations to Oct. 31. Materials include depreciation for this company. All indices and percentages, however, are on an annual basis.
[2] Where 1949 is used it refers to first half figures projected to an annual rate.
[3] Not available.
[4] Figures not comparable.
[5] None.
[6] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Allegheny Ludlum Steel Corp. and subsidiaries

Ingot capacity 496,360
Number of employees 12,645

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$6.2	310	$132.9	356	$57.2	None	$2.6
1948	93.1	6.8	340	126.8	340	54.1	None	2.6
1947	82.8	6.0	300	106.8	286	39.7	None	2.6
1946	79.0	6.6	330	95.3	255	36.3	None	2.6
1945	82.9	3.4	170	100.4	269	31.8	None	2.5
1944	(2)	3.6	180	107.4	288	30.9	None	2.5
1943	(2)	3.9	195	115.4	309	33.2	None	2.5
1942	(2)	4.1	205	102.8	275	32.0	None	2.5
1941	(2)	5.1	255	91.4	245	30.4	None	2.8
1940	(2)	3.8	190	54.6	146	28.8	None	1.9
1939	(2)	2.0	100	37.3	100	27.1	None	.6

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percents)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	10.8	4.7	(2)	(2)	(2)
1948	12.6	5.4	35.6	51.3	15.1
1947	15.1	5.6	37.0	49.9	15.2
1946	18.2	6.9	37.6	46.6	18.4
1945	10.6	3.4	34.6	50.0	9.8
1944	11.7	3.4	34.7	48.7	9.7
1943	11.9	3.4	31.5	50.2	10.7
1942	12.9	4.0	30.1	50.3	13.3
1941	16.9	5.6	27.4	51.8	20.4
1940	13.3	7.0	29.5	51.6	23.6
1939	7.3	5.3	33.0	51.1	16.3

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	−8.8	+4.7	+5.7
1947 to 1948	+13.3	+18.7	+36.3
1942–45 to 1948 (average)	+74.4	+19.1	+69.1
1941 to 1948	+133.3	+38.7	+78.0
1939 to 1948	+240.0	+240.0	+99.6

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first quarter figures projected to an annual rate.
[2] Not available.
[3] None.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Studebaker Corp. and subsidiaries (includes Empire Steel Corp. in 1947–49 figures)

Ingot capacity 390,320
Number of employees 20,329

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$23.4	807	$476.4	583	$83.5	(2)	$3.5
1948	(2)	19.1	659	383.6	470	63.6	$12.8	3.5
1947	(2)	9.1	314	268.0	328	48.0	14.0	1.8
1946	None	.9	31	141.6	173	40.6	14.5	1.2
1945	None	3.3	114	212.8	260	40.9	10.5	1.2
1944	None	4.0	138	415.7	509	35.4	None	1.2
1943	None	2.8	97	364.2	446	31.6	None	.6
1942	None	2.0	69	221.4	271	28.3	4.4	None
1941	None	2.5	86	115.7	142	26.3	5.4	None
1940	None	2.1	72	84.2	103	23.8	5.8	None
1939	None	2.9	100	81.7	100	21.6	6.5	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	28.0	4.9	(2)	(2)	(2)
1948	30.0	5.0	21.8	67.3	22.8
1947	19.0	3.4	(2)	(2)	(2)
1946	2.2	.6	(2)	(2)	(2)
1945	8.1	1.6	(2)	(2)	(2)
1944	11.3	1.0	(2)	(2)	(2)
1943	8.9	.8	(2)	(2)	(2)
1942	7.1	.9	(2)	(2)	(2)
1941	9.5	2.2	(2)	(2)	(2)
1940	8.8	2.5	(2)	(2)	(2)
1939	13.4	3.5	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+22.5	+24.2	+31.3
1947 to 1948	+109.9	+43.1	+32.5
1942–45 to 1948 (average)	+536.7	+26.4	+86.5
1941 to 1948	+664.0	+231.5	+141.8
1939 to 1948	+558.6	+369.5	+194.4

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]	----------	None	----------	----------
1948	----------	None	----------	----------
1947	----------	None	----------	----------

[1] Where 1949 is used it refers to first-half figures projected to an annual rate.
[2] Not available.
[3] None.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Empire Steel Corp. (sold in December 1947 to Studebaker Corp.):

Ingot capacity (Jan. 1, 1947)---------- 275,670
Number of employees---------- 1,100

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1948								[3] $7.2
1947 [1]	[2]	$1.57	4,700	$16.9	406	$6.7	None	.47
1946	[2]	.50	1,250	11.9	238	5.4	$0.2	.12
1945	[2]	.25	625	9.7	194	4.9	.4	None
1944	[2]	.32	800	9.8	196	3.7	.6	None
1943	[2]	.10	250	12.4	248	3.4	.7	None
1942	[2]	.27	675	12.4	248	4.2	None	None
1941	[2]	.49	1225	12.7	254	2.6	.9	None
1940	[2]	.04	100	6.0	120	2.1	.9	None
1939	[2]	.04	100	5.0	100	2.0	.9	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1947	28.1	9.3	[2]	[2]	[2]
1946	9.3	4.2	[2]	[2]	[2]
1945	5.1	2.6	[2]	[2]	[2]
1944	8.6	3.3	[2]	[2]	[2]
1943	2.9	.8	[2]	[2]	[2]
1942	6.4	2.2	[2]	[2]	[2]
1941	18.8	3.9	[2]	[2]	[2]
1940	1.9	.7	[2]	[2]	[2]
1939	2.0	.8	[2]	[2]	[2]

3. PERCENT CHANGES, SELECTED PERIODS

Not applicable.

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1947		None		

[1] Figures are for 10 months only. Indices and percentages, however, are at an annual rate.
[2] Not available.
[3] Liquidating dividend.
[4] None.
[5] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Barium Steel Corp. and subsidiaries

Ingot capacity 379,000
Number of employees 4,000

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1942=100)	Amount	Index (1942=100)			
1949 [1]	[2]	$4.12	3,169	$55.7	5,064	$16.7	[2]	[2]
1948	[2]	2.62	2,015	51.3	4,664	12.6	$0.8	None
1947	[2]	1.69	1,300	41.4	3,764	10.3	.3	None
1946	[2]	.01	8	17.1	1,555	7.6	.3	None
1945	[2]	.05	38	4.7	427	1.6	.1	None
1944	[2]	.05	38	3.1	282	.8	None	None
1943	[2]	.01	8	1.8	164	.6	None	None
1942	[2]	.13	100	1.1	100	.6	None	None
1941	[2]	[4] .10	----	.2	----	.4	.1	None
1940	[2]	[4] .08	----	.01	----	.3	.2	None
1939	[2]	[4] .15	----	.1	----	.4	.2	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries [3]	Materials	
1949 [1]	24.7	7.4	[2]	[2]	[2]
1948	20.8	5.1	[2]	[2]	[2]
1947	16.4	4.1	[2]	[2]	[2]
1946	.1	.1	[2]	[2]	[2]
1945	3.1	1.1	[2]	[2]	[2]
1944	6.3	1.6	[2]	[2]	[2]
1943	1.7	.6	[2]	[2]	[2]
1942	21.7	11.8	[2]	[2]	[2]
1941	[4]	[4]	[2]	[2]	[2]
1940	[4]	[4]	[2]	[2]	[2]
1939	[4]	[4]	[2]	[2]	[2]

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+57.3	+8.6	+32.5
1947 to 1948	+55.0	+23.9	+22.3
1942–45 to 1948 (average)	+4,266.7	+1,800.0	+1,300.0
1941 to 1948	----	+25,550.0	+3,050.0
1939 to 1948	----	+51,200.0	+3,050.0

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [5]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [6]
1949 [1]	----	None	----	----
1948	----	None	----	----
1947	----	None	----	----

[1] Where 1949 is used it refers to first quarter figures projected to an annual rate.
[2] Not available.
[3] There was a 10 percent stock dividend.
[4] Loss.
[5] None.
[6] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Continental Steel Corp. and subsidiaries

Ingot capacity 364,000
Number of employees 2,500

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$1.60	132	$28.8	155	$16.2	None	$0.5
1948	87.3	1.63	135	29.7	160	15.1	None	.9
1947	87.0	1.30	107	27.1	146	13.3	None	.8
1946	80.6	.95	79	24.3	131	12.3	None	.4
1945	(2)	.61	50	23.6	127	11.8	None	.4
1944	(2)	.51	42	22.5	121	11.6	$0.8	.4
1943	(2)	.76	63	22.3	120	12.6	1.0	.4
1942	(2)	.94	78	22.9	123	13.1	1.2	.4
1941	(2)	1.23	102	25.7	138	12.8	1.4	.5
1940	(2)	.78	64	18.4	99	12.2	1.6	.3
1939	(2)	1.21	100	18.6	100	11.9	1.8	.4

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	9.9	5.6	(2)	(2)	(2)
1948	10.8	5.5	27.3	62.0	20.1
1947	9.8	4.8	32.1	58.3	14.9
1946	7.7	3.9	35.4	55.1	11.0
1945	5.2	2.6	(2)	(2)	(2)
1944	4.4	2.3	(2)	(2)	(2)
1943	6.0	3.4	(2)	(2)	(2)
1942	7.2	4.1	(2)	(2)	(2)
1941	9.6	4.8	(2)	(2)	(2)
1940	6.4	4.2	(2)	(2)	(2)
1939	10.2	6.5	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	−8.3	−3.0	+7.3
1947 to 1948	+25.4	+9.6	+13.5
1942–45 to 1948 (average)	+129.6	+30.3	+22.8
1941 to 1948	+32.5	+15.6	+18.0
1939 to 1948	+34.7	+59.7	+26.9

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first half figures projected to an annual rate.
[2] Not available.
[3] None.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserve.

Fact sheet—Rotary Electric Steel Co. and subsidiaries

Ingot capacity 340,000
Number of employees 700

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1945=100)	Amount	Index (1945=100)			
1949 [1]	[2]	$2.64	1056	$21.7	201	$8.4	None	$0.3
1948	94.5	2.50	1000	18.8	174	6.1	None	[3] .3
1947	79.0	.90	360	16.5	153	3.7	$0.7	None
1946	45.8	.48	192	9.9	92	2.9	1.0	None
1945	[2]	.25	100	10.8	100	2.3	1.3	None
1944 [4]	[2]	.18	.....	5.7	.....	1.9	1.1	None
1943 [5]	.....	.....	.....	.....	.....	.....	.....	.....
1942 [5]	.....	.....	.....	.....	.....	.....	.....	.....
1941 [5]	.....	.....	.....	.....	.....	.....	.....	.....
1940 [5]	.....	.....	.....	.....	.....	.....	.....	.....
1939 [5]	.....	.....	.....	.....	.....	.....	.....	.....

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	31.4	12.2	[2]	[2]	[2]
1948	41.0	13.3	17.6	60.6	75.8
1947	24.3	5.5	24.2	65.5	22.5
1946	16.6	4.8	30.3	61.6	16.0
1945	10.9	2.3	28.7	61.1	8.1
1944	18.9	3.1	28.1	57.9	11.3

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+5.6	+15.4	+37.7
1947 to 1948	+177.8	+13.9	+64.9

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [6]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [7]
1949 [1]	.....	None	.....	.....
1948	.....	None	.....	.....
1947	.....	None	.....	.....

[1] Where 1949 is used it refers to first half figures projected to an annual rate.
[2] Not available.
[3] Also a stock dividend valued at $0.5.
[4] 1944 figures are for 6 months only. All indexes and percentages, however, are at an annual rate.
[5] Company began operations in June 1944.
[6] None.
[7] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Northwestern Steel & Wire Co. and subsidiaries

Ingot capacity 321,000
Number of employees 1,825

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year [1]	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [2]	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
1948	89.6	$1.79	3580	$26.8	462	$5.8	None	$0.8
1947	81.3	2.05	4100	21.5	371	4.9	None	1.1
1946	70.1	.62	240	12.8	221	4.5	None	.2
1945	(3)	.22	440	12.8	221	4.0	$0.4	(3)
1944	(3)	.25	500	12.3	212	3.8	.7	None
1943	(3)	.29	580	12.5	216	3.5	.9	None
1942	(3)	.14	280	12.2	210	3.3	.9	None
1941	(3)	.24	480	9.9	171	3.1	1.3	None
1940	(3)	.31	620	7.8	134	2.9	1.6	None
1939	(3)	.05	100	5.8	100	2.9	1.2	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [2]	(3)	(3)	(3)	(3)	(3)
1948	30.9	6.7	25.0	60.4	26.7
1947	41.8	9.5	24.7	55.3	38.7
1946	13.8	4.8	32.8	53.1	14.8
1945	5.5	1.7	(3)	(3)	(3)
1944	6.6	2.0	(3)	(3)	(3)
1943	8.3	2.3	(3)	(3)	(3)
1942	4.2	1.1	(3)	(3)	(3)
1941	7.7	2.4	(3)	(3)	(3)
1940	10.7	4.0	(3)	(3)	(3)
1939	1.7	0.9	(3)	(3)	(3)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved [1]	Net profit (stated)	Sales	Net worth
1948 to 1949 [2]	(3)	(3)	(3)
1947 to 1948	−12.7	+24.7	+18.4
1942–45 to 1948 (average)	+678.3	+114.4	+56.8
1941 to 1948	+645.8	+170.7	+87.1
1939 to 1948	+3,480.0	+362.1	+100.0

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year [1]	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1949 [2]	(3)	(3)	(3)	(3)
1948	[3] 1.79	.17	$1.96	32.8
1947	2.05	.14	2.19	43.4

[1] Years refer to fiscal years ending July 31.
[2] Where 1949 is used it refers to first-quarter figures projected to an annual rate.
[3] Not available.
[4] 1947 and 1946, provision for inventory price decline.
[5] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Follansbee Steel Corp. and subsidiaries

Ingot capacity	136,080
Number of employees	4,000

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common stock dividends
		Amount	Index (1941=100)	Amount	Index (1941=100)			
1949 [1]	[2]	$1.84	409	$35.4	230	$16.3	[2]	$0.6
1948	[2]	2.34	298	36.7	238	15.1	$1.6	1.3
1947	[2]	2.84	631	28.7	186	11.8	None	.8
1946	[2]	1.22	271	17.4	113	8.1	1.8	.1
1945	[2]	.31	69	16.5	107	9.0	None	None
1944	[2]	[3].07	[3]16	14.5	94	8.7	None	None
1943	[2]	.45	100	20.4	132	8.8	.3	None
1942	[2]	.51	113	15.2	99	8.3	1.0	None
1941	[2]	.45	100	15.4	100	7.9	1.5	None
1940 [4]								
1939 [4]								

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	11.3	5.2	[2]	[2]	[2]
1948	15.5	6.4	21.0	55.3	30.4
1947	24.1	9.8	26.8	47.0	36.9
1946	15.1	7.0	29.3	48.9	23.9
1945	3.4	1.9	[2]	[2]	[2]
1944	[3]	[3]	[2]	[2]	[2]
1943	5.1	2.2	[2]	[2]	[2]
1942	6.1	3.4	[2]	[2]	[2]
1941	5.7	2.9	[2]	[2]	[2]

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	−21.4	−3.5	+7.9
1947 to 1948	−17.6	+27.9	+28.0
1942–45 to 1948 (average)	+680.0	+119.8	+73.6
1941 to 1948	+420.0	+138.3	+91.1

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [5]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [6]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to 1st quarter figures projected to an annual rate.
[2] Not available.
[3] Loss.
[4] Figures not comparable.
[5] None.
[6] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Harrisburg Steel Corp.

Ingot capacity 100,750
Number of employees 1,231

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$1.15	1,045	(2)	(2)	$5.5	(2)	$0.3
1948	(2)	1.06	964	$13.3	512	4.6	$0.3	.2
1947	(2)	.12	109	8.8	338	3.8	.4	.1
1946	(2)	.14	127	6.1	235	3.8	None	.2
1945	(2)	.30	273	23.5	904	3.7	None	.2
1944	(2)	.26	236	25.2	969	3.6	None	.2
1943	(2)	.72	655	28.2	1,085	3.5	None	.3
1942	(2)	.63	573	23.6	908	3.1	None	.2
1941	(2)	.89	809	12.7	488	2.6	.4	.3
1940	(2)	.35	318	4.8	185	2.0	None	.2
1939	(2)	.11	100	2.6	100	1.8	None	.04

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	20.9	(2)	(2)	(2)	(2)
1948	23.0	8.0	(2)	(2)	(2)
1947	3.2	1.4	(2)	(2)	(2)
1946	3.7	2.3	(2)	(2)	(2)
1945	8.1	1.3	(2)	(2)	(2)
1944	7.2	1.0	(2)	(2)	(2)
1943	20.6	2.6	(2)	(2)	(2)
1942	20.3	2.7	(2)	(2)	(2)
1941	34.2	7.0	(2)	(2)	(2)
1940	17.5	7.3	(2)	(2)	(2)
1939	6.1	4.2	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+8.5	(2)	+19.6
1947 to 1948	+783.3	+51.1	+21.1
1942-45 to 1948 (average)	+120.8	−47.0	+31.4
1941 to 1948	+19.1	+4.7	+76.9
1939 to 1948	+863.6	+411.5	+155.6

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first-quarter figures projected to an annual rate.
[2] Not available.
[3] None.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—A. M. Byers Co.

Ingot capacity 75,000
Number of employees 2,900

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$2.60	481	(2)	(2)	$22.0	(2)	$0.3
1948	(2)	2.33	431	31.7	473	20.1	----	.2
1947	(2)	1.69	313	25.0	373	18.5	----	.1
1946	(2)	.15	28	13.9	207	17.3	----	----
1945	(2)	1.06	196	18.2	272	17.7	----	.1
1944	(2)	.89	165	24.3	363	16.5	$0.8	.1
1943	(2)	1.15	213	24.2	361	16.2	.8	----
1942	(2)	1.20	222	20.5	306	16.1	----	----
1941	(2)	1.38	256	12.0	179	16.1	----	----
1940	(2)	.66	122	7.1	106	15.9	----	----
1939	(2)	.54	100	6.7	100	14.8	----	----

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries [3]	Materials	
1949 [1]	11.8	(2)	(2)	(2)	(2)
1948	11.6	7.4	31.6	48.6	23.3
1947	9.1	6.8	35.2	44.8	19.2
1946	.9	1.1	41.0	47.5	2.6
1945	6.0	5.8	35.9	52.7	16.3
1944	5.4	3.7	(2)	(2)	(2)
1943	7.1	4.8	(2)	(2)	(2)
1942	7.5	5.9	(2)	(2)	(2)
1941	8.6	11.5	(2)	(2)	(2)
1940	4.2	9.3	(2)	(2)	(2)
1939	3.6	8.1	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+11.6	(2)	+9.5
1947 to 1948	+37.9	+26.8	+8.6
1942-45 to 1948 (average)	+115.7	+45.4	+21.1
1941 to 1948	+68.8	+164.2	+24.8
1939 to 1948	+331.5	+373.1	+35.8

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]	----	None	----	----
1948	----	None	----	----
1947	----	None	----	----

[1] Where 1949 is used it refers to first half figures projected to an annual rate.
[2] Not available.
[3] None.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Universal-Cyclops Steel Corp.

Ingot capacity 54,120
Number of employees 2,400

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	[2]	$1.63	190	[2]	[2]	$13.8	None	$0.5
1948	[2]	1.70	198	$22.2	308	12.7	None	1.0
1947	[2]	1.42	165	17.3	240	11.2	None	.7
1946	[2]	1.19	138	15.3	213	8.2	None	.8
1945	[2]	.73	85	18.3	254	7.8	None	.5
1944	[2]	.98	114	19.9	276	7.5	None	.6
1943	[2]	1.15	134	23.8	331	7.2	None	.8
1942	[2]	2.13	248	24.0	333	7.7	None	.9
1941	[2]	1.75	203	17.3	240	6.5	None	1.0
1940	[2]	1.09	127	11.0	153	5.7	None	.6
1939	[2]	.86	100	7.2	100	5.2	None	.5

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries [3]	Materials	
1949 [1]	11.8	[2]	[2]	[2]	[2]
1948	13.4	7.7	[2]	[2]	[2]
1947	12.7	8.2	[2]	[2]	[2]
1946	14.5	7.8	[2]	[2]	[2]
1945	9.4	4.0	[2]	[2]	[2]
1944	13.1	4.9	[2]	[2]	[2]
1943	16.0	4.8	[2]	[2]	[2]
1942	27.7	8.9	[2]	[2]	[2]
1941	26.9	10.1	[2]	[2]	[2]
1940	19.1	9.9	[2]	[2]	[2]
1939	16.5	11.9	[2]	[2]	[2]

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+4.1	[2]	+8.7
1947 to 1948	+19.7	+28.3	+13.4
1942–45 to 1948 (average)	+36.0	+3.3	+67.1
1941 to 1948	−2.9	+28.3	+95.4
1939 to 1948	+97.7	+208.3	+144.2

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]	$1.63	None	$1.63	11.8
1948	1.70	$0.15	1.85	14.4
1947	1.42	None	1.42	12.7

[1] Where 1949 is used it refers to first quarter figures projected to an annual rate.
[2] Not available.
[3] Accelerated depreciation.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Babcock & Wilcox Co. and subsidiaries

Ingot capacity 50,400
Number of employees 14,442

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	(2)	(2)	(2)	(2)	(2)	None	(2)
1948	(2)	$11.0	917	$149.5	(2)	$54.1	None	[3] $3.4
1947	(2)	6.8	567	105.8	(2)	45.6	None	3.0
1946	(2)	2.0	167	(2)	(2)	36.6	None	1.2
1945	(2)	4.0	333	(2)	(2)	35.6	None	1.2
1944	(2)	2.9	242	(2)	(2)	32.7	None	1.0
1943	(2)	3.1	258	(2)	(2)	30.8	None	1.0
1942	(2)	3.1	258	(2)	(2)	28.7	None	1.0
1941	(2)	4.3	358	(2)	(2)	26.6	None	1.7
1940	(2)	3.6	300	(2)	(2)	24.1	None	.9
1939	(2)	1.2	100	(2)	(2)	21.4	None	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	(2)	(2)	(2)	(2)	(2)
1948	20.3	7.4	35.9	15.3	20.5
1947	14.9	6.4	(2)	(2)	(2)
1946	5.5	(2)	(2)	(2)	(2)
1945	11.2	(2)	(2)	(2)	(2)
1944	8.9	(2)	(2)	(2)	(2)
1943	10.1	(2)	(2)	(2)	(2)
1942	10.8	(2)	(2)	(2)	(2)
1941	16.2	(2)	(2)	(2)	(2)
1940	14.9	(2)	(2)	(2)	(2)
1939	5.6	(2)	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	(2)	(2)	(2)
1947 to 1948	+61.8	+41.3	+18.6
1942–45 to 1948 (average)	+233.3	(2)	+69.1
1941 to 1948	+155.8	(2)	+103.3
1939 to 1948	+816.7	(2)	+152.8

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first quarter figures projected to an annual rate.
[2] Not available.
[3] Plus a stock dividend of 5 percent carried valued at $2.
[4] None.
[5] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—National Supply Co. and subsidiaries

Ingot capacity (capacity at Torrance, Calif., not USW organized)..... 40,950
Number of employees..... 9,792

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	[2]	$9.0	750	$153.2	287	$71.0	$15.0	$2.3
1948	[2]	12.2	1017	160.1	300	65.0	15.0	2.0
1947	[2]	8.6	717	133.6	250	55.2	15.0	1.1
1946	[2]	3.0	250	98.9	185	49.1	11.0	None
1945	[2]	4.0	333	147.0	275	47.5	11.5	None
1944	[2]	4.7	392	167.2	313	59.5	None	None
1943	[2]	5.1	425	140.5	263	56.9	2.6	None
1942	[2]	4.1	342	98.4	184	54.1	5.6	None
1941	[2]	5.7	475	90.6	170	52.3	6.9	None
1940	[2]	1.6	133	60.6	113	51.7	9.4	None
1939	[2]	1.2	100	53.4	100	52.7	9.7	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	12.7	5.9	[2]	[2]	[2]
1948	18.8	7.6	[2]	[2]	[2]
1947	15.6	6.4	[2]	[2]	[2]
1946	6.1	3.1	[2]	[2]	[2]
1945	8.4	2.8	[2]	[2]	[2]
1944	7.9	2.8	[2]	[2]	[2]
1943	9.0	3.6	[2]	[2]	[2]
1942	7.6	4.2	[2]	[2]	[2]
1941	10.9	6.3	[2]	[2]	[2]
1940	3.1	2.7	[2]	[2]	[2]
1939	2.3	2.2	[2]	[2]	[2]

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	−26.2	−4.3	+9.2
1947 to 1948	+41.9	+19.8	+17.8
1942–45 to 1948 (average)	+171.1	+15.8	+19.3
1941 to 1948	+114.0	+76.7	+24.3
1939 to 1948	+916.7	+199.8	+23.3

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first half figures projected to an annual rate.
[2] Not available.
[3] None.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Borg-Warner Corp. and subsidiaries

Ingot capacity (in a UAW organized plant) ---------- 24,000
Number of employees ---------- 24,570

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	(2)	$26.8	470	$315.1	492	$126.1	None	$12.8
1948	(2)	26.2	460	309.3	483	112.8	None	12.3
1947	(2)	20.0	351	258.4	403	96.3	None	7.9
1946	(2)	9.0	158	138.9	217	85.2	None	3.7
1945	(2)	9.0	158	232.3	362	60.8	None	3.7
1944	(2)	8.0	140	253.7	396	55.6	None	3.7
1943	(2)	7.8	137	197.6	308	51.2	None	3.7
1942	(2)	7.2	126	144.2	225	47.2	None	4.7
1941	(2)	7.7	135	119.4	186	44.8	None	4.7
1940	(2)	6.7	118	75.2	117	42.6	None	3.5
1939	(2)	5.7	100	64.1	100	39.8	None	3.1

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries [3]	Materials	
1949 [1]	21.3	8.5	(2)	(2)	(2)
1948	23.2	8.5	(2)	(2)	(2)
1947	20.8	7.7	(2)	(2)	(2)
1946	10.6	6.5	(2)	(2)	(2)
1945	14.8	3.9	(2)	(2)	(2)
1944	14.4	3.2	(2)	(2)	(2)
1943	15.3	3.9	(2)	(2)	(2)
1942	15.3	5.0	(2)	(2)	(2)
1941	17.2	6.4	(2)	(2)	(2)
1940	15.7	8.9	(2)	(2)	(2)
1939	14.3	8.9	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+2.3	+1.9	+11.8
1947 to 1948	+31.0	+19.7	+17.1
1942–45 to 1948 (average)	+227.5	+49.4	+110.1
1941 to 1948	+240.3	+159.0	+151.8
1939 to 1948	+459.6	+382.5	+183

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]	$26.8	None	$26.8	21.3
1948	26.2	3.5	29.7	25.5
1947	20.0	4.5	24.5	24.3

[1] Where 1949 is used it refers to first quarter figures projected to an annual rate.
[2] Not available.
[3] Inventory reserve.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Continental Copper & Steel Industries, Inc., and subsidiaries (formerly Continental-United Industries Co., Inc.)

Ingot capacity	20,730
Number of employees	3,000

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year [1]	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1940=100)	Amount	Index (1940=100)			
1949 [2]	(3)	$1.23	615	$14.1	196	$5.9	$0.9	(3)
1948	(3)	.87	435	12.3	171	3.7	None	0.5
1947	(3)	.46	460	6.1	169	3.1	.2	.2
1946	(3)	.97	485	10.1	140	2.9	.2	None
1945	(3)	.58	290	21.9	304	(3)	(3)	(3)
1944	(3)	.44	220	23.0	319	(3)	(3)	(3)
943	(3)	1.06	530	37.6	522	(3)	(3)	(3)
1942	(3)	.95	475	23.6	328	(3)	(3)	(3)
1941	(3)	.89	445	16.1	224	(3)	(3)	(3)
1940	(3)	.20	100	7.2	100	(3)	(3)	(3)
1939	(3)	[4] .05		5.5		(3)	(3)	(3)

2. SIGNIFICANT RATIOS

Year [1]	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [2]	20.8	8.7	(3)	(3)	(3)
1948	23.5	7.1	29.3	56.1	24.2
1947	29.7	7.5	(3)	(3)	(3)
1946	33.4	9.6	(3)	(3)	(3)
1945	(3)	2.6	(3)	(3)	(3)
1944	(3)	1.9	(3)	(3)	(3)
1943	(3)	2.8	(3)	(3)	(3)
1942	(3)	4.0	(3)	(3)	(3)
1941	(3)	5.5	(3)	(3)	(3)
1940	(3)	2.8	(3)	(3)	(3)
1939	(3)	(4)	(3)	(3)	(3)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved [1]	Net profit (stated)	Sales	Net worth
1948 to 1949 [2]	+41.4	+14.6	+59.5
1947 to 1948	(4)	(4)	(4)
1942–45 to 1948 (average)	+14.5	[4] 53.6	(3)
1941 to 1948	[4] 2.2	[4] 23.5	(3)
1939 to 1948	(4)	+123.6	(3)

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [5]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [6]
1949 [2]		None		
1948		None		
1947		None		

[1] Years refer to fiscal years ending June 30 in 1948 and 1949 and to years ending Dec. 31 for prior years, except 1947 which is a 6-month period ending June 30. All indices and percentages however are at an annual rate.

[2] Where 1949 is used it refers to first 4 months of figures projected to an annual rate.

[3] Not available.

[4] Loss.

[5] None.

[6] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Latrobe Electric Steel Co.

Ingot capacity 12,000
Number of employees 957

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1940=100)	Amount	Index (1940=100)			
1949 [1]	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
1948	(2)	$0.54	115	(2)	(2)	$4.9	None	$0.18
1947	(2)	.43	91	(2)	(2)	4.5	$0.2	.18
1946	(2)	.60	128	(2)	(2)	4.2	.2	.23
1945	(2)	.24	51	(2)	(2)	3.8	.5	.18
1944	(2)	.30	64	(2)	(2)	3.5	.5	.18
1943	(2)	.44	94	(2)	(2)	3.4	.5	.18
1942	(2)	.60	128	(2)	(2)	2.4	None	.23
1941	(2)	.60	128	(2)	(2)	2.9	None	.23
1940	(2)	.47	100	(2)	(2)	2.6	None	.23
1939	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	(2)	(2)	(2)	(2)	(2)
1948	11.0	(2)	(2)	(2)	(2)
1947	9.6	(2)	(2)	(2)	(2)
1946	14.3	(2)	(2)	(2)	(2)
1945	6.3	(2)	(2)	(2)	(2)
1944	8.6	(2)	(2)	(2)	(2)
1943	12.9	(2)	(2)	(2)	(2)
1942	25.0	(2)	(2)	(2)	(2)
1941	20.7	(2)	(2)	(2)	(2)
1940	18.1	(2)	(2)	(2)	(2)
1939	(2)	(2)	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	(2)	(2)	(2)
1947 to 1948	+25.6	(2)	+8.9
1942–45 to 1948 (average)	+35.0	(2)	+48.5
1941 to 1948	−10.0	(2)	+69.0
1939 to 1948	(2)	(2)	(2)

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first quarter figures projected to an annual rate.
[2] Not available.
[3] None.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Acme Steel Co. and subsidiaries

Ingot capacity ..... None
Number of employees 4,060

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	None	$4.8	240	$57.3	329	$27.4	[2]	[3] $4.0
1948	None	7.3	365	60.3	347	26.6	None	4.0
1947	None	7.5	375	55.1	317	23.3	None	4.2
1946	None	4.5	225	39.8	229	19.4	None	3.2
1945	None	2.0	100	41.0	236	18.3	None	1.3
1944	None	2.0	100	41.6	240	17.6	None	1.1
1943	None	2.0	100	35.8	206	16.7	None	1.1
1942	None	1.8	90	27.1	156	15.9	None	1.1
1941	None	3.0	150	37.8	217	15.3	None	1.6
1940	None	2.2	110	20.7	119	13.7	None	1.0
1939	None	2.0	100	17.4	100	11.3	None	.7

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	17.5	8.4	[2]	[2]	[2]
1948	27.4	12.1	[2]	[2]	[2]
1947	32.2	13.6	[2]	[2]	[2]
1946	23.2	11.3	[2]	[2]	[2]
1945	10.9	4.9	[2]	[2]	[2]
1944	11.4	4.8	[2]	[2]	[2]
1943	11.9	5.6	[2]	[2]	[2]
1942	11.3	6.6	[2]	[2]	[2]
1941	19.6	7.9	[2]	[2]	[2]
1940	16.1	10.6	[2]	[2]	[2]
1939	17.7	11.5	[2]	[2]	[2]

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	−34.2	−5.0	+3.0
1947 to 1948	−3.8	+9.4	+14.2
1942–45 to 1948 (average)	+274.3	+65.7	+55.6
1941 to 1948	+143.3	+59.5	+73.9
1939 to 1948	+265.0	+246.6	+135.4

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first quarter figures projected to an annual rate.
[2] Not available.
[3] Also a stock dividend of one additional share for each share held June 15, 1949.
[4] None.
[5] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Aetna-Standard Engineering Co. and subsidiary

Ingot capacity ..... None
Number of employees 889

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year [1]	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1941=100)	Amount	Index (1941=100)			
1949 [2]	None	$0.93	291	$11.9	350	$4.2	None	$0.4
1948	None	.97	303	14.8	435	3.7	None	.2
1947	None	.28	88	10.8	318	3.0	None	.2
1946	None	.20	63	13.3	391	2.9	None	.2
1945	None	.77	241	27.0	794	2.8	None	.2
1944	None	.31	97	13.4	394	2.2	None	None
1943	None	.35	109	15.7	462	1.9	None	.2
1942	None	.47	147	8.0	235	2.0	None	.3
1941	None	.32	100	3.4	100	2.1	1.2	None
1940	None	.09	----	1.1	----	1.7	None	None
1939	None	[3].15	----	1.6	----	1.7	None	None

2. SIGNIFICANT RATIOS

Year [1]	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [2]	22.1	7.8	[4]	[4]	[4]
1948	26.2	6.6	[4]	[4]	[4]
1947	9.3	2.6	[4]	[4]	[4]
1946	6.9	1.5	[4]	[4]	[4]
1945	27.5	2.9	[4]	[4]	[4]
1944	14.1	2.3	[4]	[4]	[4]
1943	18.4	2.2	[4]	[4]	[4]
1942	23.5	5.9	[4]	[4]	[4]
1941	15.2	9.4	[4]	[4]	[4]
1940	10.6	8.2	[4]	[4]	[4]
1939	[3]	[3]	[4]	[4]	[4]

3. PERCENT CHANGES, SELECTED PERIODS

Period involved [1]	Net profit (stated)	Sales	Net worth
1948 to 1949 [2]	−4.1	−19.6	+13.5
1947 to 1948	+246.4	+37.0	+23.3
1942–45 to 1948 (average)	+102.1	−7.5	+68.2
1941 to 1948	+203.1	+335.3	+76.2
1939 to 1948	[3]	+825.0	+117.6

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [5]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [6]
1949 [2]	----	None	----	----
1948	----	None	----	----
1947	----	None	----	----

[1] Figures are for fiscal years ending June 30 with exception of 1939 which ends Dec. 31. In 1940 figures are for 6 months only. All indices and percentages, however, are at an annual rate.
[2] Where 1949 is used it refers to first quarter figures projected to an annual rate.
[3] Loss.
[4] Not available.
[5] None.
[6] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—American Chain & Cable Co. and subsidiaries

Ingot capacity ..... None
Number of employees 8,500

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	None	(2)	(2)	(2)	(2)	(2)	None	(2)
1948	None	$5.8	252	$63.7	262	$32.6	None	$2.1
1947	None	4.0	174	58.1	239	29.1	None	1.5
1946	None	3.2	139	45.1	186	26.7	None	1.6
1945	None	2.7	117	59.8	246	25.2	None	2.0
1944	None	3.2	139	73.9	304	24.8	None	2.0
1943	None	3.6	157	75.8	312	24.2	None	2.0
1942	None	4.0	174	67.8	279	23.1	None	2.0
1941	None	3.8	165	49.3	203	21.4	None	2.0
1940	None	3.0	130	30.2	124	19.9	None	2.0
1939	None	2.3	100	24.3	100	19.2	None	1.0

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	(2)	(2)	(2)	(2)	(2)
1948	17.8	9.1	(2)	(2)	(2)
1947	13.7	6.9	(2)	(2)	(2)
1946	12.0	7.1	(2)	(2)	(2)
1945	10.7	4.5	(2)	(2)	(2)
1944	12.9	4.3	(2)	(2)	(2)
1943	14.9	4.7	(2)	(2)	(2)
1942	17.3	5.9	(2)	(2)	(2)
1941	17.8	7.7	(2)	(2)	(2)
1940	15.1	9.9	(2)	(2)	(2)
1939	12.0	9.5	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	(2)	(2)	(2)
1947 to 1948	+45.0	+9.6	+12.0
1942–45 to 1948 (average)	+70.6	−8.1	+19.8
1941 to 1948	+52.6	+29.2	+52.3
1939 to 1948	+152.2	+162.1	+69.8

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [2]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [3]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first-quarter figures projected to an annual rate.
[2] None.
[3] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—American Steel Foundries and subsidiaries

Ingot capacity ..... None
Number of employees 8,247

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year [1]	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [2]	None	$8.5	607	$84.4	451	$46.5	None	$4.0
1948	None	6.0	429	77.0	412	42.0	None	2.4
1947	None	3.0	214	54.9	294	39.3	None	2.4
1946	None	2.7	193	40.0	214	38.7	None	2.4
1945	None	4.9	350	73.7	394	38.4	None	2.4
1944	None	4.0	286	81.0	433	34.5	None	2.4
1943	None	2.8	200	96.8	518	34.2	None	2.4
1942	None	2.9	207	67.1	359	33.8	None	2.7
1941	None	2.8	264	35.5	253	33.6	None	1.5
1940	None	2.9	207	26.3	141	32.3	None	1.8
1939	None	1.4	100	18.7	100	31.3	None	None

2. SIGNIFICANT RATIOS

Year [1]	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries [3]	Materials	
1949 [2]	18.3	10.1	[3]	[3]	[3]
1948	14.3	7.8	36.8	54.3	21.2
1947	7.6	5.5	42.6	49.9	12.8
1946	7.0	6.8	51.5	38.5	13.1
1945	12.8	6.6	46.7	34.7	14.2
1944	11.6	4.9	46.3	31.4	10.7
1943	8.2	2.9	43.7	34.0	6.6
1942	8.6	4.3	41.0	33.8	10.5
1941	11.0	7.9	38.3	36.1	20.6
1940	9.0	11.0	41.4	45.6	26.6
1939	4.5	7.5	44.4	46.0	16.9

3. PERCENT CHANGES, SELECTED PERIODS

Period involved [1]	Net profit (stated)	Sales	Net worth
1948 to 1949 [2]	+41.7	+9.6	+10.7
1947 to 1948	+100.0	+40.3	+6.9
1942-45 to 1948 (average)	+62.2	−3.4	+19.3
1941 to 1948	+62.2	+62.8	+25.0
1939 to 1948	+328.6	+311.8	+35.0

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1949 [2]		None		
1948		None		
1947		None		

[1] Figures are for fiscal years ending Sept. 30 except for 1940 and 1939 which end Dec. 31 and 1941 which is 9 months ending Sept. 30. All indices and percentages, however, are at an annual rate.
[2] Where 1949 is used it refers to first 9 months figures projected to an annual rate.
[3] Not available.
[4] None.
[5] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Blaw-Knox Co. and subsidiaries

Ingot capacity ..... None
Number of employees 6,670

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	None	$3.7	370	$68.4	220	$30.2	[2]	$1.4
1948	None	4.1	410	68.7	524	27.9	None	1.7
1947	None	3.0	300	55.6	424	24.6	None	1.5
1946	None	3.4	340	46.1	352	23.0	None	1.2
1945	None	3.3	330	141.5	1,080	20.6	None	1.1
1944	None	2.2	220	125.5	958	18.3	None	.9
1943	None	1.9	190	113.3	865	17.1	None	.8
1942	None	1.4	140	65.2	498	16.0	$2.1	.5
1941	None	1.7	170	30.8	235	15.0	2.4	.8
1940	None	1.4	140	18.5	141	14.1	2.7	.3
1939	None	1.0	100	13.1	100	13.7	None	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	12.3	5.4	[2]	[2]	[2]
1948	14.7	6.0	41.0	34.5	14.5
1947	12.2	5.4	43.9	31.7	12.3
1946	14.8	7.4	[2]	[2]	[2]
1945	16.0	2.3	[2]	[2]	[2]
1944	12.0	1.8	[2]	[2]	[2]
1943	11.1	1.7	[2]	[2]	[2]
1942	8.8	2.1	[2]	[2]	[2]
1941	11.3	5.5	[2]	[2]	[2]
1940	9.9	7.6	[2]	[2]	[2]
1939	7.3	7.6	[2]	[2]	[2]

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	−9.8	−0.4	+8.2
1947 to 1948	+36.7	+23.6	+13.4
1942–45 to 1948 (average)	+86.4	−38.3	+55.0
1941 to 1948	+192.9	+123.1	+86.0
1939 to 1948	+310.0	+424.4	+103.6

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first quarter figures projected to an annual rate.
[2] Not available.
[3] None.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Mackintosh-Hemphill Co.

Ingot capacity ..... None
Number of employees 656

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year [1]	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1941=100)	Amount	Index (1941=100)			
1949 [2]	None	[3]	[3]	$6.9	[3]	[3]	[3]	[3]
1948	None	$0.68	219	6.4	[3]	$4.0	None	$0.2
1947	None	.23	74	4.0	[3]	2.5	None	.1
1946	None	.03	10	3.2	[3]	4.2	None	.1
1945	None	.11	35	[3]	[3]	4.3	None	.1
1944	None	.20	65	[3]	[3]	4.3	None	.1
1943	None	.23	74	[3]	[3]	4.2	None	.1
1942	None	.26	84	[3]	[3]	4.0	None	.2
1941	None	.31	100	[3]	[3]	3.9	$0.1	.1
1940	None	[3]		[3]	[3]	3.5	.3	[3]
1939	None	[3]		[3]	[3]	3.1	.4	[3]

2. SIGNIFICANT RATIOS

Year [1]	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [2]	[3]	[3]	[3]	[3]	[3]
1948	17.0	10.6	[3]	[3]	[3]
1947	9.2	5.8	[3]	[3]	[3]
1946	.7	.9	[3]	[3]	[3]
1945	2.6	[3]	[3]	[3]	[3]
1944	4.7	[3]	[3]	[3]	[3]
1943	5.5	[3]	[3]	[3]	[3]
1942	6.5	[3]	[3]	[3]	[3]
1941	7.9	[3]	[3]	[3]	[3]
1940	[3]	[3]	[3]	[3]	[3]
1939	[3]	[3]	[3]	[3]	[3]

3. PERCENT CHANGES, SELECTED PERIODS

Period involved [1]	Net profit (stated)	Sales	Net worth
1948 to 1949 [2]	[3]	+7.8	[3]
1947 to 1948	+195.7	+60.0	+60.0
1942-45 to 1948 (average)	+240.0	[3]	−4.8
1941 to 1948	+119.4	[3]	+2.6
1939 to 1948	[3]	[3]	+29.0

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year [1]	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1949 [2]		None		
1948		None		
1947		None		

[1] Figures are for fiscal years ending Aug. 31.
[2] Where 1949 is used it refers to quarterly SEC figures projected to an annual rate.
[3] Not available.
[4] None.
[5] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Pittsburgh Screw & Bolt Corp.

Ingot capacity ..... None
Number of employees 2,930

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	None	$3.07	579	(2)	(2)	$14.0	None	$1.1
1948	None	2.97	560	$31.0	352	12.0	None	1.6
1947	None	2.48	468	27.1	308	10.6	None	1.5
1946	None	1.22	230	17.5	199	9.7	None	.6
1945	None	1.05	198	19.9	226	9.0	None	.6
1944	None	.87	164	23.3	265	8.6	None	.6
1943	None	1.15	217	22.5	256	8.5	None	.6
1942	None	.97	183	22.0	250	8.1	None	.7
1941	None	1.25	236	19.2	218	7.8	None	.9
1940	None	.86	162	11.0	125	7.4	None	.7
1939	None	.53	100	8.8	100	7.2	None	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]	21.9	(2)	(2)	(2)	(2)
1948	24.8	9.6	(2)	(2)	(2)
1947	23.4	9.2	(2)	(2)	(2)
1946	12.6	7.0	(2)	(2)	(2)
1945	11.7	5.3	(2)	(2)	(2)
1944	10.1	3.7	(2)	(2)	(2)
1943	13.5	5.1	(2)	(2)	(2)
1942	12.0	4.4	(2)	(2)	(2)
1941	16.0	6.5	(2)	(2)	(2)
1940	11.6	7.8	(2)	(2)	(2)
1939	7.4	6.0	(2)	(2)	(2)

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	+3.4	(2)	+16.7
1947 to 1948	+19.8	+14.4	+13.2
1942–45 to 1948 (average)	+194.1	+41.6	+39.5
1941 to 1948	+137.6	+61.5	+53.8
1939 to 1948	+460.4	+252.3	+66.7

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [3]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [4]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to first-quarter figures projected to an annual rate.
[2] Not available.
[3] None.
[4] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Fact sheet—Superior Steel Corp.

Ingot capacity ..... None
Number of employees 1,310

1. SELECTED MEASURES OF OPERATIONS

[All dollar figures are in millions]

Year	Operating rate percent of capacity	Net profit (stated)		Sales		Net worth	Long-term debt	Common-stock dividends
		Amount	Index (1939=100)	Amount	Index (1939=100)			
1949 [1]	None	[2] $0.42	−233	$18.8	313	[3]	[3]	[3]
1948	None	.97	539	18.8	313	$7.1	None	$0.35
1947	None	1.11	617	16.7	278	6.5	None	.35
1946	None	.98	544	14.2	237	5.7	None	.19
1945	None	.28	156	13.9	232	3.8	None	.14
1944	None	.35	194	17.6	293	3.7	None	.14
1943	None	.56	317	23.0	383	3.5	None	.14
1942	None	.44	244	15.2	253	3.6	None	None
1941	None	.65	361	13.4	223	2.6	$0.6	None
1940	None	.35	194	8.2	137	2.0	1.4	None
1939	None	.18	100	6.0	100	1.6	1.6	None

2. SIGNIFICANT RATIOS

Year	Return on net worth (percent)	Sales dollar (percent)			Net profit as percent of wages and salaries
		Net profit	Wages and salaries	Materials	
1949 [1]			[3]	[3]	[3]
1948	13.7	5.2	[3]	[3]	[3]
1947	17.1	6.6	[3]	[3]	[3]
1946	17.2	6.9	[3]	[3]	[3]
1945	7.4	2.0	[3]	[3]	[3]
1944	9.5	2.0	[3]	[3]	[3]
1943	16.0	2.2	[3]	[3]	[3]
1942	12.2	5.7	[3]	[3]	[3]
1941	25.0	4.9	[3]	[3]	[3]
1940	17.5	4.3	[3]	[3]	[3]
1939	11.3	3.0	[3]	[3]	[3]

3. PERCENT CHANGES, SELECTED PERIODS

Period involved	Net profit (stated)	Sales	Net worth
1948 to 1949 [1]	−143.3		[3]
1947 to 1948	−12.6	+12.6	+9.2
1942–45 to 1948 (average)	+136.6	+8.0	+102.9
1941 to 1948	+49.2	+40.3	+173.1
1939 to 1948	+438.9	+213.3	+343.8

4. PROPER ADJUSTMENTS TO STATED NET PROFITS

[All dollar figures are in millions]

Year	Net profit (stated)	Adjustment [4]	Net profit (adjusted)	Net profit (adjusted) as percent of net worth [5]
1949 [1]		None		
1948		None		
1947		None		

[1] Where 1949 is used it refers to 1st quarter figures projected to an annual rate.
[2] Loss.
[3] Not available.
[4] None.
[5] Net worth for this purpose includes stockholders' equity revised to include selected reserves.

Mr. HUBER (presiding). Thank you, Mr. Brubaker.

Mr. BRUBAKER. I would like to thank you for your very great patience while we have gone over an extremely long document and one which has an awful lot of facts and figures which I am sure are a little bit difficult to digest in a quick and hurried reading.

I would welcome any questions which the committee wants to put to me. I will be glad to make myself available for questioning from now until doomsday, starting right now, or starting tomorrow morning, or starting any time at the committee's convenience.

Mr. HUBER. Senator Flanders has a few questions.

Senator FLANDERS. I have some questions.

I find very, very little to question in your document itself without raising the questions with the steel companies, but there are one or two over-all questions I would like to ask you. They are policy questions, and it was because I had some policy questions in mind that I was disturbed that we did not have the active policy heads of the steelworkers union available. I am going to ask them of you nevertheless.

Mr. BRUBAKER. Proceed; and I will be happy to try to answer them if I can.

Senator FLANDERS. One of them is this: On the face of it, it is an assumption of each individual group in organized labor for each individual industry that it can ask this 10 cents increase in the form of a pension and so forth, and it is the most modest thing we have seen. At other times it has been 25 cents an hour or even higher. And the assumption of each unit of organized labor and each industry has apparently been that that industry can pay that much without raising prices or doing anything else, and it is usually able to make a demonstration of its ability which looks pretty good on the face of it and almost convinces the public.

But what worries me is this: The latest figures for corporate profits and so forth for the year 1949, or the estimate in the report of the Council of Economic Advisers, they suggest that for 1949 corporate profits before taxes will run about $27,600,000,000; that the taxes will run about $10,900,000,000; that the profits after taxes will be about $16,700,000,000, that about equally divided between dividend payments and undistributed profits.

Here is the thing that has been worrying me. Let's take that very modest increase in wage costs of 10 cents an hour distributed over 2,000 hours a year for each worker. That makes about $200. I do not know just what the number of workers in industry is. There are around 60,000,000 workers altogether. That includes farm labor, I suppose self-employed, and certainly a large part of which is not organized. But that is aside from the point. Take half of it. Take 30,000,000 people successfully getting 10 cents an hour more in one form or another.

We have something here, some figures. And the amount of agricultural industries—around 50,000,000. If they were all organized, if they were all successful, you have your 10 cents an hour amounting to $10,000,000,000. I may have slipped up a decimal point one way or the other but I do not think so. And you have presumably $10,000,000,000 off your corporate profit. That makes $17,600,000,000 if the

whole of industry were organized and if all were successful in getting what some get.

Your corporate profits presumably would go from $27,600,000,000 down to $17,600,000,000. You say at once the taxes would go down proportionately, but they cannot. We have to have those taxes and have got to get that amount from industry because there is not any other place to get it. So we would have to raise the tax rates in that case, and that ten-billion-odd would have to come out of corporate profits after taxes. And that would leave $6,700,000,000, if my figures are right, instead of $16,700,000,000. And then your dividend payments would be reduced so greatly that the tax-payment capacity of the individual so largely derived from business would be reduced. And your undistributed profits, I am sure, would be insufficient for reinvestment to increase productivity and raise the cost of living.

The question I am posing to you is this: Are you not working on the basis that what you are doing is all right so long as everybody does not get it? That is the point.

Mr. BRUBAKER. No, Senator.

Senator FLANDERS. I am just looking at what happens if everybody gets it.

Mr. BRUBAKER. That is a long question, and I suppose would take a long, long answer to try to give you all of the facts on it. I do not have before me these industry figures you are working with at the moment. I understand there are a substantial number of people already covered by pension plans, for instance.

Senator FLANDERS. I am talking about rounds of increases, whether pensions or by wages.

Mr. BRUBAKER. Let's look at this: We do not go to an industry every year—let us say we are the bargaining agency in an industry and that industry comes upon hard times in a year. We do not go into that industry and ask for a wage increase even if another industry or lots of industries in the economy are making out very well and their people are asking and getting increases. In my CIO experieince I could give you several examples, if you want, of unions which in 1949 and 1950 are not going in to their industries to ask for increases and benefits of any sort, pensions or otherwise.

Why? Because they do not feel that they ought to do so as a policy matter this year. I think you will find, if you will do some checking so far as figures are available—and I admit they are not as adequate as they should be—these rounds of wage increases you are talking about have affected a far fewer number of people than anybody imagines, and each successive round has hit far fewer people. There is a consideration and a very real consideration on the part of union policy as to the condition of the companies in the industry which it bargains in before it goes in and asks for wage increases.

I think it would be doing a gross injustice to careful consideration of the problem here if we even left any suggestion that the unions, for instance, ignore those facts. We cannot ignore them; they are the hard facts of life in our industry.

When we come constantly in a situation where a company claims they cannot afford a particular increase that may be going the round in their own industry, we are prepared and do sit down with that com-

pany and look at their own facts and figures if they are willing to bring them out, and base the case on that and make the decision accordingly.

Senator FLANDERS. I am agreeing with what you are saying now because we have on record cases in which organized labor has not pushed for wage increases in industries that were in trouble.

I still, however, am wondering whether what you are saying does not denote the unwisdom of suggestions, from no matter how high the source, that in general wages at such and such a time can be raised without any harmful effect on prices or profits or anything else. There has to be discrimination, and you have just expressed the necessity for discrimination and the practice of discrimination. And I agree with it and know that you have practiced it.

Mr. BRUBAKER. I assure you, sir, there cannot be the lack of harmful effects from wage increases if—and I say it is an awful big "if"—the companies which can afford to absorb costs like this steel industry that I have been talking about to you today, are unwilling to even try to absorb those costs in order to have these big corporate profits you are talking about, bear some reasonable relationship either to their sales investments or to something or even to reasonable margin per unit of output. Those relationships do not exist today, and there is not in our economy apparently the balance wheel which decides who gets what part of what. And the bonus that is put on labor constantly, that labor should forego its wage increases because, if it does take them, prices are going to go up, just is utterly unfair and unfounded as a general proposition because the companies just will not attempt even to absorb where they clearly can. I suggest to you, for instance, a company like General Motors. I hope the representative of the automobile workers, who is here, is going to give General Motors a ride before he gets done. I think it is certainly deserving of one. It has taken a distortional amount of profit per unit, per anything you want, out of our economy in the last 2 or 3 years, and yet is that a reason why we should say to the auto workers, "Don't go into General Motors and ask for a wage increase because they will raise the price of Chevrolets?"

Senator FLANDERS. You are leading very nicely into my second question. I was speaking in my first question of the endeavor which you have not made to extend a level price increase of some sort over all industry. But do you not find to some extent in the steel industry, and, perhaps, to a greater extent, in the automobile industry, the regretful result of applying what General Motors can do in the way of wage rise to smaller companies, less efficient companies, who find a great deal more difficulty in doing it? Do you not have to make in all justice the same differentiation within an industry which you make with regard to all industry as a whole?

Mr. BRUBAKER. And I assure you, sir, that in our bargaining relations in every CIO union I know of there is a very considerable amount of differentiation within an industry on the basis of what individual companies can do. I do not pretend there is any one relationship as such, because there is certainly a tremendous amount of difference in the way we handle and the way we settle with different companies in an industry.

Senator FLANDERS. In the steel industry, are you or are you not—not in form, but in actual results—expecting to work on the basis of industry-wide bargaining? I think you have no industry-wide agreement. The bargaining is with individual companies, but will your members be satisfied in the smaller and less prosperous company to have smaller wages?

Mr. BRUBAKER. I am very delighted you have asked me that question and I will do my best to give you an honest and full answer if you will give me a chance. It may take a little while.

You are quite right; we do negotiate straight agreements with each company. We do not bargain with any kind of an industry association or anything of that sort. It is entirely possible that bargaining might be a whale of a lot easier if that were true. It is not true in our industry and we are not attempting to bargain in that fashion.

I only wish, Senator, that you could have sat, as a few of us did, with a number of these various steel companies and bargained with them about their own straight agreements—not just before Bethlehem settled, or before United States Steel settled, but long after. We not only signed separate agreements with these companies but signed agreements which are different in many very substantial points.

In pension agreements, it is true the benefits under nearly all of the agreements are the same, but there are a great number of differences, however, in a lot of other important items that go to make up those very pension plans which everybody assumes are cut on the Bethlehem pattern. That is just not true. There are companies we are settling with this year for wage increases where we are not asking for a pension program. There are companies we are settling with this year for no wage increase, just for an extension of our contract period and it would be a grave mistake to assume that we even insist on uniformity. It is true we try to achieve uniformity. That has been a long-time ambition of not only labor but of industry and of a lot of others, to try to get some uniformity of wage levels. We have tried in our industry to wipe out geographic differentials, for instance, but we still have them.

The steel workers down in Alabama are paid a lot less than the steel workers up in Pennsylvania, but even in Pennsylvania we have companies over here in Coatesville or Conshohocken, or a number of other places I can mention to you—Harrisburg—where steel workers get an awful lot less per hour worked than they do out in Pittsburgh with the major companies. And we bargain with them for what we think is sound and best in terms of the individual bargaining situation.

For anybody to term what we do with those companies "industry-wide" bargaining—and I know you have not—but for anyone to do it is just a gross misunderstanding of how the bargainings are conducted in the first place, and how we actually settle with them in the second place, and the kind of settlements we have on record.

I went down to the Wage and Hour Division—rather, the Public Contracts Division—of the Department of Labor last year, arguing for the setting of rates in the steel industry for Walsh-Healey contracts, and I must confess I was amazed myself when I attempted to work up the material showing the different rates we had in effect in the steel industry, just the basic rates, minimum rates, in effect.

There was a tremendous disparity within individual areas and all over the map. We got it there.

Then I went back to check on some of them, how could they possibly be so large, and I found we settled during the 18½-cent period with some of the companies for 15 cents and some for 12 cents. We have tremendous disparity in the industry, both in wages and method of bargaining and in the kinds of settlements we reach.

Senator FLANDERS. I think, sir, the witness has answered my questions. I am not going to question him on the specific situations in that respect with regard to the prosperous and the thin-margined automobile companies, because he has no responsibility for them and I do not think it would be fair to do so.

Mr. HUBER. Judging by the length of the last questions and the last answers, it would not be a "Yes" or "No" answer.

Mr. BRUBAKER. These are not "Yes" or "No" questions.

Mr. BUCHANAN. That included noncorporate workers as well as the corporate workers?

Senator FLANDERS. Yes.

Mr. BUCHANAN. Of course, the corporate workers would only be about 20,000,000.

Senator FLANDERS. Are you sure of that?

Mr. BUCHANAN. In manufacturing we have about 13,744,000, transportation and public utilities about 3,896,000, mining about 937,000, some out of contract construction, possibly some out of finance and service. Then the total corporate profits before taxes, page 21, total is $26,600,000,000, and rental income total is $45,700,000,000, and added together, of course, to divide among that total number of corporate workers, it puts it up to $73,300,000,000.

Senator FLANDERS. I realize that particularly, for instance, in that column of trade you have a lot of noncorporate small shops, small stores.

Mr. BUCHANAN. Government alone is about 6,000,000, Federal, State, and local, 5,783,000.

Senator FLANDERS. This is given on page 7 as about 9,500,000, but there is still a tremendous lot of people who either are covered by union membership or are candidates for being so.

Mr. BUCHANAN. I would say the figure would aggregate about 20,000,000.

Senator FLANDERS. I think it would be higher, but I very pleasantly disagree with you at this hour in the evening.

Mr. HUBER. Assuming the increase of 10 cents an hour would be disastrous, would it be just as disastrous to cut everybody 10 cents an hour?

Senator FLANDERS. None of us is arguing for that.

Mr. BUCHANAN. I might say in closing, Mr. Chairman, we regret we did not have this paper at the beginning. We would have had better fodder.

Mr. BRUBAKER. We did not have, sir, the several months to consider this matter that the companies did on their price increase. We had to work from about a 2-week schedule here to get together what we could in a big hurry.

Mr. BUCHANAN. I know it is not your fault, but it is a situation that arises out of these types of hearings.

Mr. HUBER. Whether the members of the committee agree or disagree with your figures, I know they will all compliment you on your fine method of presentation.

Mr. BRUBAKER. Thank you, sir.

Mr. HUBER. I might announce the schedule for tomorrow will be Mr. Alfred Neal, vice president, Federal Reserve Bank of Boston, will be the first witness; Mr. A. B. Homer, president of the Bethlehem Steel Corp.; Mr. John N. Marshal, chairman, Granite City Steel Co.; W. H. Colvin, Jr, president, Crucible Steel Co. of America; and Mr. Donald Moontgomery, director of the Washington office of UAW-CIO.

We will be in this same room at 10 o'clock.

(Whereupon, at 5:25 p. m., the hearing was adjourned to reconvene on Friday, January 27, 1950, at 10 a. m.)

DECEMBER 1949 STEEL PRICE INCREASES

FRIDAY, JANUARY 27, 1950

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

The joint committee met, pursuant to adjournment, at 10:10 a. m., in room 362, Old House Office Building, Senator Joseph C. O'Mahoney (chairman) presiding.

Present: Senators O'Mahoney (chairman), Sparkman, Douglas, and Flanders; Representatives Patman, Huber, Buchanan, Herter, and Rich.

Also present: Representative Chase Going Woodhouse, Representative Norris Cotton, Representative Donald W. Nicholson, Representative John W. Heselton, Representative Foster Furcolo; Theodore J. Kreps, staff director; Grover W. Ensley, associate staff director; and Fred E. Berquist of the committee staff.

The CHAIRMAN. The committee will come to order, please.

Let me begin the record this morning by reading several letters which have come to the chairman.

This letter is from Senator Brien McMahon, of Connecticut, dated January 5, 1950, and received by the chairman.

DEAR SENATOR O'MAHONEY: I wish to commend the Joint Committee on the Economic Report, of which you are chairman, for its decision to explore current steel prices and their effect on the national economy. This inquiry should yield fruitful results.

I am especially pleased that you have asked to appear, as a witness, Dr. Alfred C. Neal, vice president of the Federal Reserve Bank of Boston, who is in a position to offer facts and figures which should prove of substantial value to the work of the committee. Dr. Neal is an eminent economist who is thoroughly familiar with the steel situation both nationally and locally.

For some time past, the New England Council has sponsored an effort to locate in New England a steel mill of sufficient size to help meet the growing demands for steel in that area.

New England has an abundance of metal-fabricating plants which are vital to its continued prosperity and the undisputed fact is that New England has been handicapped by a lack of sufficient steel for many years past. This has placed a severe hardship upon the economy of the whole New England area.

There are now available around the rim of the Atlantic Ocean ore deposits which are more than sufficient in size and quality to supply a New England steel mill at prices substantially below those now prevailing in the steel industry. New England has the financial resources and the available markets. There is every economic reason why a steel plant should be located in New England to meet the needs of an expanding economy.

Our system of private enterprise cannot be static; it must be dynamic to meet the growing needs of our people. A steel mill in New England would not constitute a threat to present steel facilities; on the contrary, it would complement those now in existence.

The New England Council has sought the cooperation of those producing steel companies which possess the experience and technical skills to operate a steel

mill of the proposed scope. This policy was adopted in the belief that the project would be mutually advantageous and a wholesome development for the Nation's economy.

It is unpleasant but true that there has developed what seems to be a concerted effort among leading steel producers to oppose the development of a steel mill in New England. This opposition is based, not upon economic grounds, but upon reasons which certainly will bear the most careful scrutiny by your committee. I believe it is beyond dispute that the normal economic growth of the Nation must not be impeded by artificial restraints imposed by a small group of willful men.

In a recent message, President Truman wished the New England Council "every success in working out a satisfactory arrangement with the steel companies." The Chief Executive thus expressed the universal belief that the operation of a steel mill in New England, under private auspices, would be a healthy thing for the economy of the United States.

Steel is the hard core of modern industrial life. In a very real sense, the availability of steel expands or retards our national prosperity. Steel in sufficient quantities at reasonable prices is vital to the growth and development of New England.

I may add that New England will have a steel mill, despite the outspoken or undercover hostility of special interests which may oppose it. But I believe your committee will perform a distinct public service by placing the facts before the public.

With best wishes,

Sincerely yours,

BRIEN MCMAHON,
United States Senator.

Mr. RICH. May I ask the Senator a question? Do you know who the willful men are that he speaks of that will not permit a steel mill to be brought in New England?

The CHAIRMAN. I think that Senator Brien McMahon is the person to whom that question should be addressed.

Mr. RICH. Will you have him answer that and place it in the record?

The CHAIRMAN. I shall be glad to have you ask him that, Congressman Rich.

I have a letter from another New England Senator, Senator Styles Bridges of New Hampshire, dated January 13, 1950. This also is addressed to the chairman:

DEAR SENATOR O'MAHONEY: I should like to call to your attention, as chairman of the Joint Committee on the Economic Report, and in connection with your decision to explore current steel prices and their effect on the national economy, that at the time this inquiry is conducted, I hope you will give consideration to the need for their desirability of a steel mill in the New England area.

Although New England has long been a leader in the steel-fabricating industry, there has never been a mill in our section producing high-quality steel in sufficient quantity to meet the needs of our expanding industry. Inasmuch as I understand that there is some opposition to the establishment in New England on the part of the steel-producing companies, I, nevertheless, feel that our national security demands not only that we increase our steel productivity, but also that we disburse our steel-producing industry over as wide an area as possible.

I am sure you are thoroughly familiar with the fact that high-quality ore is available to New England as a result of recent discoveries in the North Atlantic area. New England, therefore, seems to me to be an excellent place to establish new steel-production facilities, and in this regard I suggest to you that New Hampshire is ideally situated as a place to establish a new mill. I hope that you and your committee will thoroughly explore the feasibility of establishing a mill in New England, and will give thoughtful consideration to the facilities available in New Hampshire.

Sincerely yours,

STYLES BRIDGES.

There is a letter from Senator Henry Cabot Lodge, of Massachusetts, to the same effect. And I might add that Senator Lodge spoke to me on the floor of the Senate last week, urging that the investigation proceed as diligently as possible within our facilities.

I have here a letter dated January 25 from the senior Senator from Massachusetts, Leverett Saltonstall, addressed to the chairman:

DEAR SENATOR O'MAHONEY: I believe you are now holding various hearings and tomorrow, I am told, you are going to hear Mr. Alfred Neal, of the Federal Reserve Bank of Boston, discuss New England. I do not know what Mr. Neal will say, but he has an excellent reputation, and I am sure that he will be able to discuss New England in a very factual way.

You no doubt have read of the question of the erection of a steel plant in New England, and I enclose a booklet prepared by the Commonwealth of Massachusetts, which I think may be of interest to you and your committee. If you would care to have any additional copies, I will be glad to obtain them and send them to you.

Sincerely yours,

LEVERETT SALTONSTALL,
United States Senator.

Congresswoman Woodhouse, of Connecticut, has also indicated her interest in this matter and has appeared at several of the hearings.

The booklet to which Senator Saltonstall referred is a very excellent job of printing, I may say, in colors, including many maps. I have asked Senator Saltonstall to see that members of the committee have such additional copies as they may desire.

Mr. RICH. Mr. Chairman?

The CHAIRMAN. Yes.

Mr. RICH. Are we going to have a hearing today with the idea that we are going to try to build a steel mill in New England? Is that the object of our hearing today? If it is, it is the first time I have known anything about it.

The CHAIRMAN. The Chair has no objective, sir. We are hearing those who have expressed an interest and a desire to be heard with respect to what is happening in the steel industry.

Mr. RICH. I thought we were investigating steel prices.

The CHAIRMAN. Yes, we are. And one of the facets of that investigation, sir, is that the major steel companies so manipulate the price as to suppress competition and to retard the development of those areas of the country which do not serve the interests of the steel companies themselves.

Mr. RICH. If you listened to the witness yesterday from the CIO, he claims that the steel industry is so profitable and they are making so much money. And if those steel companies do not want to go up in New England or any place else and build a steel mill, what is the matter with the people of New England building a steel mill?

Mr. PATMAN. Mr. Chairman, for the record, I do not desire to impugn or question the motives of any person who is sponsoring the basing-point system, and I certainly would not question our honorable and distinguished chairman of this committee who sincerely believes that the bill he has proposed should become a law. But I do insist that the existing steel companies do not want a steel mill in New England, and they are going to do everything within their power to prevent a steel mill in New England.

If the basing point is not legalized, private capital can safely go in there and establish this mill. It will have some protection and some

security. But if the basing point is returned to and legalized, a mill in New England would not have a dog's chance because they could cut the price—put them out of business. They would not have a chance.

As evidence of the fact they will do that, the steel companies are also in the cement business, and you can see ghosts of cement companies all over the United States where they have been put out of business in a similar way, and if the New England people want a steel mill, the best thing they can do right now is to stop in its tracks this effort to legalize the basing-point system.

The CHAIRMAN. The chairman of this committee occupies a very difficult position between the Congressman from Pennsylvania on his right and the Congressman from Texas upon his left. Both are in opposition to the chairman but on entirely different grounds.

Mr. RICH. I am for you 100 percent, sometimes.

The CHAIRMAN. The Congressman from Pennsylvania desires to argue with the witnesses; the Congressman from Texas desires to argue with the chairman. I am interested in trying to get the facts before the record.

Mr. Neal, would you be good enough to introduce yourself to the committee?

Pardon me. Before you do, I should have noted that Congressman Norris Cotton, of New Hampshire, and Congressman Donald W. Nicholson, of Massachusetts, are present today. We are very happy to welcome you here, gentlemen, and you may participate in the questioning, if you so desire.

Dr. Neal.

STATEMENT OF ALFRED C. NEAL, VICE PRESIDENT AND DIRECTOR OF RESEARCH, FEDERAL RESERVE BANK OF BOSTON, ON BEHALF OF THE NEW ENGLAND COUNCIL STEEL COMMITTEE

Mr. NEAL. Mr. Chairman, I am here on behalf of the New England Council Steel Supply Committee.

By way of introduction, I might say that I have listened these last 3 days to a most informative hearing, and I am here in a sense to offer a New England compromise among various interests.

The CHAIRMAN. Now, before you offer your compromise, Dr. Neal, may I ask you to state who you are, what you do, what your affiliations are, and what your qualifications may be to testify on this matter?

Mr. NEAL. I am vice president and director of research of the Federal Reserve Bank of Boston. I am, in another capacity, economist for the New England Council Steel Supply Committee.

I am an economist and have been all my adult life; have written books and articles in the field, and have dealt specifically in one of these books with the problem of economic concentration which is involved in this matter.

The CHAIRMAN. What is the New England Council?

Mr. NEAL. The New England Council is an organization of business and professional men, and representative also of labor groups in the area, agricultural interests, set up and dedicated to the purpose of promoting better understanding of the New England region and a greater unity within the region.

The CHAIRMAN. They are striving to develop New England?

Mr. NEAL. I should say they are striving to develop New England, among other things, sir.

The CHAIRMAN. Very well, sir, you may proceed.

Mr. NEAL. Well, this New England compromise that I speak of would make it possible for the steel industry to have the higher prices which it says it needs, but for consumers to get lower-cost steel. And I think that in a nutshell is the bearing of what I have to say upon the subject that your committee is investigating.

We propose to show:

1. That New England's steel-using industries, despite the fact that they accounted for almost three-quarters of the growth in manufacturing in New England since prewar, are seriously handicapped by the cost and supply of steel now available to them.

2. That New England, eastern New York State, New York City, and northern New Jersey would be relieved of the handicap of high-cost steel by the establishment of an integrated steel mill in New England.

3. That there is a close relationship between these two points and the recent increases in the price of steel, which I will bring out toward the end of this statement if you will bear with me.

The establishment of an integrated steel mill would make it possible for this area to participate more fully in the Nation's economic growth during the years to come and would further make it possible for this area to absorb a much larger volume of imports and so contribute more fully to meeting the requirements of our present international position.

To demonstrate that New England and the territory adjacent to it are currently handicapped by the cost of steel, and to demonstrate further that this cost handicap can be removed by the establishment of an integrated mill, it will be necessary to prove the following points:

1. That steel users in New England and the territory adjacent to it are presently under a cost handicap in their steel supply.

2. That there is sufficient market to justify the establishment of an integrated steel mill with a capacity of approximately one and one-quarter million tons of ingots. This is the size mill that we are advised would be necessary for efficiency for the type of products most needed by the market.

In a sense, then, this size mill would be small business in the integrated steel industry.

3. That 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.

4. That conditions unrelated to the cost handicap of steel consumers, the market advantage of the New England and adjacent area, and the cost and profitability of the proposed mill have so far prevented the establishment of this mill in New England.

The cost handicap for New England steel consumers: I shall now take up each of these points in turn, beginning with the present position of steel consumers in the New England area. It should be understood at the outset that New England and the area adjacent to it is an area of deficit steel supply. There is not in this area any integrated steel mill, and there is very little nonintegrated steel produc-

tion. The types of steel which bulk largest in the consumption of the area must be brought in from outside. The nearest mills are those at Sparrows Point, Md.; Buffalo, N. Y., and Bethlehem, Pa. Since the mill at Bethlehem does not make products with which we are most concerned, for practical purposes we can concentrate upon the sources of supply at Sparrows Point, Buffalo, and points farther away.

Steel consumers in New England and the adjacent territory must buy their steel from these mills and pay freight from them to their own consuming points. These freight rates put New England consumers at a decided cost handicap. For example, it costs with today's freight rates $10.20 per ton to bring steel from Sparrows Point to New Haven, Conn.; $11.60 from Sparrows Point to Worcester, Mass.; and $12.60 from Sparrows Point to Manchester, N. H. Similarly, it costs $12.20 per ton to bring steel from Buffalo, N. Y., to New Haven; $12.40 from Buffalo to Worcester; and $12.60 from Buffalo to Manchester.

Since it is impossible for mills located at Sparrows Point and Buffalo to supply all of the steel that New Englanders consume, much of the steel moves in from the Pittsburgh district, and the rate for freight alone from Pittsburgh to New Haven is $13.60 per ton; from Pittsburgh to Worcester, $15; and from Pittsburgh to Manchester, $15.20.

I am submitting as exhibit A a table showing freight rates from the principal producing points which I have mentioned to a selected list of consuming points in New England.

Senator DOUGLAS. May I ask a question, Mr. Chairman, at that point?

The CHAIRMAN. Certainly.

Senator DOUGLAS. Prior to the Cement decision of the Supreme Court in 1948, what was the basing point for steel going into New England?

Mr. NEAL. On the products with which we are most concerned, sir, the basing points were Sparrows Point and Buffalo, although we did have a New England basing point at Worcester for rods and cold-rolled strip.

Senator DOUGLAS. And you paid the price at the basing point, plus the freight?

Mr. NEAL. Yes, plus the freight.

Senator DOUGLAS. And it was not possible for the New England consumers of steel to buy the steel at Sparrows Point or at Buffalo; they had to accept delivery at the points of delivery?

Mr. NEAL. Yes, sir. New England consumers buy steel the same as everybody else does.

Senator DOUGLAS. In other words, they had to pay railroad freight rates even though they could have shipped the steel at cheaper rates by water from Sparrows Point; is that correct?

Mr. NEAL. Yes, sir.

Senator DOUGLAS. And, therefore, in effect you were charged freight rates in excess of what the cost by water shipment would have been?

Mr. NEAL. I might add in that connection, sir, since the elimination of the basing-point system the Sparrows Point mill has been shipping steel into New England by barge at a saving in cost.

Senator DOUGLAS. Since the decision?

Mr. NEAL. Yes, sir.

Senator DOUGLAS. And, therefore, the decision, by abolishing the ability of the company to deliver the steel and permitting the purchaser to buy at the mill of the seller, has enabled New England to get its steel at a lower price because it can substitute water for rail shipment at a lower freight rate.

Mr. NEAL. I might add, sir, the Sparrows Point mill is cooperating very much in the water shipment.

Senator DOUGLAS. And it is resulting in lower steel prices for New England.

Mr. NEAL. Yes, sir.

Senator DOUGLAS. Well, I hope you will be able to impress this on the New England Senators when S. 1008 comes up.

The CHAIRMAN. May the Chairman say that S. 1008 has not a thing in the world to do one way or the other with shipment by water.

Mr. RICH. What is the freight rate from Sparrows Point to Boston, we will say, by boat in comparison with the rate by rail?

Mr. NEAL. I do not have that figure in my head, sir.

Mr. RICH. Have you it to any New England point?

Mr. NEAL. Yes, from Sparrows Point to New Haven, by water, which is one rate we have looked into——

Mr. PATMAN. I want to say something in the record at this point.

Mr. HERTER. May we have the answer?

Mr. RICH. Mr. Chairman, I wish he would permit me to have that question answered.

The CHAIRMAN. Certainly. You are entitled to have it answered. You got the question; did you not?

Mr. NEAL. Yes, sir.

I gave you the railway freight rate of $10.20 from Sparrows Point to New Haven. By water, the delivered cost for freight to New Haven runs, as I remember, about $6, but I suggest if you want an accurate figure on that you ask the Bethlemen Steel people, who will, I understand, testify today.

Senator DOUGLAS. It looks as though it would be a saving of $4 a ton already effected.

Mr. NEAL. As of New Haven.

Senator DOUGLAS. Through the ability of the buyers to purchase at the mill of the manufacturer and not be forced to accept delivery with railway freights even though the water freight may be used.

Mr. NEAL. Yes.

Mr. PATMAN. In other words, phantom freight?

Mr. NEAL. That is a matter of definition, sir. But it is certainly cheaper by water.

Mr. PATMAN. Now, in answer to the chairman, I will admit that S. 1008 does not mention barge rates, railroad rates, truck rates, or anything else. But I do contend that, if the bill passes as written in section 1, it will legalize the basing-point system, and all these concerns that used the basing-point system heretofore, like they used it in New England, will immediately return to it. Of course, the distinguished chairman will say that they cannot have any collusion, no agreements, no conspiracies; and that is correct. But you cannot prove that they had any agreements because the truth will be that they will not agree. They will not have any conversations; they will not have any understandings; they will merely return to the same system that they had in this country for many, many years, and they will not be

violating any law, and the New England people will have to return to the payment of phantom freight like they have in the past.

The CHAIRMAN. I may say that is a conclusion with which I thoroughly disagree.

I am sorry, Dr. Neal, that you have to be the medium through which this debate is carried on. I hope that the members of the committee will permit you to discuss the subject you came here to discuss with respect to the development of the facts.

Senator DOUGLAS. I submit, Mr. Chairman——

The CHAIRMAN. May I say to the Senator from Illinois, the chairman has been here at every session of this committee, endeavoring to the best of his ability to get the facts upon the case. Now, the Senator from Illinois can discuss this matter with me in full debate upon the floor of the Senate at any time without taking up the time of this witness, and I trust he will be willing to do so.

Proceed, Mr. Neal.

Mr. NEAL. What are the effects of cost handicaps of such size upon New England's steel-consuming industries? I am introducing as exhibit B a series of cases showing the reaction of typical New England steel consumers to this situation. Let me read you excerpts from these cases which are more fully described in the exhibit.

One employer of 1,500 stated recently that his board of directors is giving continuing consideration to abandoning their two existing plants in New England with a view to moving to Ohio.

Another employer of 8,000 workers said:

> If a New England steel mill is built, our company will undoubtedly be able to continue in New England; if not, we will have to move much nearer the center of our Nation.

Mr. PATMAN. In what business was this particular concern engaged with the 8,000 workers?

Mr. NEAL. These are all steel-using industries.

Mr. PATMAN. Fabricators?

Mr. NEAL. Yes, sir.

Mr. PATMAN. They make some finished products?

Mr. NEAL. They make some finished products out of steel, sir.

Mr. PATMAN. How can they have an advantage near a mill to serve the New England market? Now, if they go near a mill, say, around Pittsburgh, they will, it is true, save the price of transportation of the raw product, but they will have to pay a much higher price for transportation of a finished commodity back to New England. It occurs to me they are in better position to serve New England users by making the finished products there, where the transportation charge is not so high.

Mr. NEAL. Well, Mr. Patman, New England is predominantly a manufacturing region. It only has about 7 percent of the national market within its territory. Therefore, if its manufacturers are to sell—and we have about 10 percent of the Nation's manufacturing—they must sell over a very wide area. And we are on the coast, as you know, so that when we sell we must sell back toward the steel mill, so that in effect we are paying freight on the steel and then paying freight back again on the fabricated product.

Mr. PATMAN. Usually, though, the transportation charges on a finished product are much higher than on the raw material, sometimes twice and sometimes three times as high.

Senator FLANDERS. Mr. Chairman, may I interpolate there?

The CHAIRMAN. Certainly.

Senator FLANDERS. The continuing existence of New England as a manufacturing center must always be something of a mystery to anyone from the outside. And the Congressman from Texas has put his finger on the problem of New England, which is to import raw materials, fabricate them, and send them back into the country again with the freight rates against them going both ways. Yet, we continue to exist. And the answer to it lies in other things than freight rates. It lies in the character of our population, in their skills, and, I may say, among other things, in the way in which on the whole New England management and labor has gotten along with each other over a long period of time—on the whole, in a very satisfactory way. But we live by our wits rather than by our freight rates. At the same time we do not want the freight rates to militate against our wits. I think that is the story.

The CHAIRMAN. May I amend your statement, Senator? You live by your wits and your skills.

Senator FLANDERS. I accept the amendment and incorporate it in the body of my address.

Mr. RICH. Senator, that was not the reason the textile mills left New England; was it?

Senator FLANDERS. That was not the reason the textile mills left New England. That is a sad story, and I would rather not go into it now.

Mr. RICH. Probably you had better have discussed that yesterday with the representative of the CIO.

The CHAIRMAN. Dr. Neal, we will launch you once more.

Mr. NEAL. An employer of 750 stated that the present delivered cost of steel and iron is so high that in all probability within 2 years he would have to move the operations of one of his companies to the Middle West in order to keep the business healthy.

An official of another company employing over 6,000 workers said that any future expansion will be made in other parts of the country because their raw materials—iron and steel—cost so much in New England.

Another company employing 1,000 workers stated that if a steel mill is established in New England the company would probably stay in business here; but, if it is not, the company will either have to close up or move somewhere else. This company spends more than $1,000,000 a year on steel.

Another relatively small company estimates that a New England mill would mean a saving of about $1,000,000 annually to it.

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."

Mr. PATMAN. Please pardon me, Mr. Chairman, for interrupting the witness briefly there.

The CHAIRMAN. Yes, indeed.

Mr. PATMAN. That goes to the question of credit, too. I have had experience recently in trying to get credit for a steel mill in the West.

We have the ore, we have the coking coal—the best in the country. We have the limestone at least as good as there is in the country. We have everything right there. It is perfect. Steel companies will admit it is the finest plant in the country, and our people tried to secure credit. They went to the bank in Dallas, the biggest bank there. They had to go to the New York banks because they were not large enough to handle it, and they made a perfect case with two different banks. And they were enthusiastically received until in each case they got up to the board of directors to pass on it. It was unanimously approved below. In each case the steel directors were on that board and they immediately turned them down. They would not let them have that credit although it was a good loan.

The same way with investment bankers, the same way with insurance companies all over the Nation. They were enthusiastically received until they got to the top. But when they reached the top and that board of directors, in that board of directors were steel men who were selfishly interested, and they did not want that plant. And you will run up against the same thing when you try to get credit in New England.

Mr. RICH. Mr. Chairman, are you not bewildered now when you find they want steel mills in Texas?

The CHAIRMAN. No; I have known that for a long time, and I would like to help Texas just as I would like to help New England. And I think I can, but that is another story.

In connection with what the witness has just said with respect to the reluctance of witnesses to testify because they live "by the grace of God and the Grace of Bethlehem Steel," I think it may be appropriate to insert in the record at this point—no charge for advertising space will be made—a quotation from the January 30 issue of Time magazine. It appears on page 77 under the heading "Steel and the Pension Bill."

This is the quotation which, I think, is of interest:

> While the added cost was not far away from what had been unofficially estimated, steel users were complaining that the increase in steel prices to pay for the pensions, announced as $4 a ton, was turning out to be far more than that.

Just as our evidence yesterday showed.

> 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.

The representations which have been made to the chairman of this committee are universally that the little-business man engaged in steel, though he knows he is being squeezed, does not dare to testify about it. I am glad to note that Time magazine, a weekly newspaper, has paid some attention to this. I call attention to the fact because I note that the daily press has studiously ignored the important testimony produced at this committee of the manner in which small business, and little business, and local business has been squeezed by the major companies which control the steel industry.

Mr. RICH. Will the chairman put the names of those companies that are being squeezed in the record?

The CHAIRMAN. If I can get anybody to testify about it and take the responsibility. But they are afraid, Congressman Rich.

Mr. RICH. Go behind closed doors and hear them if necessary.

The CHAIRMAN. They say, "We are dependent upon these people as our suppliers, but we cannot testify."

The fact is in my judgment that the leaders of the major steel companies in the United States are operating upon a defeatist philosophy. They do not realize that the United States of America is expanding. They are unwilling to permit opportunity to small business and to local business because they want to hold the business themselves.

It is true that managers of steel companies, sitting as members of the boards of directors of large banks, obstruct the development of this country.

Mr. PATMAN. And insurance companies.

The CHAIRMAN. And there may be others.

I will say to the Congressman from Texas, if we ever get around to passing a national charter bill by which we will establish national standards for the conduct of national business, we shall open the door of opportunity to Texas, New England, and all other parts of the United States.

Mr. RICH. Senator, I would say that was a good speech for leading to socialism in this country, and we are heading for it so fast. And just go on, keep on, and you will get there shortly. It's like sin to me, I am against it.

The CHAIRMAN. You cannot go to socialism by investing the private capital of private individuals, which is what I want to do over and above the obstacles which are erected by big business to prevent competition to enter the field.

Senator DOUGLAS. Mr. Chairman, may I introduce a lighter note into this discussion?

The CHAIRMAN. Do, please.

Senator DOUGLAS. It has nothing to do with the subject. At first I did not realize the hidden pun within the quotation of the witness when he says: "We live by the 'grace'—small g—of God and the 'Grace'—capital G—of Bethlehem Steel," and Eugene Grace is the head of Bethlehem Steel. I want to congratulate the witness on having a sense of humor.

Mr. NEAL. May I proceed, Mr. Chairman?

The CHAIRMAN. Please do.

Mr. NEAL. I believe that the freight costs that I have quoted, together with the reactions of typical New England steel consumers, demonstrate that this area suffers a severe cost handicap in steel at the present time for lack of an integrated steel mill to support its metalworking operations. It should be remembered that when we are discussing the metalworking operations in New England we are talking about businesses which employ 40 percent of the manufacturing wage earners in the region, or more than a half a million people.

We lost the cotton textile industry, a good part of it, because we could not produce at a lower cost than other regions. But in the case of metalworking, as I am going to show you, I think, we have a cost advantage not only in the fabrication of metals but in the manufacture of steel itself. And I should hate to see New England, and I think New England would hate to see, the loss of this most promising part of its manufacturing industry for lack of a local and economical supply of steel.

If we assume that an integrated steel mill were established in New England and that it sold its products at the same price as present sup-

pliers now charge, how much would consumers in this area save? For purposes of the dicussion, since we must consider freight rates from somewhere, let us assume that the mill is established at New London, Conn. And here I am talking only about savings in freight and not about other savings which would undoubtedly occur if there were such a mill. To use the same cities as we used before as examples, consumers in New Haven who now buy from Sparrows Point would save a minimum of $5.40 per ton; those who buy from Buffalo would save a minimum of $7.40 per ton, and those who buy from Pittsburgh would save $8.80 per ton. Consumers in Worcester who buy from Sparrows Point would save $5.80 per ton——

Senator DOUGLAS. That is the saving over the present water freight?

Mr. NEAL. No; the savings in comparison with the present rail freight.

Senator DOUGLAS. The present rail freight?

Mr. NEAL. Yes. By water it works both ways. We would save going into, competing toward the Sparrows Point mill, and for local consumers, of course, we would save the full amount of the water freight which is, I think, around $6 in that territory.

Mr. HERTER. May I ask a question there, Mr. Chairman?

The CHAIRMAN. Congressman Herter.

Mr. HERTER. I see that you have taken New London as the assumption for these figures.

Mr. NEAL. Yes.

Mr. HERTER. We have before us a very fine presentation in connection with Fall River, of Massachusetts, and I wonder if you have made that same calculation in connection with Fall River as you have with New London.

Mr. NEAL. I have such calculations but not with me, and the figures would be very similar.

Mr. HERTER. Do I understand when you mention New London you are not at this moment pleading the cause for any one particular area in New England?

Mr. NEAL. That is right. The location of the mill would be by management decision of the steel company which decided to build, and I just used New London as an example.

Mr. HERTER. And by mentioning New London, you are not necessarily pleading for one particular area in the New England States?

Mr. NEAL. No, sir.

Senator DOUGLAS. If I may interject another question. I do not want to raise the issue of Vermont because I know Senator Flanders can adequately take care of Vermont. I wonder if you made any computation as to what the cost would be if the steel mill were located at the port of Lake Champlain with the St. Lawrence waterway adequately developed.

Mr. NEAL. I have made no such calculations, sir. They can be made very easily.

Senator FLANDERS. I thank the Senator from Illinois for the suggestion.

The CHAIRMAN. Proceed.

Mr. NEAL. Those who buy from Buffalo would save $6.60 per ton, and those who buy from Pittsburgh would save $9.20 per ton. Consumers in Manchester who buy from Sparrows Point would save $4.60 per ton; those who buy from Buffalo would save $4.60 per ton,

and those who buy from Pittsburgh would save $7.20 per ton. The savings would extend into New York City, Newark, and Jersey City. These consumers would save from 40 cents a ton on shipments from Sparrows Point up to $4.40 a ton on shipments from Pittsburgh. The freight rates that I have used in these calculations appear in exhibit A.

I have used for these calculations rail freight rates. A check on trucking rates indicates that the savings on truck shipments for points close to the mill would be somewhat higher than those indicated. We have also checked water transportation rates and find that savings in line with those shown for rail shipment would result to the points mentioned which could be reached by water shipment.

I think I have presented enough evidence to show that New England steel consumers are presently under a substantial cost handicap because of their distance from integrated steel mills; that this cost handicap threatens the normal economic growth of the region, and that it can be removed if steel could be made as economically in New England as it is made at mills now supplying steel consumers in the area.

The market for a New England steel mill: When the members of the steel committee first approached steel companies on this project, they were told by almost all that New England probably did not have a market sufficiently large to support an integrated steel mill. Most of the companies approached offered to give us such assistance as they could to determine the size of the market that might be available to a New England mill, because the industry itself was not sure of its facts on this point. Doubt as to the size of the market set the first task for the committee.

The easiest method of determining how much steel of various types was consumed in the area that might be supplied by a New England mill was to ask the steel companies supplying this area to tell us how much they shipped into it. A questionnaire calling for this information in such detail that it would be reasonably useful to the steel industry was drawn up and submitted for study and comment to three of the major companies supplying the New England-New York-New Jersey market. Two of these suppliers refused flatly to give us the information which they said was necessary to determine whether a mill could be supported by the market, and the third gave us an equivocal answer which we interpreted to be a refusal. Fortunately, there have been published three studies which provide the basis for determining what the market for steel is in this New England-New York-New Jersey area.

The first of these, which covered only part of the products and part of the industry, was published by the Senate Small Business Committee; the second by Iron Age, a trade publication; and the third, which was issued only a few weeks ago, was made by the Bureau of the Census. There are considerable differences among these studies. The Iron Age study gives New England and the adjacent New York and northern New Jersey markets a total finished-steel consumption in the metal-working industries of almost 6,000,000 tons.

The more recent study by the Census Bureau, which covers carbon steel only, cuts this total down to about 3½ million tons. To use the most conservative basis possible for estimating the market, I shall use the recently published Census Bureau figures to determine whether there is a market sufficiently large to justify an integrated steel mill,

but with the qualification that the census figures understate the size of the market.

Obviously an integrated mill cannot make all products. We therefore confine ourselves to carbon steel products which might be made economically in a moderate size mill having approximately one and one-quarter million tons of ingot capacity and a comfortable operating rate of about 850,000 tons of finished steel. The local market in which a New England mill would have a freight advantage consists of the New England States, eastern New York State, New York City, and the Newark-Jersey City area. This market, in which a New England mill located, for example, at New London, could deliver steel cheaper than any present competing mill, is shown on the map labeled "Exhibit C," which is based upon a study by the division of traffic research of the New Haven Railroad.

The CHAIRMAN. Do you desire these exhibits to appear at the points at which you refer to them, or all together at the conclusion of your remarks?

Mr. NEAL. At the discretion of your committee, sir.

The CHAIRMAN. Very well, they will appear at the conclusion of your remarks.

Mr. NEAL. The biggest item consumed by the metal-working industries in this market consists of flat-rolled products. According to the Census Bureau figures, nearly 1,100,000 tons of sheet and strip were consumed by the metal-working industries in this market in 1947. In addition, there were consumed in this market more than 330,000 tons of plates. This gives us a total of flat-rolled products of more than 1,400,000 tons or 1.7 times the comfortable operating rate of a flat-rolled products mill in the territory in which the New England mill would enjoy a positive freight advantage over any competitor.

In addition to the local market, there is a market for flat-rolled products in Florida, Texas, and the Pacific coast which could be economically reached by back-hauls of ships now delivering lumber, sulfur, fertilizer, cotton, and other products to New England. This coastal market in which a New England mill could compete uses 663,000 tons of sheet and strip and 472,000 tons of plate in its metal-working industries alone.

Mr. RICH. You are interested then in getting a steel mill in New England that will not only furnish the steel to the New England markets but also to the markets in the Southeast of the country?

Mr. NEAL. To the extent that we could sell in that market.

Mr. RICH. Yes. In other words, it is not a mill now for New England, it is a mill to give employment to people in New England that will furnish steel to other sections of the country as well.

Mr. NEAL. It will be just like any other steel mill.

Mr. RICH. That is right. So you asked the steel companies for certain information about steel. And in the first paragraph on page 8 you state the amount of steel that would be consumed. Therefore there was not any use of asking the steel companies, or criticizing them for not furnishing you with the information that you asked in reference to the amount of steel being used in New England.

Mr. NEAL. Sir, we did not have the study to which I am referring when we asked. That appeared fortuitously later.

Mr. RICH. In other words, you got the information without the steel companies giving it to you?

Mr. NEAL. Yes.

Mr. RICH. I admire that because where there is a will there is a way.

Mr. NEAL. There is available further an estimated market of 100,000 tons of silicon sheet and strip which might be made by the New England mill, and a total export market of 662,000 tons in countries bordering on the Atlantic Basin.

If there is any fear that even this tremendous market of over three and one-quarter million tons of flat-rolled steel in the metalworking industries alone could not support a New England mill, it is worth indicating that one or more bar mills could be added to supply carbon steel bars to a market which totals 481,000 tons in New England and the adjacent New York-New Jersey territory and close to 800,000 tons if Florida, Texas, and the Pacific coast were added. A detailed description of these markets is presented in exhibit D.

It is worthy of note in connection with the market, first, that these figures represent considerable underestimate because customers buying less than 50 tons per annum are not included. And no consumers outside of the manufacturing industries are included. For example, there is no estimate in there for construction and railroads and similar lines which also use a lot of steel. So that the figures I have given you are a decided underestimate of what the market might be.

Second, the New England part of this market is not only growing at faster than the national rate, but that the establishment of a new integrated steel mill, with consequent savings to consumers, could be expected to accelerate that growth rate. On the basis of the acceleration of the growth of the metalworking industries which occurred in the 1930's in the area served by the Sparrows Point mill, which was greatly expanded at the beginning of that period, it is possible to estimate that the New England market alone would grow by approximately 450,000 tons per year between now and 1960—that is, in the next 10 years. (See chart 3 of exhibit D, p. 422.)

Further evidence of the size of this local market for a New England mill can be gained from exhibit E which shows the heavy concentration of the metalworking industry in New England, New York, and New Jersey. This area, which accounts for nearly 20 percent of the Nation's population and nearly one-quarter of its income, produces substantially more than these proportions of many metal products. For example, it accounts for 97 percent of those employed making typewriters, 88 percent of those in cutlery, 71 percent in textile machinery, 65 percent in nails and spikes, 57 percent in wiring devices and supplies, 51 percent in ball and roller bearings, 44 percent in wire drawing, 41 percent in radios and related products, 40 percent of the machine tools, 39 percent in blowers and fans, 37 percent in general industrial machinery, 36 percent in special industrial machinery, and 34 percent in ship and boatbuilding.

It is to be noted that this area does not have nearly the proportion of the automobile industry that its income and population would lead us to expect. It accounts for only 9 percent of the motor vehicle body and parts industry. It is also well short of its proportion of the heating and cooking appliance, boiler, and other industries using flat-rolled steel.

I submit that the establishment of an integrated steel mill in New England will result in a sizable expansion in some of these metalworking industries and that the growth potential in steel consumption

of 450,000 tons per year within 10 years which I have referred to is not unrealistic.

It may be argued by some that the figures on total tonnage of steel consumed in this market disguise the great diversity of the market in the New England and adjacent territory. Careful explorations indicate that the diversity of this market is ably served by specialty steel mills and warehouses which buy the products of integrated mills and either further process and finish them or break them down into the small orders which the thousands of customers in the area require. In other words, a major market for an integrated New England mill would consist of the larger size orders placed by large consumers, specialty mills, and warehouses serving customers in the market area.

I believe that it is safe to conclude that there is sufficient market to justify the establishment of an integrated steel mill in New England, and that this market is of such a nature and has such a potential for growth that a New England mill of one and one-quarter million tons of integrated capacity might find it desirable to expand after it had been in operation for a few years.

Now we come to the third point, which is whether we could make steel at a competitive cost.

Most of the members of the steel committee originally were of the opinion that steel could not be made in an integrated steel mill in New England at competitive costs. At first sight the prospect for such a mill appeared discouraging. New England has neither iron ore nor coal of sufficient quality and in sufficient quantity to support an integrated mill. It is axiomatic that for an economic location for a steel mill it is necessary to satisfy two out of three requirements: Coal, iron ore, and markets.

Careful study by John E. Kelly, the committee's consultant, however, indicates that the physical location of iron ore and coal is less important than its economic location.

When he studied the possibilities of ocean transporation in large vessels of both iron ore and coal he found that we could obtain iron ore from Seven Islands, Quebec, the shipping point for Labrador ore, at an ocean transportation cost of slightly under $1 per gross ton, and that coal could be brought from Norfolk, the shipping point for southern West Virginia coal, for slightly over $1 per ton.

In effect both coal and iron ore are economically closer to New England than they would be if there were deposits located within its territory only a few hundred miles apart.

Further evidence of the economy of steel making on the coast is provided by the profitable operation of integrated mills both to the north at Sydney, Nova Scotia, and to the south at Sparrows Point, Md.

Mr. HERTER. Might I ask one question at that point?

In view of the testimony given the other day of the very large development in Venezuela that is going to be an important factor in the steel industry, in the figures have you anything at all showing the difference in the rate to Sparrows Point from Venezuela and to the New England point from Venezuela?

Mr. NEAL. As a matter of fact, my recollection is that on the great circle route New England is just as close to Venezuela as would be Sparrows Point. It may even be closer. So I do not think there is any advantage in a location farther south in terms of the cost of ore.

So far as Labrador is concerned, as you know, four or five steel companies have bought into Labrador ore. They have no mills on the coast to use that ore. So that we surely would have a delivered cost of ore cheaper than those companies would have if they used it at their present mill.

Mr. RICH. May I ask you this question in reference to the construction of a steel mill? Do you know what it would cost to build a steel mill that would furnish you with a million and a half tons of steel annually?

Mr. NEAL. We are estimating for this mill a total cost of $240,000,000.

Mr. HERTER. You are coming to the break-down on detailed figures in your testimony in a moment?

Mr. NEAL. Yes, sir.

Mr. RICH. $240,000,000. From the testimony given here in the last few days—and all I know is just what I heard from the witness stand—the steel industry is a very competitive industry so far as the steel companies that are now in existence. And if that be the case, and if they do not want to build a plant in New England, is it not possible to raise the money and build a competing plant in New England far apart from the steel mills that now exist; get some good capable men to go in there, and raise the $240,000,000, and build your own plant.

The thing that gets me—I have seen nothing of it—why the steel mills can prohibit you from building a steel mill in New England.

Mr. PATMAN. They control the credit, that is why.

Mr. RICH. If New England cannot raise $240,000,000, then there is something wrong with New England.

Mr. PATMAN. They have to go through some bank which has a steel director on that board.

Mr. RICH. There is nothing to that in my judgment. I have nothing against Mr. Patman but I know what he says. If you cannot raise $240,000,000 in New England—there is just no sense in a statement of that kind. It is possible.

Mr. PATMAN. You cannot raise it without going to the RFC because the steel corporations have a grip on the credit of the country and will stop the raising of that much money for a steel mill in competition with it.

The CHAIRMAN. Proceed, Mr. Neal.

Mr. RICH. This gentleman here is vice president of the Federal Reserve, and he certainly can get the money from the Federal Reserve if necessary.

Mr. NEAL. No, sir, we cannot make that kind of a loan.

Mr. PATMAN. That would be printing-press money.

Mr. NEAL. Some of the best coking coal in the country can be landed in New England in the types, qualities, and quantities used by an integrated mill at a delivered cost of no more than $10 per ton. We find further that it is likely that we can obtain Labrador ore delivered in New England at $5.70 per gross ton, and that until the Labrador ore is available we can obtain Newfoundland ore currently being used to make steel in Nova Scotia and England at a landed cost of not over $6 per gross ton. Other sources of ore are also available at comparable costs. We believe that these delivered costs of raw materials would compare very favorably with those at Bethlehem Steel's Sparrows

Point plant and would probably be somewhat lower than the costs at Pittsburgh. Admittedly our coal is a little more expensive, but Labrador ore would be cheaper and of a higher grade.

Senator DOUGLAS. Mr. Chairman, I have to leave in a minute or two to go West for the week end, but I have one comment I would like to make and one question I would like to ask the witness at this point.

I must say we in the Middle West are very sympathetic to New England. We do not want any artificial advantages in the Middle West and we believe we should have competition for the country as a whole without undue favor shown to any region. We are very sympathetic to this idea of a steel mill in New England if it can be justified, and we want to brush away all artificial barriers. And I find myself in a good deal of agreement with Congressman Patman.

Mr. PATMAN. I concur in the Senator's views as coming from the Southwest.

Senator DOUGLAS. We are very much interested in the exhaustion of ore in the Mesabi range. Our water connections with ore are likely to be shut off and the great steel mills of the Gary-Chicago region and of the Lake Erie region are likely to be put out of commission unless we can get cheap ore. It is therefore important to us and our economic interests that the St. Lawrence Canal should be completed so we can get the ore moving that way through the inland waters of this continent as well as by ocean. And I think it would be of great benefit to New England as well, because some of its by-products would be the development of power which would permit electrical rates to be reduced in New England where I think, they are the highest in the country.

I think if we in the Midwest put the national interest first in assisting New England, New England in turn should consider both its economic interests and the interests of the country in helping us with the St. Lawrence waterway.

Mr. NEAL. I want to assure you that New England does not want anything which is not good for the country.

Senator DOUGLAS. We hope we can get the active cooperation, not the passive acquiescence, of New England for the St. Lawrence waterway which will help develop power and will be good not only for New England but for the Midwest.

Mr. NEAL. A third important raw material is scrap. Scrap is used for about 50 percent of the metal made in open hearth furnaces, and about half of this 50 percent is purchased. In scrap New England would have a decided advantage. New England is a surplus scrap-producing area (see exhibit F). In years of high activity like 1947 and 1948 it had a net shipment of scrap out of the territory of more than three-quarters of a million tons. An integrated steel mill of the size contemplated would take only about one-third of this excess supply of scrap and therefore New England would continue to be a surplus scrap-producing area. The present price structure for scrap would not be materially altered by the establishment of an integrated mill, and on the present price structure for scrap there would be a saving to a New England mill of about $7 a ton as compared with a Sparrows Point mill, of about $9 a ton as compared with a Buffalo mill, and of about $10 a ton as compared with a Pittsburgh mill. The reason for these savings is that the price of scrap in New England is worked back from the nearest buying mills to New Eng-

land by deducting the freight costs to ship from New England to the nearest integrated steel mills.

The CHAIRMAN. May I interrupt, Dr. Neal, to ask, so that it may be clear in the record, that you give us a definition of an integrated mill.

Mr. NEAL. An integrated mill, sir, is one that starts with iron ore, coal, and limestone and carries through to the finished steel product. A nonintegrated mill leaves out the iron ore, coal and limestone and starts with pig iron and scrap. That is my understanding of it anyway.

The CHAIRMAN. I think that is the proper definition, but I wanted it to be in the record in your own words.

Mr. NEAL. There is an ample supply of limestone available in New England and in nearby New Brunswick, Canada, which could be delivered at the mill at costs in line with current costs of other producing centers. We estimate a delivered cost of $2 per ton.

You can see from those raw material costs I have given you it is our own best judgment that we would have costs lower than the cost of principal steel producing centers in the United States now operating. We think we would have lower costs than Pittsburgh in terms of these raw materials.

We have made the most careful cost estimates possible using prices of raw materials mentioned earlier and conversion costs presently being realized by the most efficient units of the steel industry, units which we could duplicate and improve on in New England. Or you could do it in Texas, too. It would be a new mill, in other words.

Using Labrador ore and the other raw materials just described, we estimate a cost of pig iron of under $24 per ton.

You may remember Mr. Batcheller's testimony that Allegheny Ludlum is paying about $41 a ton on today's market for pig iron, by way of comparison.

Mr. PATMAN. And your cost would be $24 a ton?

Mr. NEAL. Yes, sir; that would be direct costs. Of course we would have to add some overhead and profit to that.

In a flat-rolled products mill making plates and hot-and-cold-rolled sheet in a combination that would be supported by the market, we would have average costs of finished steel using Labrador ore of about $57 per ton. Of course, these are today's costs and Labrador ore would not be available for 2 or 3 years. We would have to re-survey the matter then.

At today's prices we estimate conservatively that we would obtain an average selling price, or realization per ton, of approximately $90 on the combination of products which could be made and sold by a New England mill.

I am introducing in exhibit G the build-up of manufacturing costs and gross sales used in the pro forma profit-and-loss statements which I shall discuss later.

Mr. RICH. What profit would that give you if you sold it at that price?

Mr. NEAL. I am going to come to that in a moment, sir; and give you the detailed figures.

Senator FLANDERS. I trust it will not be so high you will be brought before this committee to be investigated.

Mr. NEAL. I think, Senator Flanders, if this mill were built, we would be down here testifying with the other fellows.

Before I discuss the profitability of the mill I should like to outline a financing plan which has been suggested for it. When various members of our committee first discussed this project with leading steel companies they were told that the principal difficulty in building a mill today would be the high construction costs and the difficulty of raising the money to build a mill at today's construction costs. We knew from the outset that an integrated mill built today would cost probably twice as much, or more than twice as much, as existing mills. From a bookkeeping point of view such high construction costs would impose a heavy burden upon the mill for depreciation, interest, and return on stockholders' capital.

To meet this problem a novel financing plan has been suggested. I mention it here and I use it in the calculations of the profitability of the mill not necessarily because the steel committee advocates it, but as an indication of how far New England might be willing to go in cooperation with an established steel company to assist that company to set up an integrated mill in New England. This financing plan has been endorsed by four of New England's governors in principle, but whether it could be established in practice would depend upon whether suitable arrangements could be made between a steel company and one of the States in New England. Our committee has offered its assistance to any company wishing to enter into such negotiations.

The financing plan involves the use of a State authority similar to authorities now in operation in various parts of the country in the field of housing, ports, airports, and turnpikes. A large part of the financing—in our example we have used two-thirds—would be done by a State steel authority. The steel authority would for all practical purposes own the steel mill built to the specifications of the steel company and would lease the mill to a New England steel corporation. The New England steel corporation would obligate itself to pay a rental to the steel authority which would cover interest and amortization, just as air lines, for example, now pay rent at airports.

The New England steel corporation on its part would put up approximately one-third of the cost, an amount which would supply working capital and certain equipment and so would have a substantial investment in the project on its own account. In our example we have assumed that the steel corporation would have an investment of $80,000,000 out of a total capital investment of $240,000,000.

I should like to repeat again that this example merely works out in terms of figures a proposal which has been widely discussed and does not purport to represent what might actually be used because that is a matter that can be determined only by negotiations between the steel company interested in building a New England mill and the State interested in setting up a steel authority. The plan is analogous to the sale and lease-back arrangement now widely employed by life-insurance companies, with the difference that a State steel authority stands in the place of the life-insurance company.

Mr. HERTER. May I ask a question at that point, Mr. Neal?

All the way through here you have been discussing making arrangements with an existing steel company?

Mr. NEAL. Yes, sir.

Mr. HERTER. Rather than a formation of an entirely new steel company?

Mr. NEAL. Yes, sir.

Mr. HERTER. Are you doing that because you feel that the value of know-how in the manufacture of steel is sufficiently great that you want to explore that possibility to its end result first before setting up any new company?

Mr. NEAL. That is the major reason; yes, sir. If you have an investment of $240,000,000 in a plant, I do not think you would want to entrust it to inexperienced management, and the only place you can get experienced management in the steel industry is out of the steel industry itself. And we would prefer to cooperate with an existing company that has the management, know-how, and, of course, also knows how to serve a market. They may be, for example, serving this market now, so they would carry over the good will into the market.

It does not preclude the setting up of an independent mill, but we thought first we should explore all possibilities with existing companies.

Mr. RICH. Mr. Neal, I want to congratulate you on coming in here and stating you want to set up a steel authority back in your State because everybody that comes here wants the Federal Government to do it. And I take my hat off to you and congratulate you on that. Keep away from Washington when you want something. Do it yourself.

Mr. NEAL. Thank you.

Mr. PATMAN. Have you received any encouragement from any steel company?

Mr. NEAL. I am coming to that in a moment, Mr. Patman, and will discuss what encouragement we have had.

Mr. PATMAN. Talking about the know-how. You know most of these steel people retire at 65 and they are pretty vigorous fellows at that age. Sometimes you can utilize some of them in connection with the other people you get from the steel companies who have the know-how.

Mr. NEAL. We should be delighted to have an age 65 or over steel executive, or group of such executives, come to us and make a proposal.

Now to go into the profitability of this mill, and then into the point of what success we have had in getting a company to come in.

The estimates of profits of a New England steel mill are based upon the following assumptions:

1. That the mill could be built for $240,000,000, including working capital. Incidentally, I make these assumptions not by pulling them out of the air, but because I believe them to be reasonable on the basis of facts which we have gathered in our investigation.

2. That $160,000,000 of this total would represent investment by a State steel authority which could raise this sum by borrowing at an average rate of 1¾ percent.

Mr. PATMAN. That would be tax exempt?

Mr. NEAL. Yes, sir.

3. That $80,000,000 represents an equity investment in a New England mill, one-half of which would be supplied by an established steel company and one-half by the public.

Mr. HERTER. I have one question there. Is that 1¾ percent figured on a tax-exempt basis?

Mr. NEAL. Yes, sir.

The State steel authority would be able to issue tax-exempt obligations.

Mr. HERTER. As a matter of principle, do you think in a competitive operation one company should use tax-exempt money and another company use taxable money?

Mr. NEAL. That is a rather difficult question, but the size of this operation is such—look at it another way. We would be competing with a mill that cost at least twice as much as existing mills. In other words, the existing steel companies have an advantage over this mill in the low cost of their equipment, as has been brought out here, of course, in this hearing.

Mr. HERTER. I am merely thinking of the principle that is involved from the point of view of future industrial development in this country.

Mr. NEAL. Without establishing, I hope, any long-term principle, we were simply concerned to make a proposal which would even out the competitive position of the new company as against the established companies.

Mr. RICH. I have another question. In reference to that, if the State authority or, we will say, all of New England States went into the proposition of trying to secure this money to invest in a steel mill, and if then eventually you decided to invest all the capital into it, what would be the difference between socialism in New England and if the Federal Government went in to build a steel mill as was proposed here last year by the President's economic advisers, Mr. Keyserling and Mr. Clark?

Mr. NEAL. The difference, sir, it seems to me, is this: Obligations of the authority would be offered on the market and it would be known what the funds were going to be used for. Private investors would either buy those obligations or not buy them as they saw fit.

Mr. RICH. Supposing the private investor did not buy them and the banks took them over?

Mr. NEAL. I include those among private investors.

Mr. RICH. You do?

Mr. NEAL. Yes, sir.

Mr. PATMAN. May I make an observation about Mr. Herter's statement about unfair competition.

The United States Steel bought the Geneva Utah fully integrated plant that cost $200,000,000 for a little less than one-fourth that amount.

The CHAIRMAN. Twenty cents on the dollar.

Mr. PATMAN. To be exact, 23.7 cents.

And several of these mills sold for around 20 to 25 percent of what they cost.

And in addition to that, the question of unfair competition, the existing steel companies obtain a large part of their capital for expansion purposes from the consumers because it is a seller's market and always will be as long a you have a monopoly. They obtain their capital from the consumers for that purpose to be in competition with you, which is absolutely costless. It is not 1¾ percent but it costs them nothing.

Mr. RICH. Mr. Chairman, when the War Assets Administration offered those plants for sale, any steel company in the United States could have gone in there and bought those plants, or any individual, if he had paid anything more than the United States Steel Co. So that anyone who wanted to buy those plants could. The highest bidder bought those plants. So it was not any fault of United States Steel Co. It was good sound business.

Mr. PATMAN. You would not have many more bidders on a deal like that involving approximately $50,000,000, and they would have to be invited into the steel fraternity or they would not have——

Mr. RICH. Here the people in New England, if they had moved the steel mill to New England, they would have done it.

Mr. NEAL. We wish that you could move the steel plant from Utah to New England.

Mr. RICH. You could not have done that aboveboard and legally.

The CHAIRMAN. Well, the issue is not whether they did it morally or not; the question is merely the cost, that is all we are talking about.

Mr. PATMAN. I am not blaming United States Steel, but the gentleman seems to be blaming this company, the proposed company, for New England——

Mr. NEAL. Our fourth assumption is that the New England Steel Corp. would pay a rental on the plant owned by the State steel authority which would cover interest at 1¾ percent, and which would amortize the authority's investment over a period of 25 years, amortization being at a rate which varies with operations, and that is shown in exhibit H.

I might add at this point that 25 years' amortization appears to be somewhat short, because Mr. Weir, in his statement, said that a reasonable period would be 30 to 35 years, and I believe that in one of the other statements there is a statement to the effect that 30 years would be a reasonable period, so that we have loaded the amortization costs on this mill. I just want to make that point.

For the purpose of measuring the performance of this mill, we have set up pro forma profit-and-loss statements for 10 years which cover operation from 70 percent of ingot capacity to 100 percent of ingot capacity, and which average 82 percent over the 10-year period.

This average operating rate is slightly better than the industry average over the last 36 years and is, we feel, justified by the fact that a flat-rolled products mill is not subject to such wide fluctuations in operations as the average mill in the industry, and by the further fact that mills in deficit steel producing areas show a better operating rate than the average. This judgment has been confirmed by operating steel company executives.

On the basis of these assumptions, using today's costs and prices, the mill would be profitable. Using the 10-year average figures, 82 percent operations, on the basis of gross sales of slightly more than $69,000,000 per year, the mill would have a manufacturing profit of $25,354,000, would take as much for general administrative and selling expenses as comparable mills, would pay a rental which covers interest and amortization on the authority's investment, would charge as much depreciation as comparable mills now charge as regular depreciation, and would pay its property taxes and its Federal and State income taxes, and would average over the 10-year period a net profit after taxes of $6,260,000 per year.

Over the 10 years of operations, this profit would provide an average return of 7.8 percent on its stockholders investment and 9.1 percent on sales.

You may recall that Admiral Moreell stated that to attract capital to the steel industry you would have to earn about 8 percent on replacement cost. This mill would earn 7.8, and we have not taken credit for an estimated half a million dollars per year profit on the sale of byproducts, so that I am sure if we took that credit we would meet the standards set by Admiral Moreell.

Mr. RICH. Would that be based on the same manner in which the steel corporations now figure their profits?

Mr. NEAL. No, sir; it would, in effect, be based upon using replacement cost depreciation, in other words, the high depreciation, rather than the low depreciation that they have been arguing about.

Mr. RICH. They figured that their profit—some of them figured that their profit—was on the high depreciation.

Mr. NEAL. Yes, sir; it would be equivalent to the profit figured on the high rate of depreciation.

Mr. RICH. Then if you would build that plant and make a profit of 7.8 percent or 9.1 percent you would be called before this committee for doing that, for raising your prices of steel, and you would probably have to be put out of business. They would want to know why you are doing it. We just do things that way here. We do not want you to make so much money. [Laughter.]

Mr. NEAL. Well, we would like to make that much money to get this mill going, sir.

Mr. PATMAN. The president of Jones & Laughlin advocated 24 percent profit after the payment of taxes.

Mr. NEAL. That would be if you figured his profit on the original cost, but he said if you figured it on replacement costs of his facilities, it would take about 8 percent. He figures it takes 8 percent to attract capital to the industry, and that is why I cited that figure here.

Mr. RICH. My colleague from Texas, as you will note here, if he is going to make 7.8 percent, that is more than Jones & Laughlin figured on before taxes.

The CHAIRMAN. In order to clear up this depreciation matter, Dr. Neal, may I ask you whether you want the committee to understand that in your depreciation figure you have computed depreciation on the actual cost which you have estimated for facilities of this kind to be constructed at the present time?

Mr. NEAL. Yes, sir.

The CHAIRMAN. You have not estimated depreciation upon replacement costs later on?

Mr. NEAL. Oh, no.

The CHAIRMAN. When costs might be greater?

Mr. NEAL. Oh, no.

The CHAIRMAN. Then, the difference between your position and that of some of the other companies is that you are figuring depreciation only upon your actual current cost, whereas the desire of the other steel companies is to figure depreciation not upon the cost of the facilities that they have, but on their estimate of what the future cost of replacing facilities would be when, as a matter of fact, they never will replace those exact facilities, but will build more modern, more economical and more productive facilities.

The witness nods affirmatively. I want to get that into the record, because when an expert agrees with me, I am flattered. [Laughter.]

Mr. NEAL. I would like to elaborate just a little on that, Mr. Chairman: You see, in effect, because this is a projected mill, our costs are replacement costs, so to speak.

The CHAIRMAN. Yes, of course.

Mr. NEAL. And the steel industry, of course, did not incur costs like these, but estimates that they would incur costs if they did replace it like this.

The CHAIRMAN. Yes.

Mr. PATMAN. If I properly interpret Mr. Weir's testimony, he advocated that he should have depreciation based upon a billion-dollar plant on the theory that the $330,000,000, the amount his company had invested, would be insufficient to replace and modernize the plant; it would cost a billion dollars. Therefore, he wants to fix prices high enough to where he can pay for a billion-dollar mill, and if I interpret that correctly, that is advocating a consumer subsidy, the consumer paying two-thirds the cost of their mill.

The CHAIRMAN. You mean a subsidy by the consumer?

Mr. PATMAN. That is right.

The CHAIRMAN. To the industry.

Mr. PATMAN. To the consumers.

Mr. NEAL. That is the point I am going to use in a moment, sir.

It should be noted that because of rapid amortization, the return on stockholders' investment improves with the passage of time under the conditions assumed. None of these figures includes a profit of approximately $500,000 per year which could be realized from the sale of by-products.

Twenty-five years is a conservative period for amortizing such a new mill. Obviously, the mill would be more profitable with a longer amortization period. For example, if 50 years were used instead of 25 and interest averaged 2 percent—because longer-term securities would be used—other conditions being the same, the average return on stockholders' investment would be 9.9 percent and that on sales would be 11.4 percent.

Now, we cannot determine what might be set up because that depends upon what arrangement the operating company makes with the State as to the period of amortization.

Whether a longer period than 25 years might be used would depend upon the extent to which the State desiring the mill wished to depart from conventional financial practices to serve the purpose of stimulating employment and income, reducing its relief and social-service cost, or other public purposes.

It would appear from these calculations, using the somewhat novel financing plan that has been suggested, that a New England mill could be operated profitably. We believe that the suggested financing plan answers the argument earlier advanced by representatives of the industry that it would be almost impossible to obtain the money to build the mill, or if the money were obtained that the mill could not be profitable at today's construction costs.

It may be reasonably asked, if the mill would be as profitable as we have estimated it to be, why hasn't some steel company come forward and entered into negotiations to finance and build the mill along the lines that have been suggested. We have talked to a number of steel companies about this possibility. We have as yet not covered in our

conversations all the companies that might be interested in the mill. Such conversations as we have had have been conducted in a business-like way, in confidence and without publicity.

I would be violating our own pledge of confidence if I were to disclose the names of the companies that we have talked with and the individual reactions that they have had to our proposal. In view of the fact that we are currently carrying on conversations with some companies and intend to carry on conversations with others, if they will talk to us, I should not like to jeopardize our excellent chances of obtaining this mill by disclosing confidential information. However, I do think it is both safe and proper to make certain generalizations regarding the reactions of the companies with whom we have talked.

Our conversations have been guided by the principle that any company that might be interested in a New England mill should be willing to put up a substantial investment. We have suggested that an established steel company should put up 40 to 50 million dollars of its own money. Obviously there are not many steel companies in the country that have 40 or 50 million dollars in cash or could raise that much in today's capital market.

The reactions of the companies that we have talked to follow a similar pattern. These companies have for many years been planning their modernization and expansion programs. Most appear to have them well under way or nearing completion. It should be realized that discovery of the Labrador ore is a new development, that cut across these plans that they may have had.

The Labrador ore, its existence, became generally known only in the summer of 1948. It represented a factor which, I believe, had not been taken into account in the modernization and expansion programs of most companies in the industry.

Evidence that we have indicates that the steel industry has a certain amount of difficulty in raising the money required for carrying out its own long-planned modernization and expansion programs. Consider the alternatives faced by the companies with whom we have talked. They are already committed to heavy programs of capital investment to improve the competitive position of their existing mills. In some cases we found that the companies were hard pressed to raise enough money to complete their existing modernization and expansion programs. The expenditure of $50,000,000 to complete their own program might save a stockholder's investment of 300 to 600 million dollars when competition becomes tough again. If they were to divert $50,000,000 to a New England mill, regardless of its profitability, they might be sacrificing or endangering the interest of their stockholders in their existing properties.

Mr. RICH. May I say this to you, that your statement here is so forthright and complete, and if you put this statement in the record, this will be read by all the steel mills, no doubt, and I would not be surprised that you are doing the best piece of advertising that you have done in a long time because I have an idea that some of the executives of steel mills are going to come and talk to you.

Mr. NEAL. I hope they will.

Mr. RICH. I hope they do.

Mr. NEAL. I thank you, sir.

The CHAIRMAN. I want to say, Mr. Neal, that you have made more progress than any witness yet before this committee.

[Laughter.]

Mr. BUCHANAN. I agree with Mr. Rich.

[Laughter.]

Mr. NEAL. We are convinced, gentlemen, that it is not the lack of profitability of a New England mill which has deterred the companies with whom we have talked from bringing a mill into this area. One major stumbling block has been the lack of free capital to take advantage of the opportunity.

In addition to this obstacle, however, there is considerable evidence of another stumbling block.

The CHAIRMAN. May I say at that point that at the hearings of this committee, through a subcommittee on the problem of investment, the evidence was rather striking and conclusive and well stated by one of the witnesses, one of the leading brokers of the country, Mr. Hopkinson of Drexel & Co., of Philadelphia, that the savings of the people today are in the hands of little people rather than in the hands of the wealthy.

There are tremendous savings, and we have not yet found a way to channel the savings of the little people into the needed expansion of our industrial system.

As a result of that failure we are backing up, and expansion depends not upon enterprise capital but upon the willingness of existing interests to expand their own operations.

Mr. NEAL. Mr. Chairman, I agree entirely with that statement, and if I may add at this point, one of the reasons for the financing plan we have proposed was to make available a vehicle by means of which the small savings of individuals which go into savings banks and insurance companies and similar institutions could be invested in this mill.

You see, the bonds of this authority would become legal investments for savings banks and for insurance companies and similar institutions, so that it was because we were faced with that problem that this method was proposed.

Mr. RICH. Mr. Neal, the chairman from Wyoming forgot to tell you that the reason why there are no individuals with any great amount of capital left in this country is that the New Deal taxed them out of existence.

Mr. NEAL. We are taking the situation as we find it, and we think [laughter] that we can get the money by——

The CHAIRMAN. Of course, I know that the Congressman from Pennsylvania does not realize that it is necessary under a free system to pay for the war through which we have emerged, but I wonder whether the witness wants to have the implication that he feels that the tax burden which is here because we fought the war and because we are trying to restore peace in the world is an unjustifiable burden.

Mr. NEAL. It is a little off my subject, sir, but I am in favor of reducing Government expenditures, and so are we all.

(Mr. Rich vigorously applauded.) [Laughter.]

The CHAIRMAN. So are we all.

Mr. RICH. Good witness.

[Laughter.]

The CHAIRMAN. So are we all.

Mr. NEAL. I realize I am on the spot.

[Laughter.]

The CHAIRMAN. Proceed.

Mr. NEAL. In addition to this obstacle, that is, the lack of free capital, there is considerable evidence of another stumbling block.

The companies that we have talked to have generally been fairly large. 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. That possibility, looked at from our side, of course, is part of our opportunity.

I might add there that is entirely different, an entirely different situation that you would have in the textile industry, for example. If we were to make this proposal to the textile industry, I am sure that within the next year we would have four or five textile mills built in New England which, of course, has been a part of the country which has lost textile mills, but the size of the companies in the steel business is so great and their market is so ramified that this consideration must enter into their calculations.

I believe that these have been the major considerations involved in the decisions made by some of the companies to whom we have talked not to participate in the New England venture. I state these conclusions not in criticism, but simply as my own best understanding of the facts. I state them the more readily because prospects of success in our search are still very good.

The consumers' stake in mill location: The major reason why steel companies do not have the capital available both to modernize their own facilities and to enter into ventures like the New England steel mill is that they have made inadequate provision for depreciation through no fault of their own. The other side of the argument, which I mentioned earlier, that steel companies had made to us to the effect that construction costs were too high today to justify a new mill, is the fact that existing plants in the steel industry in most cases are carried on the books at preinflation costs and are depreciated on the basis of these original costs.

Conditions not of the industry's making or of our making have raised enormously the cost of building or replacing steel-mill facilities. The industry has been and is currently modernizing—and that is another word for replacing—its facilities. This, of course, has all been brought out in the testimony of the steel companies.

It has not obtained enough from its depreciation allowances to carry out its modernization (replacement) program. It is, therefore, forced, I believe, to charge consumers in the price of steel an amount sufficient to permit it to raise the funds necessary to carry out a considerable part of this modernization (replacement) program.

Now, from an economic point of view, provision should have been made in the past for funds with which to replace or modernize facilities.

Those funds should have been raised during the period when the facilities were wearing out. The consumers of the past should have financed today's modernization program. Instead, the consumers of today and of the future must finance these modernization programs. Solely upon my own responsibility, I should like to raise this question: 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?

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. They could see cheaper steel in the future in return for more expensive steel today. 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. It is for that reason that I welcome this opportunity to present to this committee this statement of the facts as we see them. If our opportunity to participate in the economic growth of the Nation in which this committee is interested is jeopardized by decisions with respect to steel prices and steel plant location, then I think that our situation becomes a matter of public concern.

I should like to conclude with a few words about this movement for a New England steel mill. In some quarters our effort has been characterized as a political campaign to obtain something that was economically unjustified. I should like to introduce two exhibits which I think will prove the contrary. One, exhibit J, is a list of the names of the members of the New England council's steel committee. The men on this committee, like all New England council members, are doing what they believe to be a public service for the region in which they live and have their businesses. They can hardly be called promoters because so far as I know none of them is expecting to make a promoter's profit out of the establishment of a New England mill. They are not paid for their work on this committee. They certainly cannot be called politicians because all but one hold no political office and the one who does was elected to a political office after he became interested in this project, and he is a Republican.

The CHAIRMAN. Now, you said that with some great matter of recommendation, sir. [Laughter.]

Mr. NEAL. I said it, sir, because we have been getting an unfavorable press aimed at democratic efforts to obtain this mill, and I wanted to indicate——

The CHAIRMAN. I think you merely want to emphasize the fact that he cannot be classified as a New Dealer. [Laughter.] All right.

Mr. NEAL. The second exhibit is a chronology of the development of the New England steel project. It began in 1946. None of the money that has been spent on it so far consists of public funds. It is a privately financed undertaking. In view of the importance of this project to the future growth and prosperity of our region, it should not be at all surprising to find that holders of political office in and from New England support the movement, and I am glad that they do.

Let me finish by making a small observation about New England's present economic position. Our region over the years has made great contributions of men, talent, capital, and taxes to develop other areas of the country. We have even contributed whole factories to the less industrialized parts of the country. We have not made all these contributions happily, but we have made them. In seeking an integrated steel mill we are not seeking to take anything away from any other region but only to take advantage of a new opportunity available to us, an opportunity which may help us to lay a firm foundation for our further economic development. If we are to have an expanding economy in this country, each region must take advantage of the opportunities available to it. We are trying to do that in New England. If we are to have satisfactory international economic relations, each region and each area of the country must take advantage of those opportunities available to it to use profitably and efficiently those goods which it can obtain more cheaply abroad than it can obtain at home. In seeking an integrated steel mill, therefore, the New England council's steel committee is trying to do its bit to insure an expanding and prosperous economy in the Nation and to improve our international economic relations. Its motives, gentlemen, are not parochial and selfish. Its purposes, as I understand them, are the same as those of your committee.

I appreciate your time and attention.

EXHIBIT A.—*Iron and steel freight rates*

To—	From Pittsburgh, Pa.		From Sparrows Point, Md.		From Buffalo, N. Y.		From New London, Conn.	
	Cents per 100 pounds	Dollars per ton	Cents per 100 pounds	Dollars per ton	Cents per 100 pounds	Dollars per ton	Cents per 100 pounds	Dollars per ton
Bridgeport, Conn	68	13.60	48	9.50	61	12.20	28	5.60
New Haven, Conn	68	13.60	51	10.20	61	12.20	24	4.80
Springfield, Mass	72	14.40	54	10.80	58	11.60	32	6.40
Worcester, Mass	75	15.00	58	11.60	62	12.40	29	5.80
Providence, R. I	76	15.20	61	12.20	67	13.40	25	5.00
Boston, Mass	76	15.20	62	12.40	63	12.60	34	6.80
Hartford, Conn	70	14.00	53	10.60	61	12.20	25	5.00
Portland, Maine	80	16.00	70	14.00	70	14.00	44	8.80
Manchester, N. H	76	15.20	63	12.60	63	12.60	40	8.00
Newark-Jersey City	62	12.40	42	8.40	58	11.60	40	8.00
New York City Lighterage	62	12.40	42	8.40	58	11.60	40	8.00
New York-Harlem River							36	7.20

Source: Tariff Nos. P. RR.-ICC-2820, P. RR.-ICC-2334, P. RR.-ICC-2299. Courtesy New York, New Haven & Hartford R. R. Co., freight rate department.

EXHIBIT B. TYPICAL EXAMPLES OF HARDSHIP DUE TO THE PRESENT NEW ENGLAND STEEL SUPPLY SITUATION

(Confidential memorandum prepared by Charles Kellogg, New England council)

Listed below, without company names or other identifying information, are typical cases reflecting the disadvantageous position in which existing New England plants find themselves with reference to the cost and delivery factors of their chief raw material—steel.

1. The president of a drop forging company, employing 1,500, whose products are sold throughout an area extending at least as far west as Chicago, stated recently that his board of directors is giving continuing consideration to abandoning their two existing plants in New England with a view to moving to Ohio. This man stated that since the abandonment of the basing point pricing system, his company has paid $487,000 for inward transportation of hot rolled carbon bars, and outward transportation of completed forging and finished machine products. A large part of his market is in the Detroit area. He further stated that delivery schedules of raw materials, almost entirely steel, were unsatisfactory and made production control difficult. On top of the above figure of $487,000, this company's president had determined that another $300,000 additional cost resulted largely from their present location, with respect to distance from their markets.

In discussing the possible establishment of a New England steel mill, he stated that such an achievement would constitute an event of the greatest importance to his company, and that he was wholly in favor of the New England steel mill. He has expressed his company's interest by a substantial contribution to the financing of the Council's endeavors.

2. The manager of the New England division of a large national concern, with several plants, employing over 8,000 workers, expressed great enthusiasm for the development of steel-production facilities in New England. He put it this way: "Now, we're at the end of the line; we have to ship all our raw materials in, manufacture it, and then ship the products back. If a New England steel mill is built, our company will undoubtedly be able to continue in New England. If not, we will have to move much nearer the center of our Nation. I don't favor such a move, and yet our costs are so high here that we might have to abandon all our New England plants."

3. The president and principal owner of a screw machine products company making screws, nuts, bolts, and rivets, and employing 650 people, said that he figures it costs him $105,000 more to conduct his present business where it is now located than if he conducted the identical business in Indiana. He stated that he has made comprehensive studies of what would be required to move his machinery and equipment out of New England, and that, together with the cost of building a new plant, the total cost would be so high that, from a dollars-and-cents point of view, it would be better to liquidate his business completely.

4. The president and general manager of a company making metal stampings and automobile accessories and employing 800 people directly, is also president of another company whose products are iron castings, electric steel castings, and carbon-alloy castings, capitalized at more than $1,000,000 and employs 750 people. He states that the present delivered cost of steel and iron is so high as to seriously endanger a profitable operation. Some months ago this man said that in all probability within 2 years he would have to move the operations of the first-mentioned company to the Middle West in order to keep the business healthy.

5. The president of a company employing 3,500 workers whose products include a wide range of electrical and nonelectrical household appliances, thermos bottles, cutlery products, and others, stated that his concern annually consumes in excess of 10,000 tons of sheet and strip steel, steel castings, and iron. While giving no specific estimate of the additional cost of conducting their present business in New England, this man expressed serious interest in and support of the New England Council's drive to bring about the establishment of a local steel mill. He said that the local availability of iron and steel would mean a great deal to his concern because of considerably lower inward transportation charges.

6. The treasurer of a machinery-manufacturing concern with six plants in five of the New England States, capitalized at more than $30,000,000, and employing 6,125 workers, stated that although the company intends to stay in

New England, he feels that any future expansion will be made in other parts of the country because their raw materials—iron and steel—cost so much in New England. As an example of this company's thinking, the treasurer, who happens in this case to be the top executive, stated that they had at one time seriously considered the purchase of an existing blast furnace in eastern Massachusetts in order to try to reduce their raw-material cost. Like the companies mentioned above, this concern has contributed financially to the special "steel fund" of the council.

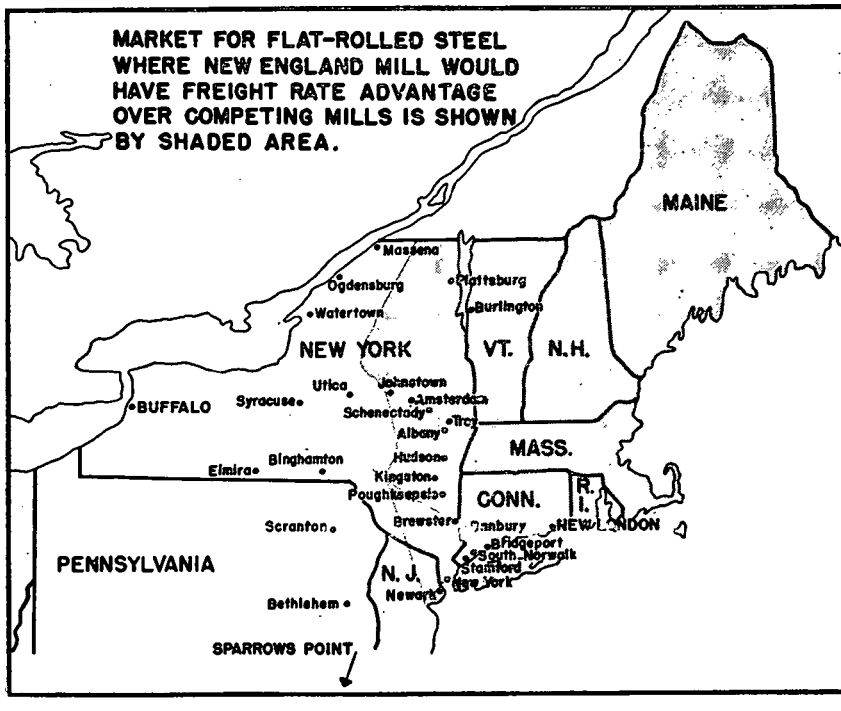
7. The plant manager of one unit of an international concern, making a wide range of heavy industrial equipment and tools, stated that he was very much in favor of the establishment of an integrated steel plant anywhere in New England as it would undoubtedly benefit their New England plant.

From other sources, the writer has been told that this plant's location is at present probably uneconomic because of its distance from both its raw-material supply and the other plants of the same company for which it makes component parts. This plant is one of northern New England's largest iron- and steel-consuming units. It employs 1,000 workers, in a community with only 6 other small manufacturing industries, and having a total population of about 15,000.

8. Although not directly comparable, the following case may be pertinent. The eastern division of a national steel company has 3 fabricating plants in New England and employs more than 4,000 people. These plants make a wide variety of parts as follows: Steel rods and wire, high- and low-carbon rods, wire screening, poultry netting, perforated metals, card clothing, industrial wire cloth, nails and brads, springs, link fence, wire rope, electric welded fabrics, and heavy hardware. The New England manager for this company stated for that extremely adverse labor conditions in his company's plants elsewhere and because conversely the economic climate in New England was so much more favorable, the company was considering abandonment or sale of its other properties, and substantial expansion of its New England operations.

In discussing the integrated steel mill proposal with this representative of the New England Council, their man stated that if a steel mill were built in New

EXHIBIT C



England it would in all probability help this company substantially to expand in New England.

9. The vice president of a metal-stamping company employing 400 advises that it uses from 2,500 to 5,000 tons of steel per year, and that on this they are paying $10 per ton more in freight alone than they would have to pay if there were a mill in New England within 100 miles. This means an extra cost to them of $25,000 to $50,000 per year.

If they could save a difference like this they say that they could get more orders, offer additional jobs, and show great savings to their customers.

10. A textile machinery company employing 2,500 and using about 2,500 tons of steel annually states that it is paying close to $10 per ton more for steel than it would have to pay if there were an integrated mill in New England.

11. A hardware concern employing 1,000 says that if a steel mill comes to New England, it will stay in business. Otherwise, this company will close or move. It buys over a million dollars' worth of steel per year now and can hardly break even. It expects to expand if a steel mill is established in New England.

12. A chain-manufacturing company employing 750 uses about 50,000 tons of steel per year. It estimates its present freight disadvantage on steel at $10 per ton.

EXHIBIT D. MARKET FOR A NEW ENGLAND STEEL MILL

More than 3,400,000 tons of carbon-steel sheets, strip, plates, and bars, and silicon-steel sheets and strip were consumed in 1947 by the metal-working industries in the market areas of the United States most readily accessible from a deep-water New England steel mill (see attached table I). The total of 3,400,000 tons does not include exports or use in construction, mining, farms, public utilities, railroads, governmental units, and other nonmanufacturing uses.

Almost 3,000,000 tons of that total were in bars and in those flat-rolled products which could be made by a New England mill whose plate-making facilities were limited to sizes and gages which could be produced by a sheet mill.

Other prospective markets for the products of a New England steel mill would increase the total:

1. Direct sales to customers in the nonmetalworking industries, such as railroads, utilities, mines, farms, construction, governmental units, and the oil industry. (Consumption of this type is not included in our figures.)

2. Sales to specialty steel mills in the market area for finishing and delivery to customers outside the market area.

3. Domestic markets in which a New England mill would not have a natural advantage, but where salesmanship and customer relationships would produce sales.

4. Export sales to eastern Canada and the Maritime Provinces, to Central and South America, to Africa, and to other areas (see tables II and III).

5. Growth of the metalworking industries in New England and the other natural market areas, as a result of—

(*a*) Normal growth of the sort which has taken place in New England during the past 20 years (see chart I).

(*b*) The extra growth which would result from the more rapid expansion of existing metalworking plants and the more rapid establishment of new plants after enlargement of the area's steel-making capacity (see charts II and III).

Since the New England area would still be a net importer of steel, the operating rate of a New England mill would tend to be higher and somewhat more stable than that of a steel-exporting area (see chart IV for the operating records of other areas during periods of depression or recession).

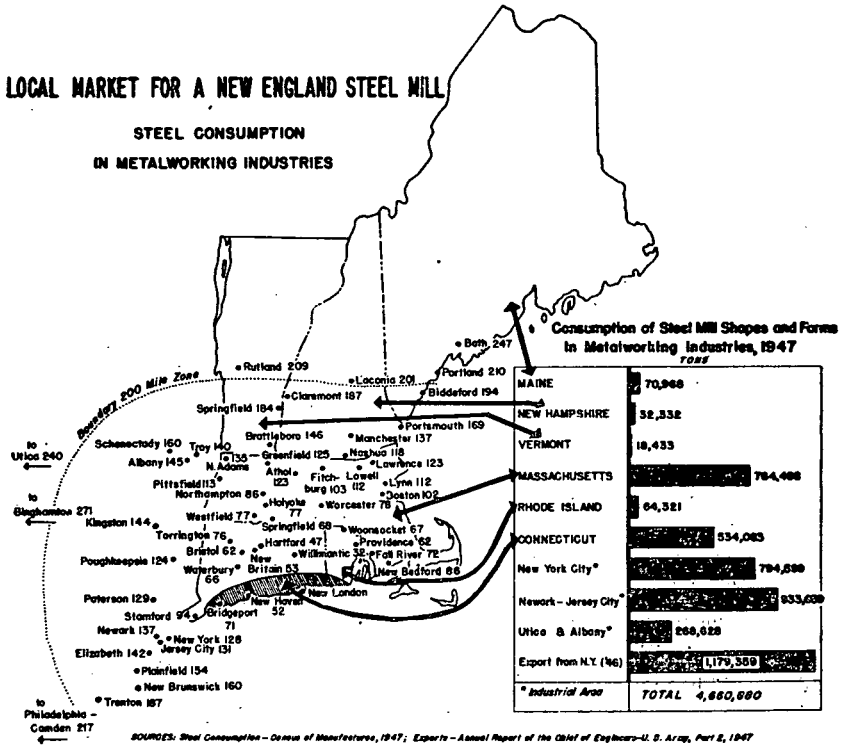


TABLE I.—*Market in the metalworking industries for selected products of a New England steel mill*

[In thousands of tons]

Market area	1947 consumption by the metalworking industries, selected carbon-steel products [1]			
	Total	Sheet and strip	Plates	Bars
Connecticut	329	223	20	86
Maine	23	4	7	12
Massachusetts	445	239	64	142
New Hampshire	23	15	3	5
Rhode Island	36	9	4	23
Vermont	11	3	2	6
Total, New England	867	494	100	273
New York City [2]	464	309	58	97
Newark-Jersey City [2]	397	215	100	82
Albany [2]	120	33	67	20
Utica [2]	58	42	7	9
Total, New England and adjacent	1,906	1,093	332	481
Florida	40	16	17	7
Texas	419	185	133	101
Pacific coast	954	432	323	199
Total, accessible market, carbon-steel products	3,319	1,726	805	788
Additional market for silicon steel sheet and strip in and adjacent to New England [3]	100			
Total for products and markets listed above	3,419			

[1] Does not include consumption of specialty steel mills in the market areas indicated except to the extent that their products are consumed by other metalworking industries in these areas.

[2] State totals allocated to market areas within the States, based on Iron Age study and Senate Small Business Committee Report, Changes in the Distribution of Steel, 1940–47.

[3] Minimum estimate. Geographical break-down not available.

NOTE.—Detail may not add to totals because of rounding.

Source: Census of Manufactures, 1947.

TABLE II.—*Exports of selected carbon-steel products from the United States, by area of destination, 1948*

[In thousands of tons]

Area of destination	Total selected products	Hot-rolled and cold-rolled sheets [1]	Hot-rolled strip	Plates [2]
Canada and Newfoundland	256	167	33	56
Europe	236	48	6	182
South America	99	60	9	30
Central America and Caribbean	40	21	2	17
Africa	31	26	1	3
Total, Atlantic Basin area	662	322	51	289
All other areas	72	49	3	20
Total, all areas	734	371	54	309

[1] Does not include galvanized sheets.
[2] Other than boilerplate, of which 29,000 tons were exported in 1948.

NOTE.—Detail may not add to totals because of rounding.
Source: U. S. Bureau of the Census.

TABLE III.—*Proportion of United States production exported, selected steel products, 1936–48*

[Quantities in thousands of tons]

Year	Plates			Sheets (hot-rolled and cold-rolled)			Strip (hot-rolled)		
	Production	Exports	Exported	Production	Exports	Exported	Production	Exports	Exported
			Percent			*Percent*			*Percent*
1948	[1] 7,000	309	4.4	[1] 16,800	371	2.2	[1] 3,300	54	1.6
1947	6,746	530	7.9	16,451	569	3.5	3,027	107	3.5
1946	4,434	471	10.6	11,889	483	4.1	2,466	84	3.4
1945	7,246	188	2.6	12,068	742	6.2	2,543	85	3.3
1944	13,123	306	2.3	10,339	781	7.6	2,593	126	4.9
1943	13,119	686	5.2	9,403	700	7.4	2,125	105	4.9
1942	11,800	403	3.4	9,199	795	8.6	1,901	93	4.9
1941	6,200	384	6.2	13,603	429	3.2	2,540	[2]	----
1940	4,323	602	13.9	11,706	477	4.1	2,078	[2]	----
1939	3,102	261	8.4	10,032	269	2.7	1,827	[2]	----
1938	1,920	224	11.7	5,795	205	3.5	1,154	[2]	----
1937	3,632	412	11.3	8,780	286	3.3	3,243	[2]	----
1936	2,830	99	3.5	7,835	140	1.8	3,612	[2]	----

[1] 1948 production approximate.
[2] Not available.

Source: Metal Statistics.

CHART I.—*Ferrous metal receipts in New England and the United States via class I railroads, selected years, 1929–46*

[Reported by the Interstate Commerce Commission]

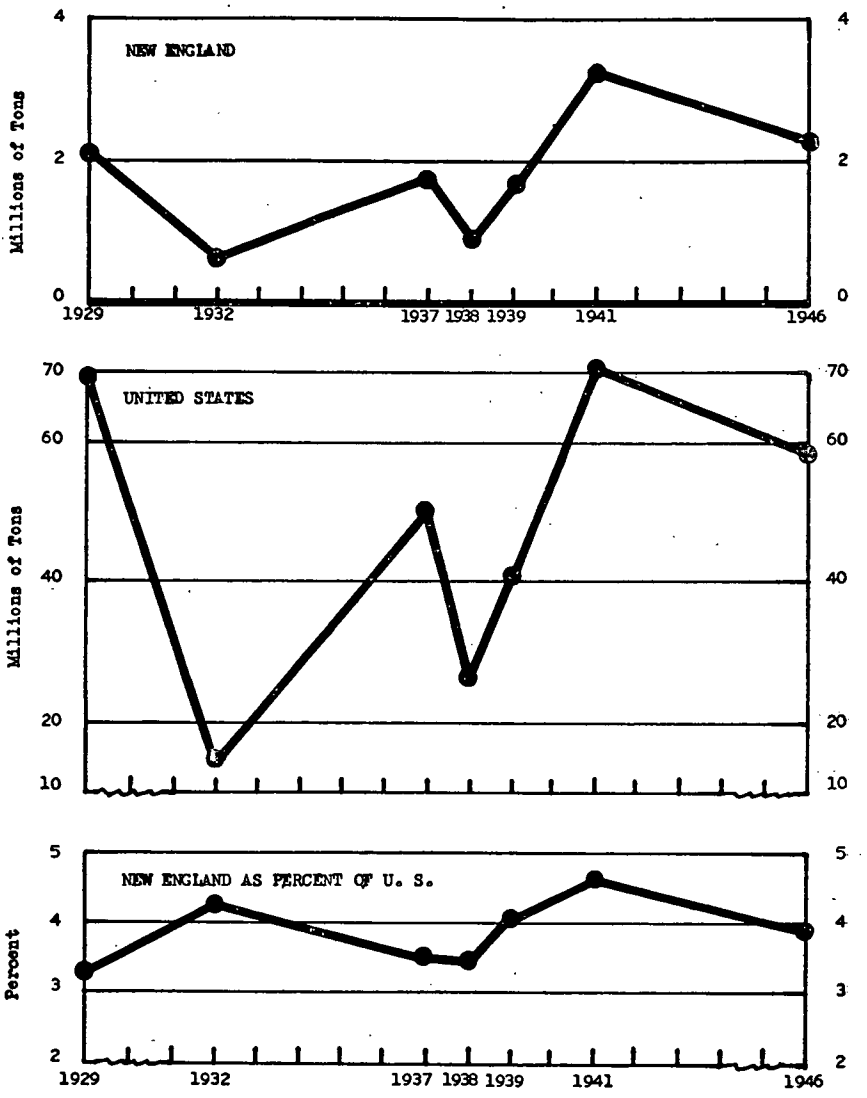
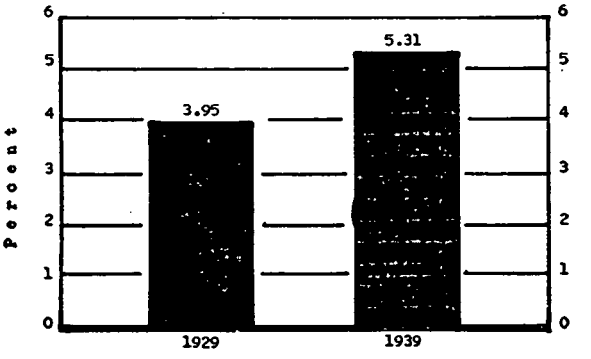
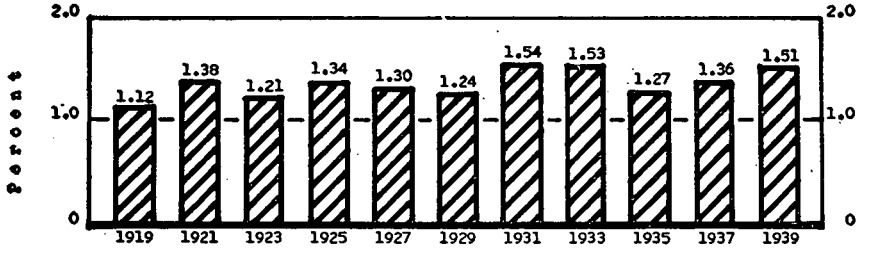


CHART II.—*The effect of expanded local steel-making capacity*[1] *upon the metalworking industries—Percentage of total United States employment in the principal metalworking industries in Maryland and the Philadelphia industrial area,*[2] *1929 and 1939*



Percentage of Total U. S. Employment in Leading Metalworking Industries in Maryland[b]
1919-1939

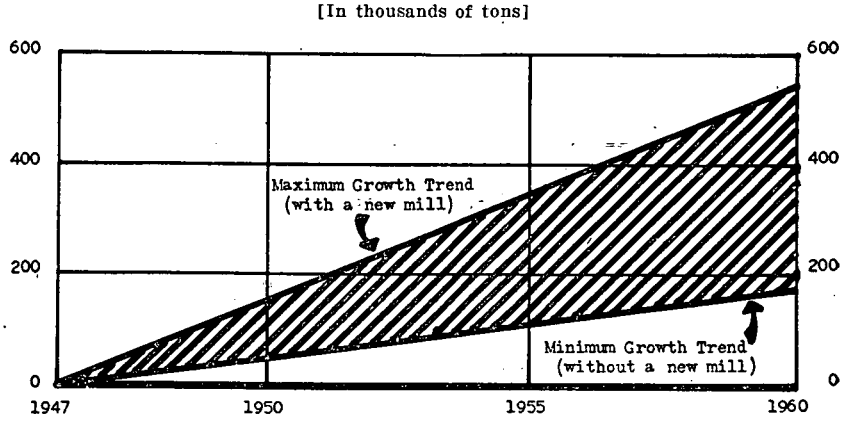


Source: U. S. Bureau of the Census.

[1] From 1930 to 1938, the steel-making capacity of Bethlehem's Sparrows Point mill was increased by 1,360,000 tons. The Sparrows Point proportion of total United States capacity increased from 2.7 to 4.1 percent. Between 1920 and 1930 the capacity at Sparrows Point had increased from 2.1 to 2.7 percent of United States capacity (source: American Iron and Steel Institute).

[2] Slightly different groups of industries have been used in the two comparisons because of changes in census classifications and incomplete data. The differences do not affect the general pattern of the data.

CHART III.—*Growth trends in the New England market for carbon-steel sheets, strip, plates, and bars and silicon-steel sheets, 1947–60*



The trend of ferrous-metal receipts in New England during the last 20 years (chart I) has been to increase at a rate of about 1.5 percent a year. The upward trend in the United States as a whole has been at a rate of about 1 percent a year. New England's proportion of metal receipts has grown.

A continuation of the past trend of normal growth would produce an average annual increase of approximately 14,000 tons in the New England consumption of the products mentioned above. By 1960 the consumption trend for these items would have increased by 182,000 tons.

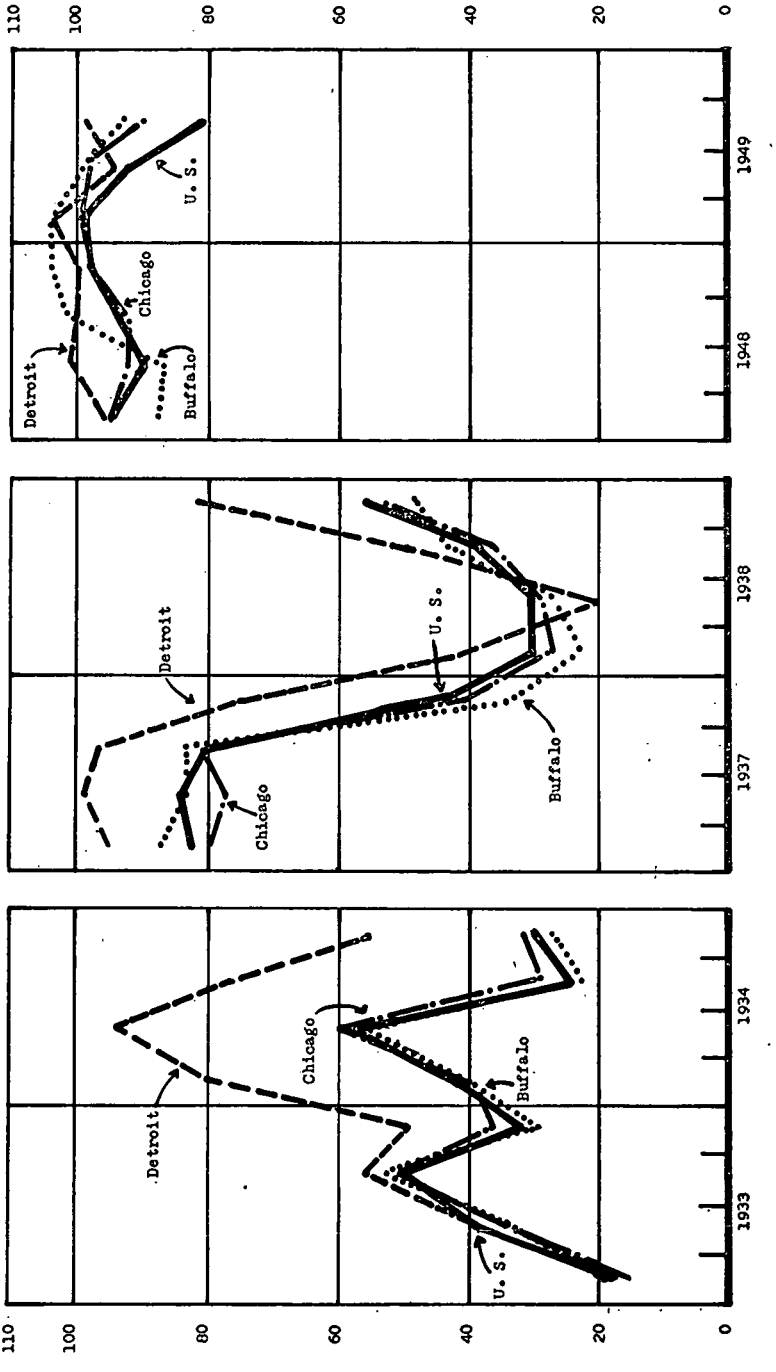
The increased capacity of the Sparrows Point mill of the Bethlehem Steel Co. during the 1930's contributed to a greater growth of the metalworking industries in the Baltimore and Philadelphia industrial areas than in the country as a whole (chart II). The growth trend for steel consumption in these areas from 1929 to 1939 was apparently about 4 percent a year, 3 percent above the national average.

The establishment of a steel mill in New England would stimulate extra growth of the metalworking industries in the region through both extra expansion by existing firms and the more rapid establishment of new firms. If the extra increase were 3 percent a year, which is the maximum that could reasonably be expected, the consumption trend for the specified items would increase by 42,000 tons a year. By 1960 the trend would have increased by 546,000 tons.

The lines plotted above show these maximum and minimum growth trends for the New England metalworking market for these products. The most probable trend which would accompany a new mill would lie somewhere between the maximum and minimum lines.

Actual consumption would fluctuate above and below the trend as industrial activity varied over the business cycle, just as it has in the past.

CHART IV.—*Percentages of ingot capacity in operation in Detroit, Chicago, Buffalo, and the United States, 1933–34, 1937–38, 1948–49, quarterly averages*



Source: Steel Magazine.

NOTE.—Since the change in steel-pricing methods, outlying steel-producing areas have showed even more favorable and more stable operating ratios in relation to the industry as a whole than they showed during previous periods of recession and depression.

EXHIBIT E.—*Number of persons employed in major steel-consuming industries in New England, New York, and New Jersey in 1947*

Industry	New England		New England, New York, and New Jersey		United States	
	Number of employees	Percent of United States total	Number of employees	Percent of United States total	Number of employees	Percent of total
Motor-vehicle bodies and parts	5,690	0.9	57,467	8.8	653,169	100
Aircraft and aircraft engines	26,732	13.6	49,325	25.1	196,878	100
Radios and related products	17,946	10.0	73,366	41.1	178,595	100
Ship and boat building	12,051	8.1	50,523	33.8	149,655	100
Metal stampings	10,578	8.0	26,263	19.9	132,011	100
Refrigeration machinery	6,183	4.8	15,386	11.9	129,290	100
Motors and generators	9,281	7.3	29,039	22.9	127,012	100
Heating and cooking appliances, n. e. c	4,014	3.6	15,484	14.0	110,475	100
Cutting tools, jigs, fixtures, etc	17,914	20.2	25,140	28.3	88,898	100
Valves and fittings	8,556	10.7	14,011	17.5	80,075	100
Structural and ornamental products	2,318	2.9	12,433	15.6	79,678	100
Hardware, n. e. c	21,794	28.5	31,452	41.1	76,537	100
Electrical control apparatus	5,208	7.2	18,814	26.0	72,330	100
Machine tools	23,146	32.8	28,646	40.5	70,657	100
Boiler-shop products	2,531	3.7	7,608	11.0	68,979	100
Special-industry machinery, n. e. c	12,621	18.5	24,224	35.6	68,063	100
Machine shops	4,788	8.2	11,730	20.2	58,160	100
Wirework, n. e. c	5,810	10.2	14,127	24.9	56,842	100
Wire drawing	11,958	21.7	24,089	43.7	55,079	100
Metalworking machinery, n. e. c	3,827	7.0	13,839	25.2	54,988	100
Textile machinery	33,430	62.4	37,999	70.9	53,583	100
Ball and roller bearings	19,456	37.3	26,529	50.9	52,174	100
Bolts, nuts, washers, and rivets	11,157	22.7	14,633	29.7	49,235	100
Tin cans and other tinware	1,070	2.3	9,295	19.8	46,890	100
Electrical appliances	8,561	19.3	11,382	25.7	44,371	100
Sheet-metal work	2,172	5.1	9,143	21.4	42,643	100
Wiring devices and supplies	11,319	29.5	21,995	57.3	38,367	100
Iron and steel forgings	3,036	8.3	6,005	16.4	36,724	100
Transformers	10,645	29.1	13,869	37.9	36,635	100
Hand tools, n. e. c	7,851	22.0	13,983	39.2	35,668	100
General industrial machinery, n. e. c	4,927	14.3	12,805	37.3	34,335	100
Screw-machine products	4,363	15.3	7,522	26.4	28,492	100
Typewriters	12,859	48.3	25,802	97.0	26,604	100
Primary metal industries, n. e. c	2,001	9.0	5,597	25.3	22,135	100
Cutlery	8,444	41.7	17,816	88.0	20,248	100
Motorcycles and bicycles	2,598	16.6	3,747	24.0	15,615	100
Blowers and fans	3,721	25.2	5,789	39.1	14,794	100
Edge tools	2,887	32.7	3,423	38.8	8,828	100

Total	365,631	11.7	792,768	25.4	3,118,517	100
Population, 1947	9,139,000	6.4	27,931,000	19.5	143,414,000	100
Income payments to individuals, 1947	$12,943,000,000	6.8	$44,819,000,000	23.7	$189,212,000,000	100

Source: Census of Manufactures, 1947.

EXHIBIT F.—*Tons of scrap iron and steel originated and terminated in New England, Carload traffic, 1940–49*

Year	Tons originated	Tons terminated	Net railroad tons outflow
1940	525,374	238,949	286,385
1941	689,122	220,421	468,701
1942	1,093,393	257,226	836,167
1943	1,060,606	232,618	827,988
1944	915,740	174,870	740,870
1945	896,153	180,796	715,357
1946	698,580	187,891	510,689
1947	1,043,550	253,830	789,720
1948	1,059,077	289,749	769,328
First quarter	199,566	63,432	136,134
Second quarter	296,787	80,595	216,192
Third quarter	256,572	73,315	183,257
Fourth quarter	306,152	72,407	233,745
1949:			
First quarter	262,348	88,286	174,062
Second quarter	123,980	49,870	74,110

Source: Interstate Commerce Commission, Bureau of Transport Economics and Statistics.

EXHIBIT G.—*Manufacturing profit for a New England steel mill—Case II—Using Labrador ore; selling prices at levels of Jan. 3, 1950*

[Based on operation at 85–90 percent of ingot capacity]

Product	Per ton			Monthly			Annual		
	Established cost	Established selling price [1]	Established manufacturing profit	Tons	Gross sales	Manufacturing profit	Tons	Gross sales	Manufacturing profit
Plates	$52.80	$78.00	$25.20	5,000	$390,000	$126,000	60,000	$4,680,000	$1,512,000
Hot-rolled sheets	53.80	82.00	28.20	25,000	2,050,000	705,000	300,000	24,600,000	8,460,000
Cold-rolled sheets	59.80	97.00	37.20	40,000	3,880,000	1,488,000	480,000	46,560,000	17,856,000
Total	57.16	90.29	33.13	70,000	6,320,000	2,319,000	840,000	75,840,000	[2] 27,828,000

[1] On basis of 20 percent heat-treated steel.
[2] Does not include estimated net profit of $500,000 on sale of byproducts.
NOTE.—Percentage of manufacturing profit to sales, 36.7.

EXHIBIT H.—*Schedule of rental payments for a New England steel mill*

[Based on $160,000,000 debt to Authority at 1¾ percent average interest and 25-year amortization at variable rate [1]]

	Principal, beginning of year	1¾ percent interest on outstanding principal	Amortization			Total rental	principal end of year
			Operations rate	Percent	Amount		
First year	$160,000,000	$2,800,000	70	3.0	$4,800,000	$7,600,000	$155,200,000
Second year	155,200,000	2,716,000	80	4.0	6,400,000	9,116,000	148,800,000
Third year	148,800,000	2,604,000	90	5.0	8,000,000	10,604,000	140,800,000
Fourth year	140,800,000	2,464,000	100	6.0	9,600,000	12,064,000	131,200,000
Fifth year	131,200,000	2,296,000	90	5.0	8,000,000	10,296,000	123,200,000
Sixth year	123,200,000	2,156,000	80	4.0	6,400,000	8,556,000	116,800,000
Seventh year	116,800,000	2,044,000	70	3.0	4,800,000	6,844,000	112,000,000
Eighth year	112,000,000	1,960,000	70	3.0	4,800,000	6,760,000	107,200,000
Ninth year	107,200,000	1,876,000	80	4.0	6,400,000	8,276,000	100,800,000
Tenth year	100,800,000	1,764,000	90	5.0	8,000,000	9,764,000	92,800,000
10-year average		2,268,000	82	4.2	6,720,000	8,988,000	

NOTE.—Reduction of principal in 10 years, $67,200,000. At that rate, principal retirement in 24 years.

[1] Rates for 25-year amortization (on initial principal):

	Percent
Ingot rate, 91–100	6.0
Ingot rate, 81–90	5.0
Ingot rate, 71–80	*4.0
Ingot rate, 61–70	3.0
Ingot rate, 0–60	2.0

* Normal, based on 36-year industry rate.

EXHIBIT I.—*Net profit for New England steel mill—Using Labrador ore; selling prices at levels of Jan. 3, 1950, first 10 years at assumed ingot rates*

[Dollars in thousands]

Item	First year	Second year	Third year	Fourth year	Fifth year	Sixth year	Seventh year	Eighth year	Ninth year	Tenth year	10-year average
Assumed ingot rate (on 1,250,000-ton capacity)	70	80	90	100	90	80	70	70	80	90	82
Gross sales	$58,990	$67,410	$75,840	$84,270	$75,840	$67,410	$58,990	$58,990	$67,410	$75,840	$69,099
Manufacturing cost	37,346	42,674	48,012	53,350	48,012	42,674	37,346	37,346	42,674	48,012	43,745
Manufacturing profit	21,644	24,735	27,828	30,920	27,828	24,736	21,644	21,644	24,736	27,828	25,354
Less:											
G. A. & S.[1]	2,065	2,191	2,275	2,528	2,275	2,191	2,065	2,065	2,191	2,275	2,212
Rental (interest (1¾ percent) and amortization)	7,600	9,116	10,604	12,064	10,296	8,556	6,844	6,760	8,276	9,764	8,988
Depreciation[2]	3,437	3,437	3,437	3,437	3,437	3,437	3,437	3,437	3,437	3,437	3,437
Property taxes[3]	240	240	240	240	240	240	240	240	240	240	240
Total	13,342	14,984	16,556	18,269	16,248	14,424	12,586	12,502	14,144	15,716	14,877
Net profit before taxes	8,302	9,752	11,272	12,651	11,580	10,312	9,058	9,142	10,592	12,112	10,477
Federal income tax (3 percent)	3,155	3,706	4,283	4,807	4,400	3,919	3,442	3,474	4,025	4,603	3,981
State income tax[4]	187	219	254	285	261	232	204	206	238	273	236
Total income taxes	3,342	3,925	4,537	5,092	4,661	4,151	3,646	3,680	4,263	4,876	4,217
Net profit after taxes	4,960	5,827	6,735	7,559	6,919	6,161	5,412	5,462	6,329	7,236	6,260
Net return on stockholders' investment ($80,000,000)	*Percent* 6.2	*Percent* 7.3	*Percent* 8.4	*Percent* 9.4	*Percent* 8.6	*Percent* 7.7	*Percent* 6.8	*Percent* 6.8	*Percent* 7.9	*Percent* 9.0	*Percent* 7.8
Net profit (after taxes) to sales	8.4	8.6	8.9	9.0	9.1	9.2	9.3	9.4	9.5	9.1	
Net profit (after taxes) per ton of finished products	$7.59	$7.80	$8.02	$8.10	$8.24	$8.25	$8.28	$8.36	$8.48	$8.61	$8.18

[1] Variable percentage of sales, based on operating rate (70 percent rate, 3.5 percent; 80 percent rate, 3.25 percent; 90–100 percent rate, 3 percent).
[2] Estimated at $2.75 per ton of annual ingot capacity of 1,250,000 tons, the rate currently charged on comparable operations. $1,800,000 may be taken as depreciation at 4½ percent on stockholders' $40,000,000 investment in plant and equipment. The remaining $1,637,000 may be taken as maintenance and repairs.
[3] Assuming site near New London, Conn., $12 per $1,000 valuation on $20,000,000. 50 percent of stockholders' $40,000,000 investment in fixed plant and equipment.
[4] 3 percent on net taxable income before Federal tax by formula that makes effective rate 2¼ percent.

EXHIBIT J. THE NEW ENGLAND COUNCIL, IRON AND STEEL COMMITTEE, 1950

Chairman: Frederick S. Blackall, Jr., president and treasurer, the Taft-Peirce Manufacturing Co., Woonsocket, R. I.
Vice Chairman: Richard L. Bowditch, president, C. H. Sprague & Son Co., Boston, Mass.
Secretary: Ray M. Hudson, New England Council, Boston, Mass.
Maine: John S. Chafee, vice president in charge of manufacturing, Saco-Lowell Shops, Biddeford.
New Hampshire: His Excellency Sherman Adams,[1] Governor of New Hampshire, Concord.
Vermont: Robert F. Patrick, treasurer, G. S. Blodgett Co., Inc., Burlington.
Massachusetts:
Roger C. Damon, vice president, First National Bank of Boston, Boston.
Brig. Gen. Georges F. Doriot, Harvard Graduate School of Business Administration, Boston.
Robert M. Edgar,[1] assistant to the president, Boston & Maine and Maine Central Railroads, Boston.
Hon. Robert F. Bradford, Palmer, Dodge, Gardner, Bickford & Bradford, Boston.
H. Frederick Hagemann, Jr., president, Rockland-Atlas National Bank of Boston, Boston.
H. F. McCarthy, vice president, New York, New Haven & Hartford Railroad, Boston.
Dr. Alfred C. Neal, vice president and director of research, Federal Reserve Bank of Boston, Boston.
Robert P. Tibolt,[1] vice president, Eastern Gas and Fuel Associates, Boston.
John F. Tinsley,[1] president and general manager, Crompton & Knowles Loom Works, Worcester.
Rhode Island:
Robert G. Ashman, president, Newman-Crosby Steel Corp., Pawtucket.
Fred C. Tanner,[1] vice president and general manager, Federal Products Corp., Providence.
Connecticut:
Maurice H. Pease, vice president and general manager, The Stanley Works, Bridgeport.
F. R. Hoadley, president, Farrel-Birmingham Co., Inc., Ansonia.

EXHIBIT K. A STEEL MILL FOR NEW ENGLAND—HIGHLIGHTS OF THE NEW ENGLAND COUNCIL'S ACTIVITIES

1. *November 1946.*—President Richard L. Bowditch proposes to executive committee of the New England council an economic research program to determine if a New England steel plant would be warranted. Preliminary work begun.
2. *March 1947.*—Mr. Bowditch first publicly urges New England as the logical location of a steel plant to be suplied from overseas mines.
3. *September 1947.*—The New England council retains Econometric Institute, Inc., to study the possibilities of establishing an integrated steel plant in New England.
4. *June 1948.*—The Econometric Institute reports to the council that New England has the markets, the labor, and the metal scrap to justify expansion of its existing nonintegrated steel production, and that new developments should be carefully studied.
5. *June 1948.*—Thirty-five officers and directors of the council journey to Canada to discuss matters of mutual economic interest with governmental and business leaders of Nova Scotia, New Brunswick, Prince Edward Island, and Newfoundland.
6. *July 1948.*—The Federal Reserve Bank of Boston and the New England council join in a study of the impact of the basing point decision on important New England industries.
7. *August 1948.*—The council and bank receive from Mr. John E. Kelly, mining consultant, a detailed report of the status of the recently discovered iron ore deposits in Labrador and Quebec, and current progress in their development.

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[1] Council officer or director.

8. *December 1948.*—The council appoints a New England iron and steel supply committee to study carefully all elements and available facts bearing on this subject. First meeting held.

9. *January 1949.*—Steel committee members begin exploratory conversations with top executives of major American steel companies.

10. *January 1949.*—Mr. Kelly renders completely documented Canadian ore survey to the Federal Reserve Bank of Boston.

11. *April 1949.*—Continued contacts with steel executives.

12. *June 1949.*—With new information available, the steel committee, under Chairman Frederick S. Blackall, Jr., retains Mr. Kelly's professional engineering services.

13. *July 1949.*—Mr. Kelly receives cordial cooperation from Canadian mining interests and visits Ungava ore deposits in Labrador and Quebec; also Newfoundland iron mines.

14. *August 1949.*—Under leadership of Chairman Blackall, Mr. Kelly and Dr. Neal of Federal Reserve bank begin direct negotiations with chief executives of several major basic steel companies.

15. *October 1949.*—Several coastal communities in New England organize study groups to prepare local site and resource data.

16. *January 1950.*—Dr. A. C. Neal, research economist on steel committee, testifies before Joint Committee on the Economic Report, concerning the economic feasibility for manufacture of steel in New England, and the region's need for a local source of steel.

The CHAIRMAN. As guests of the committee from the House they include not only those whom I mentioned at the beginning, Congresswoman Woodhouse; Mr. Norris Cotton, of New Hampshire; Mr. Donald W. Nicholson, of Massachusetts; but also Congressman John Heselton, of Massachusetts; and Congressman Foster Furcolo; who arrived during the presentation of your testimony.

I think the committee would desire to allow our guests to take the lead in questioning. Congresswoman Woodhouse, have you any questions?

Mrs. WOODHOUSE. Thank you, Mr. Chairman, I do.

Dr. Neal, would you tell us how many companies, steel companies, supply the bulk of the steel consumed in New England?

Mr. NEAL. Well, Mrs. Woodhouse, I wish I could give you an answer to that that would be more authoritative. We had hoped to obtain that information but, of course, could not get it from the companies. We do know, however, that the major supplier, the biggest supplier, by common consent in the industry, is Bethlehem Steel; American Steel & Wire, with operations at Worcester, is another major supplier; Republic Steel, which also has one or more subsidiaries in New England, is another major supplier, and I suspect that we get steel from 10 or a dozen other companies, besides those.

Mrs. WOODHOUSE. But the bulk of it is apparently in the hands of those that you mention?

Mr. NEAL. Yes, that is so.

Mrs. WOODHOUSE. That, I think, would have some bearing on your testimony as to the stumbling block of a new mill. I can appreciate what a mill would mean to New England, and I was wondering whether it would not be of advantage also to some other sections of the country.

For example, we produce a very large part of the metal products. If we could have some cheaper steel, would it not be possible to sell that machinery and the machine tools at a somewhat lower price in other parts of the country?

Mr. NEAL. I am sure we could. A saving of, say, five to nine dollars in the price of steel would make it possible for steel fabricators in New England not only to expand their business, but to expand it by virtue of giving their consumers, their customers, lower prices.

Mrs. WOODHOUSE. So that mill would really be an advantage to a very much larger area than New England?

Mr. NEAL. I believe that would be true.

Mrs. WOODHOUSE. You mentioned, what I also gathered from the testimony of various people representing the steel companies, that at current prices the steel customer is really paying for the modernization of these mills, and I was wondering from the point of view of the general economy of the United States whether it would be more efficient to have that sum of money put into a new modern mill in New England rather than being put into some of these much older mills in other sections of the country?

Mr. NEAL. That is a point that I would like to emphasize, that from a consumer's point of view, this is a new situation.

We have not had anything like this before with the consumer paying a large part of the modernization costs. Well, from the consumer's point of view it would be desirable to replace mill capacity in those places that would give the consumer the lowest cost; that is to say, as between two locations where you could make steel equally cheap, from a manufacturing point of view, it would be desirable to take the location which would deliver the steel to the consumer at the lowest delivered price; and I think that is the consumer's point of view in this situation.

Mrs. WOODHOUSE. And eventually would not that also mean a better return on the money invested?

Mr. NEAL. It should. You should be able to get a better return by lowering cost and giving better service to the consumer.

Mrs. WOODHOUSE. So that this New England mill would really be more profitable in the long run to the owners of the capital and the consumers of steel?

Mr. NEAL. That long run may be a long time.

Mrs. WOODHOUSE. Yes, but it is something we have to look at.

There has been some discussion here of a new mill in eastern Pennsylvania, and I was wondering if you would like to make a comparison of the advantages of a new mill in eastern Pennsylvania in contradistinction to a new mill in New England.

Mr. NEAL. Well, we have been a little bit discouraged by the announcement just before these hearings of the acquisition of a site for a new mill by United States Steel on the Delaware River.

We do not know yet what products would be made by that mill. We hope they would not be the products that we want to make. We have naturally investigated the advantages and disadvantages of that site as compared with our own.

It seems to me that one of the major disadvantages derives from the consumer's point of view. The consumer in New England will get very little benefit out of that mill that he could not get now from Bethlehem Steel.

In addition, there is some question, it seems to me, about costs. We have cheap scrap in New England; scrap will be more expensive at that Delaware River location.

So far as ore is concerned, I think it is a stand-off. I think that the saving in scrap at a New England location would more than compensate for the slightly higher cost of coal, but more than that, that mill is 130 miles up a river. Part of the channel of that river, when it is normally dredged and not silted, is 25 feet.

The most efficient-sized ore carrier now in operation by Bethlehem Steel will draw up that river in fresh water loaded about 33½ feet. In other words, the most efficient-sized ore carrier cannot be used at that location without very extensive dredging to a channel of about 36 feet.

I assume that Federal funds will be requested to do that dredging, and that will be an added cost to the public of a mill at that location.

I believe further that if you have to come 130 miles up and down a river for water shipments, that we will get very little advantage out of water shipment into New England. I believe that Sparrows Point could come into New England cheaper; and, further, to navigate that 130 miles takes at a minimum about 13 hours, and if there is fog or bad conditions, it may take you 24 hours or more, and that condition will certainly add to the cost at that location.

I should like to see the committee, if the committee felt inclined to do it, undertake a study of the relative advantages and disadvantages to the consumer of the location in the alternative areas.

Mrs. WOODHOUSE. I do not know that you noticed, Dr. Neal, but I did, that in the testimony given by the company that was proposing this new plant, the witness took a slap somewhat at your proposed method of financing with State aid, but I understand that if the mill is built on the Delaware River, the Federal Corps of Engineers will probably have to do a good deal of work, and I can see very little difference in borrowing money at a low rate of interest from the Government and asking the taxpayers to build a road to your mill.

I think that the taxpayer would pay more in the long run than he would in your financing.

But, you mentioned scrap. Was I right in gathering from your testimony during these days that that plays a very important part in the cost of production?

Mr. NEAL. It does because about one-quarter of the metal content turned out by an integrated mill would be derived from purchased scrap. It is a very important element of cost.

Mrs. WOODHOUSE. And New England is one of the great sources of scrap?

Mr. NEAL. Because of our very heavy metal-using industry, we are a surplus scrap-producing area. We produce a surplus which is two or three times as much as the mill that we propose would need.

Mrs. WOODHOUSE. Would it be right to sum up what you have been saying to be something like this: That the opposition of the steel companies to an integrated mill in New England cannot be justified on the basis of the available market or on the cost of raw materials or on the cost of production or in any other genuine economic condition?

Mr. NEAL. That is our belief.

Mrs. WOODHOUSE. So that one would have to come to the conclusion, wouldn't one, that the opposition was based on the power which they have in their sales and in what one might, perhaps, call quasi-monopoly conditions in the industry?

Mr. NEAL. Well, it is based upon, from our point of view, an unfortunate set of circumstances.

Mrs. WOODHOUSE. Thank you very much, Mr. Chairman.

The CHAIRMAN. Congressman Heselton, do you have any questions?

Mr. HESELTON. Just one question, Mr. Chairman.

Have you discussed the development of the Labrador ore, where it stands now?

Mr. NEAL. Have I discussed it, sir?

Mr. HESELTON. Yes.

Mr. NEAL. We have made, through our committee's consultant, Mr. John Kelly, a very extensive study of the cost and availability of that Labrador ore to us.

Mr. HESELTON. How soon would that be available?

Mr. NEAL. It would be available for the use of this committee any time it wanted it. We have the studies in written form.

Mr. HESELTON. Mr. Chairman, Mr. Kelly is a constituent of mine who has done a great deal of work, as has been indicated, and I think that study will be of interest to the committee.

The CHAIRMAN. It will be of interest, and the staff will communicate with Dr. Neal, and we will have that material at your convenience, sir.

Mr. NEAL. I am glad to make it available, sir.

Senator FLANDERS. I would like to ask at this point whether we are sure that the Labrador ore is available on the open market or whether it would be largely distributed to those who are engaged in its development.

Mr. NEAL. That is covered, sir, by contracts entered into by the Hollinger-Hanna people, and there is ample provision for a free supply of ore to be sold on the open market to the New England steel mill if we want it.

Senator FLANDERS. That is good news.

Have you any information as to whether the Venezuela ore will be similarly freely available?

Mr. NEAL. Mr. Fairless introduced a statement into the record of this hearing saying that they would be glad to sell us Venezuelan ore.

The CHAIRMAN. If you were established.

Mr. NEAL. If we were established.

The CHAIRMAN. What was the contract to which you refer with respect to the free delivery of the Labrador ore?

Mr. NEAL. Well, the original concessionary companies retain for their own distribution, independent of the distribution that will be taken by the steel companies that have bought into the project, as I understand it, something like one-quarter of the presently available ore, and all additional ore that may be discovered, and we know that a great additional amount will be discovered. They plan to ship 10,000,000 tons a year, and 2½ million tons will be one-quarter, and, of course, we will not need but a fraction of that.

The CHAIRMAN. Are there any other questions?

Congressman Herter?

Mr. HERTER. I would like to compliment Mr. Neal on his presentation. I think it is an extraordinarily good presentation, and a very thorough one.

I am wondering whether you plan to put the presentation that he has given in some printed form for distribution other than as it might appear in the record here?

Mr. NEAL. We would be glad to make copies available, in any reasonable quantity, sir.

The CHAIRMAN. You mean printed?

Mr. NEAL. Yes.

Mr. HERTER. With all due respect to my colleague, Mrs. Woodhouse, the use of New London in there does not preclude the possibility of Massachusetts being eventually selected by a steel company as a site.

Mr. NEAL. We had to use some point, and to shorten the record, I simply took one; I could have taken half a dozen, including Portsmouth, N. H.

Senator FLANDERS. I would like to bask for a brief moment in the reflected glory, with respect to the approbation which Mr. Herter has bestowed upon Mr. Neal.

I would like to say that I sought out and engaged Mr. Neal for his present position when I was president of the Federal Reserve Bank in Boston, and this very clear, complete, precise and understandable statement, I think, justifies my judgment of some years ago.

The CHAIRMAN. May I say that this is a perfect illustration of the combination of the wit of New England, and its skill. [Laughter.]

Mr. NEAL. I might add, Mr. Chairman, in doing this I was merely carrying out the mandate laid down by Mr. Flanders when he hired me.

(Additional comments on need for a steel mill in New England are included in Appendix A following the hearings.)

The CHAIRMAN. I think I ought to say that Senator McMahon, Senator Lodge, Senator Saltonstall, Senator Bridges, have been unable to attent this meeting because of other pressing engagements.

Senator McMahon, by the way, who initiated this request for the presentation of this matter with the committee, is today involved in a very important session of his Joint Committee on Atomic Energy.

I have just been handed a note that Senator Tobey who has a conflicting engagement of over 2 months' standing in New Hampshire, and left last evening to fulfill it, wishes to register his continuing interest in an integrated steel mill in New England. I take it that New England includes Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut.

I have received word from Senator Owen Brewster of Maine that he is extremely interested in this matter, and was prevented from attending only because of another meeting.

I have here, to be inserted in the record, a letter from Representative Porter Hardy, Jr., of the Second District of Virginia, asking that there be filed in the record at this point, a statement which he has prepared or which has been prepared by Mr. James Baylor Blackford of the school of geography, University of Virginia, at Charlottesville, under the title "A Virginia Location For The Steel Industry."

(The document referred to follows:)

HOUSE OF REPRESENTATIVES,
Washington, D. C., January 26, 1950.

Hon. JOSEPH C. O'MAHONEY,
Chairman, Joint Committee on the Economic Report,
Senate Office Building, Washington 25, D. C.

DEAR SENATOR O'MAHONEY: Attached is a statement prepared by Mr. James Baylor Blackford in which he has discussed Virginia as a location for the steel industry. Mr. Blackford's treatise presents in logical terms many of the con-

siderations which point up economic factors favorable to the location of a steel mill in or adjacent to my congressional district. His discussion I believe indicates knowledge of the subject.

Mr. Blackford is at present a graduate student of the school of geography, University of Virginia. Previously he purchased steel for the North Carolina Shipbuilding Co. at Wilmington, N. C., but since entering upon his studies at the University of Virginia he has devoted much time to research on this subject.

It is my understanding that tomorrow you will hear testimony concerning the economic advantages offered by New England as a location for the steel industry. I hape you will be good enough to have Mr. Blackford's discussion printed in your hearing record immediately following the New England testimony.

Sincerely yours,

PORTER HARDY, Jr.

A VIRGINIA LOCATION FOR THE STEEL INDUSTRY

Locating steel mills in Virginia is a favorite indoor sport nowadays with those people who deal in industrial locations. Only recently a newspaper article appeared in which it was stated that Richmond, Va., and Giles County, were the two locations under consideration by the United States Steel Co. for its new plant. Many people are beginning to wonder the reasons for this talk of steel mills coming into this State with pay rolls of millions of dollars, a reported 12,000 peoples to be employed, and hundreds of other industries being brought in, owing to the location of a fully integrated steel plant in the State. While there are many reasons for this sudden interest, the primary one is that of geographic location.

Right after World War II, Mr. L. S. Hamaker, of the Republic Steel Corp., said, "This is the last World War that will be fought off the Mesabi Range." The Mesabi Range supplies nearly two-thirds of the iron ore needs of the Nation. It is located in Minnesota, near Lake Superior, but today we are told that its importance is diminishing, as the rich ores are rapidly being used up. Over 65 percent of these ores have already been consumed, and at the present rate of consumption, these ores will not last another 15 years. This and other Lake Superior iron ore ranges contain huge reserves of lower grade ores, called taconite, and a great deal of work is being done in trying to find cheap methods of beneficiating these ores so that they will be rich enough to carry the cost of shipment to the Pittsburgh-Gary steel district. The Oglebay, Noron & Co., who own large ore deposits, have requested the Reconstruction Finance Corporation to lend over a hundred million dollars toward development of this project. To finish the job of taconite beneficiating plants will take more than a billion dollars and years to complete, it was brought out in these hearings. An integrated steel mill in Virginia would cost much less.

It is felt, however that the tremendous cost of such installation will prevent taconite replacing the high iron content ore reserves of the Lake Superior district. Therefore, newly developed ore reserves in Labrador, Brazil, Venezuela, Cuba, Chile, and perhaps Liberia, will take the place of the Mesabi Range. These ores will come in by boat to Atlantic coast ports, and meet the coal and limestone brought in by rail, and where they can be most efficiently brought together, and at the same time, not be too far from steel using markets, that place will be the seat of a new steel industry.

In the August 1947 issue of Harper's Magazine, Prof. Marvin Barloon, of Western Reserve University, in Cleveland, Ohio, contributed an article entitled, "Steel: The Great Retreat." Professor Barloon takes up the factors which will cause the decline of the Pittsburgh-Gary steel district, and forecasts that the new steel industry expansion will take place around Chesapeake Bay and Mobile, Ala. He tells how the Sparrows Point plant of the Bethlehem Steel Co., near Baltimore, has become that company's largest producer, owing to its use of cheap ores brought in by low-cost water transportation from Chile, and coal from northern West Virginia and Pennsylvania. Not only does this plant undersell any of the steel producers located further inland in the Atlantic coastal market but also can undersell the same mills in the Pacific coast market, owing also to low-cost water transportation of finished steel products to Pacific coast ports through the Panama Canal. He tells of the huge strike of rich iron ore in Labrador, 300 miles inland from the mouth of the St. Lawrence River, and the anticipated development of this territory by a number of steel mills. He tells also of the very important iron-ore reserves in Venezuela and Brazil, and the large amount of money being poured into their development. His magazine

article must have caused a great stir among those managing steel plants in the interior, as very shortly thereafter the president of the Inland Steel Co., whose plants are located around the Great Lakes, wrote an article in the Atlantic Monthly in which he tried to refute those prophets who forecast the decline of the Great Lakes region. His argument that no one has put up money to build such a mill is weak. The steel companies do not wish to move and won't move unless competition forces them to.

Looking into the factors which make the Chesapeake area of Virginia such a strategic location for a steel mill, we find a great many favorable points. We find we have an ice-free port, which can carry the largest vessels afloat up to the mouth of the rivers draining into Chesapeake Bay; we find plans afoot to deepen these rivers so that the huge ore-carrying vessels, with a draft of 35 feet and a capacity of 22,000 tons, may be able to come up as far as the deep-water terminal in Richmond, or a good ways up the New York River or the Potomac. We find the rich coke and coal reserves of northern West Virginia and Pennsylvania are fast becoming depleted, and that the coal fields of central West Virginia and western Virginia are able to furnish the coke and coal required. These fields, such as the New River district in West Virginia, produce very high grade coals, which are located on the three Pocahontas coal-carrying roads, the Norfolk & Western, the Virginia, and the Chesapeake & Ohio which roads furnish excellent service into Tidewater Virginia, and can lay coal at deep-water ports more reasonably than in Baltimore or Pittsburgh. Sparrows Point, Md., plant of Bethlehem Steel, now gets part of its coal barged up from Newport News, and it stands to reason that a steel plant located between Richmond and Newport News would be furnished coal cheaper, as the barge trip would be eliminated.

Steel mills use tremendous amounts of water for cooling operations, and it is said that a large fully integrated steel mill uses between 50,000,000 and 100,000,000 gallons of water per day. Norfolk interest requested Mr. Wallace, of the water-resources section of the Virginia Department of Conservation, to make a survey of eastern Virginia to find if there were enough fresh water available to operate a steel mill. He found by proper development of existing rivers, such as the Nottoway and the Blackwater near Smithfield, Va., a plant could be supplied from water stored in reservoirs from these rivers and the Meherrin River too, if need be, plus ground water. Around Petersburg the Appomattox River could be used and across the James River reservoirs could be put on the Chickahominy and Mattaponi. On the Potomac a small amount of water could be secured from Acquia Creek. So in all there are a number of good locations with available water, which if developed in large quantities might be secured for as low as 5 or 6 cents per thousand gallons in favorable locations, such as that near Smithfield, Va. These figures are, of course, mere estimates and detailed cost-studies have not been made. Looking at other industrial locations, we are told that the Sparrows Point plant of the Bethlehem Steel Co. is in such dire need of additional water that they go so far as to use the waste water of the city of Baltimore in their plant operations for cooling purposes. The recent drought in New York City shows the tremendous shortage of water resources in the Northeast, and it is felt that the availability of water is one of the primary considerations in the location of a steel mill. In connection with labor, the eastern Virginia area could furnish a greater supply than the western part of the State, and it has been felt that there has been a need for more heavy industry in this State, so that there will be a greater demand for the men in the labor force. At present there seems to be a greater demand for women than men, and that the high wages such an industry would bring to the predominantly male labor force would tend to make a better equilibrium in the labor force. The Hampton Roads area has such huge Navy and shipbuilding installations that the labor force for heavy industry is in shorter supply. In addition, the location of a steel plant in the Hampton Roads area would cause the concentration of strategic targets as to be dangerous from a defense standpoint. The need for fresh water as opposed to salt water in the actual operation of the plant would seem to limit its location as far as the James River is concerned, somewhere between Smithfield and the deep-water terminal, Richmond, Va.

There has been some talk recently of putting blast furnaces on the Potomac River, near Tidewater, Va., and undoubtedly, if the steel mills intend to decentralize and break up their large units, there will be mills located at several points in this State. Turning to Giles County, not only is the county closer to the coal fields, but underneath the county runs a deposit of extremely high-grade limestone. This section has developed so fast with the building of the Celanese

plant at Pearisburg, Va., the National Gypsum plant nearby, and the proposed cement plants in the vicinity of Roanoke, that there is some question as to the availability of a sufficient labor force. Undoubtedly, this section will continue to attract more industry, and whether Richmond or Giles County do get the first steel plant, if built, is a matter of conjecture. The cost of hauling the ore from deep-water ports to the western part of the State would be great, although the coal-carrying railroads would probably make a very favorable rail rate, as they now haul their coal cars back to the mine from these ports empty. If these cars were filled with iron ore, additional revenue would be secured by the railroads.

Turning back to the overseas iron-ore developments, most publicity is being given Labrador. Both the New England Council and the Federal Reserve Bank of Boston are going all out in their efforts to secure a steel mill to furnish the needs of New England. It is a sad commentary on this State that so little has been done in attempts to attract a steel industry in Virginia, when we find our New England friends using every method or resource at their command to get a mill located there. Were this mill to locate in Virginia, what happened in Baltimore might easily happen here. It has been estimated that the Sparrows Point mill with its annual pay roll of $60,000,000 has already brought more than 300 factories to that community. Instead of the young men migrating to other States for greater economic opportunity, Baltimore keeps its own and attracts outsiders. The technical graduates of VPI, VMI and the University of Virginia are now training at the State expense, and a large part seek employment elsewhere. Youth is the greatest asset of the State, and an industry which creates opportunity for the youth would go far toward helping the State achieve greater opportunity for all concerned, including the farm boys now displaced by farm mechanization, as well as the technically trained college graduates.

The great objection to the Labrador deposits is the 325-mile rail line which has to be built to the bank of the St. Lawrence River. We find this river frozen over half the year in the vicinity of the proposed iron ore port, Seven Islands, Quebec, and, in addition, it will be necessary to deepen the St. Lawrence in order to accommodate the deeper-draft ore-carrying vessels. While the St. Lawrence deepening project has been fought by the Middle West steel interests, a significant change in their attitude has been brought about by the realization that the Mesabi Range can no longer sustain that industry, and that the St. Lawrence will play a vital role in bringing in ore supplies. The Great Lakes themselves, however, as compared to the ocean, are comparatively shallow bodies of water. Great Lakes ore ships at present draw about 22 feet. Huge ore-carrying ocean cargo vessels with a draft of 30 to 35 feet could hardly be able to bring ore up from Latin America and deliver the ore at the steel-making centers west of Buffalo on the Great Lakes, as the cost of dredging a 30 to 35 foot channel is prohibitive. It is quite possible, however, that large quantities of ore will be brought in through the St. Lawrence-Great Lakes waterway when built, during the ice-free season in shallow draft vessels, and a part of the ore requirements of the Great Lakes district will be met from this source. It is of interest that Labrador ore tests about 60-percent iron while the Mesabi Range iron ore is now down to around 51-percent iron. It is understood that five of the large independent American steel companies have gone in together in the development of these Labrador deposits, and it is expected that construction work on a railroad to deep water will soon begin. It also appears that there are plentiful reserves of ore.

The advantage of the Chesapeake Bay area over both New England and the Middle West in using Labrador ore is that the ore can be hauled to a cheap dumping spot for coke and coal, with no transshipment and in deep-draft vessels. While New England consumes more steel and is a better source of scrap, the weakness is apparent if one considers the cost of hauling coal all the way from Hampton Roads to the Northeast ports which will receive the Labrador ore.

While there have been a number of articles in Fortune magazine, the Saturday Evening Post, and other periodicals on Labrador, little has been said of the development which has just about been completed in Venezuela. The beginning of 1950 will mark the start of the movement of ore from Bethlehem Steel Co.'s huge mountain of iron ore near the mouth of the Orinoco River at a place called Mina El Pao. This ore is reputed to contain as high as 72 percent iron content and is blasted off the mountaintop, trucked to a crusher, and put on a conveyor belt to a secondary crusher, and thence by a standard-gage railroad which will haul a 2,500-ton trainload to the Orinoco River at Paula. From there the ore will be barged down to a brand-new port on the lonely Paria Peninsula

opposite Trinidad, called Puerto Hierro. There the ore will be loaded in large ore-carrying vessels destined for Sparrow's Point or new steel locations. This represents an investment of $50,000,000 by Bethlehem Steel and is practically complete. It will be of vital importance to the steel industry along the coast of eastern United States. In addition, United States Corp. has six concessions south of Ciudad Bolivar within a hundred miles of Bethlehem development. This concession, or concessions, contains some 75,000 acres, and the United States Steel Corp. is making preliminary surveys toward the establishment of a railroad to the Venezuelan coast and avoiding the barge trip down to the mouth of Orinoco. It is felt that in a matter of months actual construction will start on the United States Steel project. Two of the big independents, Jones & Laughlin and Republic Steel, are also surveying this area. Construction engineers on loan from the Chesapeake & Ohio Railroad offices in Richmond have been surveying this territory in order to advise on rail construction problems. In Venezuela the discovery of another huge deposit bigger than anything on Mesabi was announced in papers January 25. It would appear, therefore, that the Venezuelan development is in reality more important than Labrador and that publicity has been purposely avoided. The ore boats picking up this ore can operate all 12 months of the year and carry the ore up through the Carribean Sea, skirting the Windward and Leeward Islands through the Anegada Passage east of the Virgin Islands and some 1,300 miles further north to the Chesapeake Bay Lightship at the entrance to Hampton Roads.

Since the United States Steel Corp. has no plant along the Atlantic coast, nor do the two independent steel companies, any one of these three is an excellent bet as a steel mill builder in Virginia. Recently some publicity was given to the fact that United States Steel had purchased a site on the Delaware River, near Trenton, N. J., and it is surmized that a steel mill will be erected there to serve that market. However, there has been a decided emphasis on the breaking up of large industrial plants and the erection of a number of scattered units owing to the Supreme Court decision ending the steel basing point system and as a defense measure. In addition scattered smaller units are less likely to suffer from labor difficulties. It is felt, therefore, that if United States Steel fixed the Delaware site first, another one of their plants should be put in Virginia. As far as the independents are concerned Republic Steel has another ore concession in Liberia, and needs a coastal location.

The greatest ore deposits in the Western Hemisphere are those located at the Itabira Mines in Brazil. These are big enough to supply the entire steel industry of the United States for 150 years. They can be mined by open pit methods and are richer than good Mesabi ores. These ores lie 325 miles from the ocean, and the land between is extremely mountainous and served by an antiquated railroad. During the war the Export-Import Bank lent money toward the improvement of this railroad, and recently additional money has been sent there. The longer rail haul to the coast of Brazil and the long ocean haul up from the vicinity of Rio Janeiro to the east coast will make these stupendous resources of ore at some disadvantage in the American market. Brazil is developing a steel industry of its own at Volta Redonda, and the lack of supplies of coal for this mill is serious. It is thought, therefore, that vessels bringing iron ore up to the Hampton Roads coal loading ports could find a profitable return cargo in bituminous coal for Brazilian industry. There are political handicaps to development of these deposits by American companies. Under Brazilian law all ore deposits are the property of the Brazilian Government, and taxation is severe. Development is permitted to Brazilian companies only, and American companies could participate only in a minor capacity. Since these deposits are so huge, so easily mined, and of such high iron content, it is felt that development will proceed regardless of certain difficulties. Brazil has little coal, and ships from Hampton Roads carrying coal down would bring iron ore back.

Bethlehem Steel secures most of its ore from Chile, and some from Cuba and Sweden for its Sparrows Point plant at present. Some ore has been brought in from Spain and Spanish Morocco, but more interest has been shown in the Venezuelan, Labrador, and Brazilian deposits than those already being used. It is felt, therefore, that these three countries will spark the development of a steel industry in this State, for as long as ore will be brought in by ship to take the place of that brought across the Great Lakes, Chesapeake Bay will be of primary importance.

The April 1949 issue of the Journal of Political Economy had an article by Isard and Capron entitled, "The Future Locational Pattern of Iron and Steel Production in the United States." They do not go so far as Professor Barloon in

forecasting a movement to Chesapeake Bay, but they forecast that the Pittsburgh area region will definitely decline in importance, and the east coast will grow. They discussed the changes brought about by technological improvements, such as the use of enriched air and oxygen in the blast furnace, and the saving of fuel by its use. They discussed the pros and cons of taconite beneficiating plants, which probably will be erected in the Lake Superior region and arrived at the conclusion that only a small part of the present ore demand can be met by this method. They see a bright future for the steel industry in the Detroit area, but also point out the large demand for steel products created along the Gulf coast and California in particular, and the east coast and South in general. Some mention is made of the expansion of the steel industry in the Birmingham district, and mention is made that there is evidence to suggest that in the past the development of the Birmingham district, a natural low-cost steel center, has been retarded in order to maintain the profitability of operations at Pittsburgh. The basing-point decision would seem to put an end to any like development which might retard the development of the steel business in Virginia.

While there are undoubtedly efforts to maintain the status quo and to dampen the vigor of entrepreneurship which might threaten such cities as Pittsburgh, Youngstown, Cleveland, Chicago, Gary, etc., one might point out Henry J. Kaiser as one who successfully created a competitive producer of steel. It might be of interest to know that a Mr. Page, a Virginia engineer, was responsible for the building of the huge Tata Iron Works in India, which are among the largest in the world. If wealthy Cleveland interests can endeavor to secure Government loans to build beneficiating plants in Minnesota, there would seem to be little reason why Virginia engineers and entrepreneurs, with greater reason, could not apply for a loan to erect their own steel plant.

No matter whether the Army engineers recommended the deepening of the James River or not, the fact that this region is the natural entry point for foreign ores, has abundant water supply, has excess labor, and is in need of heavy industry, would make Virginia a fine consideration in any decision as to the location of a steel mill. While many dislike the industrialization of our State, opportunities must be created for our population and 1950 may loom large in Virginia's future development.

The CHAIRMAN. In view of the fact that we have been falling behind a little bit in the presentation of witnesses, according to our schedule, Mr. Homer, of Bethlehem, who was to be next on the list, has kindly consented that Mr. John N. Marshall, chairman of the board of the Granite City Steel Co., may be heard before him.

In view of the fact that Mr. Marshall has an engagement which will call him out of the city this afternoon, and in view of the additional fact that his statement consists of only four pages, if there is no objection, I shall call Mr. Marshall to the stand now.

STATEMENT OF JOHN N. MARSHALL, CHAIRMAN OF THE BOARD, GRANITE CITY STEEL CO.

Mr. MARSHALL. I want to thank the members of this committee for the privilege of presenting to them a statement with respect to the recent increase in the price of our steel products.

Granite City Steel is a typical semi-integrated steel company. It is one of the smaller steel companies. It accounts for little more than one-half of 1 percent of the ingot capacity of the country. However, Granite City Steel is no small factor in its community. It employs 3,200 people; it has an annual pay roll of over $11,000,000 and generates the greatest part of the employment in its community of over 25,000 people. Its plant and equipment are on the books at a value of over $26,000,000. The current replacement value of its equipment would be considerably higher than this.

Granite City Steel has been in business for practically 75 years. It has a modern plant. It has the know-how for efficient steel opera-

tion. Even in 1932 it was one of the few companies in the whole steel industry to be able to operate at a profit. It cannot continue to serve the best interests of its employees, its customers, and its community without an adequate profit margin. No company can stay in the steel business if it does not have the money to keep its plant modern and efficient.

Steel operation requires a tremendous dollar investment in plant and equipment. Let me give you the Granite City Steel picture:

In 1935, Granite City Steel realized that its old method of rolling sheet steel by hand was no longer adequate. It would have to modernize. Granite City Steel was as confident then, as it is today, that steel prices would have to provide a "livable" margin of profit in the general welfare of every steel community and the country as a whole.

Granite City Steel makes practically every type of flat rolled sheet steel used in the fabrication of household articles, tin cans, farm equipment, electric motors, and a multitude of other products using sheet steel. Its old hand-mill equipment was originally adequate to take care of its customers' needs. This type of equipment became obsolete with the advent of the continuous hot-strip mill and subsequently the continuous cold-strip mill. Granite City Steel had to spend $20,000,000 to modernize its rolling facilities, thus doubling the company's gross plant investment. It should be emphasized that this expenditure did not increase the company's capacity to produce light-gage sheets—it simply brought its equipment in line with technological improvements—it simply enabled the company to stay in business and be competitive.

The CHAIRMAN. What did the technological improvements do?

Mr. MARSHALL. They improved the quality of the steel, and increased the use for which this type of steel is required. The old hand-mill steel was not the type of steel that could be used today in the modern fabrication of finished products. The quality of the steel in the new mills is greatly superior to that of the old hand mills.

The CHAIRMAN. Now, what effect did it have on price?

Mr. MARSHALL. On the price?

The CHAIRMAN. Yes.

Mr. MARSHALL. The effect on the price was entirely competitive. We have always had to compete. We have had to sell our product, and a quality product, at a price that would compete with the other steel mills.

The CHAIRMAN. I recognize that there are other factors that go into costs——

Mr. MARSHALL. Yes.

The CHAIRMAN (continuing). And that in an inflationary period costs go up, necessarily.

Mr. MARSHALL. That is right.

The CHAIRMAN. But I see three factors here, with respect to modernization: First, the possibility of increasing capacity; second, the possibility of increasing quality; and third, the possibility of producng steel at a lower relative cost, if not at a lower actual cost.

Mr. MARSHALL. Right.

The CHAIRMAN. Now, you testified that your modernization did not increase your capacity.

Mr. MARSHALL. That is right.

The CHAIRMAN. It did improve the quality of the product.

Mr. MARSHALL. That is right.

The CHAIRMAN. So, what was the relative effect on price?

Mr. MARSHALL. The relative effect on price was that it enabled us to produce in competition with the other steel mills. In other words, the actual cost was less than it would have been if we had not made the expenditure.

The CHAIRMAN. Yes; so that, assuming the old elements of cost, the modern plant would produce a better quality at a much lower price.

Mr. MARSHALL. That is right.

The CHAIRMAN. Yes.

Mr. MARSHALL. During the period in which the $20,000,000 was spent on modernization, that is, from 1935 through 1948, Granite City Steel dismantled obsolete equipment amounting to approximately $7,000,000. In other words, it took three times as much new money to replace the old equipment. Where did the money come from? Normally, depreciation should have provided for the major portion of the necessary funds. Actually, depreciation accounted for less than 50 percent of the capital expenditure, with the balance coming partially from stock issuance, but largely from bank debt. Here are the figures:

(1) In the period 1935 through 1948, depreciation amounted to $9,900,000. The company sold common stock for $2,500,000 in 1935 and borrowed money from the banks in each year since then. The company still owes $3,600,000 on bank debt and equipment notes.

(2) In the period 1935 through 1948, profit after taxes amounted to $8,500,000. If profit were added to depreciation, assuming no dividend payment whatever, and that working capital requirements remained unchanged, we would have had a total of $18,400,000 for property expenditures. This would still have been short of actual needs by approximately $1,600,000.

(3) The corporate income tax is substantially higher today than it was in the thirties. A more accurate picture would therefore be obtained if we adjusted our profits to reflect current tax rates. On the assumption that the current tax rate of 38 percent had been in effect for the entire period since 1935, profit and depreciation would have totaled $18,000,000, leaving a deficit of $2,000,000.

(4) The company has had a conservative dividend policy. It paid out as dividends approximately one-third of profits, or $3,200,000 in the period under consideration. If dividends were taken away from the $18,000,000 adjusted profit and depreciation figure, a balance of only $14,800,000 would have been theoretically available for property expenditures. This was equivalent to 75 percent of what we actually spent.

I might point out that we have not included figures for 1949 since they are not yet available. Preliminary indications, however, are that depreciation continues to fall considerably short of what we are spending for capital improvements and, frankly, we are faced with the need of considerable additional capital expenditures in the next few years if we are to stay in business and continue to be competitive.

What has been the history of steel prices? What has been the history of steel costs? Where do they stand? We know that in 1939 the composite price of finished steel (American metal market) averaged 2.64 cents per pound. Before the recent price increase, the

finished steel price composite stood at 4.20 cents per pound, an increase of 59 percent over 1939. The composite now stands at 4.38 cents per pound, an increase of 66 percent over 1939. On the other hand, the index of industrial raw material prices (U. S. Bureau of Labor Statistics) increased from an average of 70 in 1939 to approximately 160 currently, or 128 percent. Hourly steel-labor rates have increased over 100 percent before including the cost of pensions and insurance which become effective in 1950. Profits in the steel industry in the past few years, therefore, have been earned on volume rather than on prices.

As a small steel company, our problem is the same as that of the large companies except that we purchase rather than produce the raw materials we use. Also, we have practically no other source of revenue but what we make on our steel operation. We have to keep steel prices in line with costs if we are to stay in business. We have to be able to meet the competition of the larger companies, in prices, in efficiency of production methods and in labor. For example:

In 1939 our average price of cold rolled sheets, including extras, was $63.46 per net ton at the mill. Before our recent price increase, we averaged $93.29 per net ton at the mill, an increase of 47 percent. Our price increase effective December 27, 1949, will average between $3 and $5 per ton on cold rolled sheets, depending on gage, size, and so forth, which will bring our realization, let us say, to $97 per ton at the mill, an increase of 53 percent over 1939. On the other hand, our scrap costs have increased 96 percent since 1939, our pig iron costs 152 percent, our labor rates 102 percent and this is exclusive of the cost of pensions and insurance.

The CHAIRMAN. Where do you buy your scrap?

Mr. MARSHALL. Wherever we can. We buy it from scrap dealers; we buy it wherever we can pick it up.

The CHAIRMAN. Where do you buy your pig iron?

Mr. MARSHALL. We buy our pig iron at present from the Koppers Co., which has blast furnaces across the tracks from our mill.

The CHAIRMAN. And, of course, your labor is locally recruited?

Mr. MARSHALL. Yes, that is right.

The CHAIRMAN. So that of these three items, pig iron has increased 152 percent, labor 102 percent, and scrap, 96 percent?

Mr. MARSHALL. That is right.

The CHAIRMAN. The biggest increase was in pig iron?

Mr. MARSHALL. That is right.

Now, I must stress that cold-rolled sheets are one of the products for which we have spent $20,000,000 on modernization and on which our profit has been "squeezed" by an unrealistic price structure. We are sure you will agree with us that the $20,000,000 of new capital investment is entitled to a reasonable return.

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 business, which is the production of steel ingots and the rolling and processing of these ingots into such finished products as sheets, tin-plate 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 com-

panies. 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.

The CHAIRMAN. Would you amplify that?

Mr. MARSHALL. Yes.

The CHAIRMAN. What do you mean by saying that the "raw materials are removed as a factor from the selling price," Mr. Marshall?

Mr. MARSHALL. In these contracts, which we had for conversion, the company to whom we delivered a finished rolled product furnished the raw materials. We were not concerned with the price of the raw materials which we were required to convert.

The CHAIRMAN. You made a contract under which you charged only for the process of converting?

Mr. MARSHALL. That is right; yes, sir.

The CHAIRMAN. I see.

Mr. MARSHALL. And that is the situation.

The CHAIRMAN. So whatever the basic material cost, it was paid for by your customer.

Mr. MARSHALL. That is correct.

The CHAIRMAN. Plus a pofit to you for the process that you applied.

Mr. MARSHALL. That is right, for converting that raw material into a finished steel product.

Effective in 1950, we will have to provide for the cost of pensions and insurance. We do not know what the pension cost ultimately will be. It should be obvious, however, that recent price increases were necessary even exclusive of pensions and insurance.

In summary, I would like to state that it is my firm conviction that the steel industry will have to keep its price structure realistic if it is to continue as the keystone of the economy.

The CHAIRMAN. Are there any questions?

Senator FLANDERS. I would like to ask one or two, if I may.

The CHAIRMAN. Senator, you may proceed.

Senator FLANDERS. Mr. Marshall, the data which were given out to the committee did not show much information on the smaller steel companies. For that I have had to turn to the material presented yesterday by Mr. Brubaker, who gave some figures on nine of the smaller companies, of which yours is one.

Two or three questions are raised in my mind: One of the most interesting is that you seem to have had, on the basis of his table 3, a better return on net worth than the United States Steel Corp., considerably better.

Are you willing to admit that soft impeachment?

Mr. MARSHALL. I do not know his table. I did not see that, but I can check that.

Senator FLANDERS. He gives 15 percent return on net worth after taxes for the first 9 months of 1949 and 23.4 for the full year of 1948.

Mr. MARSHALL. No; he is incorrect there. Our profit on invested capital from 1935 through 1948 is listed down here—now, he has only taken the years 1948——

Senator FLANDERS. He has taken the years 1948 and the first 9 months of 1949. However, the 9 months of 1949 are given as an annual rate.

Mr. MARSHALL. Well, the year of 1948, the percent of profit on invested capital was 15.06.

That was because of this conversion. The profits this year, 1949, I mean, in which there is less conversion, have dropped to an estimated 12.16 percent, and will continue to decline unless steel is priced realistically. We will no longer be in a market in which a customer would be willing to furnish the raw materials.

The CHAIRMAN. On what basis have you figured these profits?

Mr. MARSHALL. On invested capital.

Senator FLANDERS. Then the figures that I was reading are on net worth.

Mr. MARSHALL. On net worth? Let me see—I can give it to you in percent on tonnage shipped, percent of sales, and I can give it to you on invested capital, but I cannot——

Senator FLANDERS. You do not have it on net worth?

Mr. MARSHALL. No.

Senator FLANDERS. On sales, the figures given for the first 9 months of 1949 on an annual rate are—well, that is a percentage—here is 6.5, and for the full year of 1948, 9.5.

Mr. MARSHALL. For the full year of 1948 it is 7.95 and for the year 1949 it is 6.2.

Senator FLANDERS. I wonder where the discrepancy comes in?

Mr. MARSHALL. I do not know, but I am sure of our figures, and I have not seen his or had a chance to check them.

Senator FLANDERS. Well, I am interested in these discrepancies, and I do not know just how we are going to find out where the difference lies.

There were one or two other questions which I wanted to ask, and I will proceed to do so, although I must admit I am somewhat baffled by the discrepancies I hear when the information is supposed to be derived from your published company reports.

Mr. MARSHALL. From the statement, that is right.

Senator FLANDERS. You might take a look at those figures and see if you can make out what the source of the difference is.

Mr. MARSHALL. Yes.

Senator FLANDERS. But this question I wish to ask you: I have been interested in the impact of labor policy, union labor policy, on small companies.

You seem to be in a fairly favorable position as compared with a big company, so that is not always the case, but I would like to ask you whether you felt, in the first place—let me ask you this: Have you signed a new contract?

Mr. MARSHALL. Yes; we have.

Senator FLANDERS. With the steelworkers?

Mr. MARSHALL. For pensions and insurance; yes.

Senator FLANDERS. You feel that the costs involved in that new contract present to your company an emergency in any way?

Mr. MARSHALL. In studying our preliminary figures, I will say that the cost to us will be equivalent to the entire profits we were able to earn in many a past year.

Senator FLANDERS. What about the coming year, 1950?

Mr. MARSHALL. 1950?

Senator FLANDERS. How is it going to affect you, supposing you had not raised—have you raised steel prices?

Mr. MARSHALL. We have; yes, sir.

Senator FLANDERS. Supposing you had not raised steel prices, what would it have done to your profits of last year, extend them through 1950?

Mr. MARSHALL. They would reduce them materially.

Now, we have no exact figures, but there are years here—take in 1937 where our total profits were $254,000, well, we know that this will cost us considerably more than $254,000, and the next year, 1938, we lost $338,000.

Senator FLANDERS. Let us talk about 1949.

Mr. MARSHALL. Well, 1949 profits—we made considerably more money and, therefore, it would not have wiped out all the profits.

For instance, take $2,900,000 estimated net profit after taxes in 1949; and just at a rough guess we have no idea of this, $500,000 a year would reduce that down to $2,400,000.

Senator FLANDERS. Now, let us see, the table furnished by Mr. Brubaker indicated that—well, it is not put in such a form that it is easily expressed.

But you did hear his testimony yesterday?

Mr. MARSHALL. No; I did not.

Senator FLANDERS. I am sorry you did not.

Mr. MARSHALL. I am sorry I did not.

Senator FLANDERS. I am sorry for any steelman who did. [Laughter.] I am sorry for any steelman who did because he criticized so severely the contention of increased costs, and I wish you had heard him and were prepared to indicate as to how well you thought he made his case. I hope you will read it.

Mr. MARSHALL. I will read it.

Senator FLANDERS. You will have an opportunity later to make inquiry?

The CHAIRMAN. We shall try to do that, Senator.

Senator FLANDERS. I should hope there is no steelman coming before us who has not read it or heard it. We won't be able to get much criticism of it unless it has been read.

The CHAIRMAN. I think there is rather a good deal of interest in everything that has been presented here in the entire steel industry.

Mr. MARSHALL. There is.

The CHAIRMAN. Are there any further questions?

Senator FLANDERS. No more questions.

The CHAIRMAN. Senator Sparkman?

Senator SPARKMAN. Let me ask just this one question of Mr. Marshall: Are we to understand from the concluding remarks of your statement that you are going to have to raise the steel prices again in 1950?

Mr. MARSHALL. There is a possibility; yes.

Senator SPARKMAN. Do you think that is true of the steel industry generally?

Mr. MARSHALL. The answer to that is that we will not, of course, be able to raise our prices unless the steel industry, in general, does; we would not be able to compete. Now, if the steel industry in general does increase their prices, we certainly will. I cannot speak for the rest of them.

Senator SPARKMAN. Well, it seems from your statement that you feel that either you must raise steel prices again in 1950 or sustain a loss.

Mr. MARSHALL. Not necessarily a loss, but not a realistic enough profit, that is the point.

Senator SPARKMAN. Well, you bring out the fact that it was necessary to raise the prices this year to absorb the additional costs.

Mr. MARSHALL. That is right.

Senator SPARKMAN. Would you not include pensions and insurance?

Mr. MARSHALL. That is correct.

Senator SPARKMAN. Which are going to fall on you in 1950.

Mr. MARSHALL. That is correct.

Senator SPARKMAN. Then, that added load might not be enough to take up all of your profits, but you think it would cut down the margin of profit?

Mr. MARSHALL. Very considerably.

Senator SPARKMAN. To too narrow a margin?

Mr. MARSHALL. That is correct. It might wipe out our profits entirely, but it will certainly materially reduce them, and down to a point where it is not realistic, where the return is not——

Senator SPARKMAN. I wonder if you could tell us what is realistic.

Mr. MARSHALL. Yes. I have said 18 percent on your invested capital should be a realistic price.

Senator SPARKMAN. That is after taxes?

Mr. MARSHALL. That is after taxes, and the reason I say that is, as I said in my statement there, the equipment——

Senator SPARKMAN. I believe, may I say this—you said that about one-third would normally be paid into dividends?

Mr. MARSHALL. That is right.

Senator SPARKMAN. In other words, then if you made 18 percent on invested capital, the stockholders could count on getting about 6-percent return on their investment, is that right?

Mr. MARSHALL. That is about right.

Senator SPARKMAN. And your 12 percent would be necessary for replacement?

Mr. MARSHALL. That is right; and the 12 percent would be necessary for replacement, and for continued——

Senator SPARKMAN. Do you think that is a pretty safe normal operating figure?

Mr. MARSHALL. With 12 percent after a fair return to the stockholders, we feel that we could continue to modernize, keep up with the parade.

Senator SPARKMAN. Of course, a great part of this modernization program came on you all at once because you converted over from one method of operating to another.

Mr. MARSHALL. Actually it was 10 years with us.

Senator SPARKMAN. Well, 10 years—but even that was a great big job——

Mr. MARSHALL. It was.

Senator SPARKMAN (continuing). Which will not have to be done again for a long, long time, if ever.

Mr. MARSHALL. We are faced with considerable expenditures even today.

Senator SPARKMAN. In other words, to what extent is this modernizing that you speak of a continuing thing?

Mr. MARSHALL. Continuing all the time. I could spend——

Senator SPARKMAN. To some extent?

Mr. MARSHALL. Yes, sir.

Senator SPARKMAN. But not to the extent of $20,000,000?

Mr. MARSHALL. Yes.

Senator FLANDERS. Did you put in a continuous strip mill?

Mr. MARSHALL. Yes.

Senator FLANDERS. You do not do that every year.

Senator SPARKMAN. Or every 10 years.

Mr. MARSHALL. No; but the equipment that goes with it is very, very expensive, and there is a lot of equipment that if we got hold of money we would put in right away to keep modern.

Senator SPARKMAN. Thank you.

Mr. MARSHALL. You are welcome.

The CHAIRMAN. Mr. Marshall, I observe that Granite City, Ill., rather depends upon your industry?

Mr. MARSHALL. That is right.

The CHAIRMAN. Is it a one-industry town?

Mr. MARSHALL. No; there are other industries there, but we are the main one.

The CHAIRMAN. You are the main one?

Mr. MARSHALL. Yes.

The CHAIRMAN. If anything should happen to your company, then it would be pretty tough on Granite City?

Mr. MARSHALL. Almost a catastrophe.

The CHAIRMAN. What do you say with respect to the ability of a small steel producer to compete with the large units.

Mr. MARSHALL. I think we can, and I think we have shown it over a number of years, and I am quite sure we can compete.

The CHAIRMAN. What were the advantages which you have?

Mr. MARSHALL. Advantages we have is in our location, and it sounds rather silly, but the ability of our men.

The CHAIRMAN. Oh, praise your men; we will accept it, certainly.

Mr. MARSHALL. Yes, sir.

The CHAIRMAN. We will accept it—and your women, too, I might say.

Mr. MARSHALL. Yes; that is correct.

I think we have successfully competed with them, and I think we will successfully compete with them.

The CHAIRMAN. You think you can continue?

Mr. MARSHALL. Yes, sir.

The CHAIRMAN. What are your handicaps?

Mr. MARSHALL. Our handicaps are the variations in the price of our raw materials, such as scrap and other raw materials, that we cannot control the price of.

By "control," I mean with pressure here and there, and by our purchasing.

The CHAIRMAN. How about the price of ore?

Mr. MARSHALL. The price of ore does not directly affect us because we use no ore.

The CHAIRMAN. You do not use any ore?

Mr. MARSHALL. No; we use no ore.

The CHAIRMAN. I see.

I thought somewhere during the presentation of your paper you spoke of being in a squeeze, did you?

Mr. MARSHALL. Yes; the squeeze of higher labor costs and the squeeze of higher raw material.

The CHAIRMAN. Pig-iron costs?

Mr. MARSHALL. Pig iron and scrap; yes, that kept squeezing in until our margin very nearly disappeared.

The CHAIRMAN. You have felt that your company ought to have 18 or 20 percent, on what, on invested capital?

Mr. MARSHALL. Invested capital; yes.

The CHAIRMAN. You have been unable to do that because you do not dare to raise prices until you can follow United States Steel or some other big fellow?

Mr. MARSHALL. Yes, we did. At the end of 1948 and the first part of 1949, we charged $10 a ton—basically $10 more a ton for our cold-rolled sheets than United States Steel Corp. or any of the larger steel outfits because we could get it.

Then, when the market dropped our customers would not pay us a $10 premium to get our sheets.

The CHAIRMAN. Well, that was then because of the great demand at that time?

Mr. MARSHALL. That is right.

The CHAIRMAN. I see.

Mr. MARSHALL. We charged that at that time.

The CHAIRMAN. That was a seller's market and you could get about whatever you wanted to charge, is that it?

Mr. MARSHALL. That is right.

The CHAIRMAN. Does this fact with respect to prices and profits indicate at all that the larger companies are more efficient than the smaller companies?

Mr. MARSHALL. I do not believe they are.

The CHAIRMAN. What about extras? I noticed your reference on page 4, you said, "In 1939 the average price of cold-rolled sheets, including extras, was $63.46 per net ton at the mill."

Now, I am not a steel man, as has been pretty clear here, but many who are engaged in the business, fabricators and others, constantly tell us that there is a little mystery about the price of extras, and that it is in the charging of these extras that the real increase of price comes; and sometimes the application of a little pressure at psychological places in a competitive field.

Mr. MARSHALL. Could I change one of your words?

The CHAIRMAN. Yes, indeed.

Mr. MARSHALL. You said the "real price." Let us say the "realistic price." There has been the trouble in the steel business.

The steel companies sold a great number of products far below what they cost to make them. They were tonnage-minded, and were guided by the over-all general tonnage.

In the present situation, where there are special steels with special treatments and special sizes and special packaging, all of those add considerably to the cost, and those costs are much more—are felt very much more.

Now, with high labor rates—because labor goes into all of that—and the recognition as to which product costs more than another prod-

uct, the steel companies are becoming realistically price-minded, and they are charging a difference, and that is where the extras come in.

The CHAIRMAN. Are you telling us that the steel industry has not kept pace with other industries in increasing production and lowering price through technological improvement at an advance in efficiency?

Mr. MARSHALL. No, I am saying that the steel companies, in my estimation, have never priced their various products realistically.

The CHAIRMAN. Well, I have heard it stated by men whom I presumed had some knowledge of the matter, that increasing prices for steel products would open the door to light metals in many fields, which are presently served by steel products.

Mr. MARSHALL. That is another point. When that opens the door so wide, the economy of the situation will force the price of steel to compete, and it will force it down.

The CHAIRMAN. Then, you are in danger of inviting the consuming public to turn to light metals if the steel industry raises its prices to these realistic levels.

Mr. MARSHALL. You asked me about extras. That is an expression of a realization that different steel products should be priced differently, and that is why these extras may amount to a great deal more than the $5 a ton.

Take pickled and annealed and wrapped sheets cut to size; of course, they cost more, and there is an extra for each part of handling.

The CHAIRMAN. Then, do I understand by that that you mean that a wide sheet would cost the customer less than a narrow sheet?

Mr. MARSHALL. Yes; depending on—let us take it in widths and gages.

Now, gages are thicknesses. The number of sheets to an inch, the more there are to an inch, the more that is going to cost.

The CHAIRMAN. For example, would you sell sheets, wide sheets to a fabricator who would himself cut those sheets into narrower widths and for other purposes at a lower price than you would sell him the narrow width?

Mr. MARSHALL. Very much; very much lower price.

The CHAIRMAN. At a very much lower price?

Mr. MARSHALL. Yes.

The CHAIRMAN. So there is a differential between the wide sheet and the narrow sheets?

Mr. MARSHALL. That is right, and the special sized sheets, and the special packaged sheets, and all of those things.

The CHAIRMAN. In this new price arrangement of extras has there been any change in the price, let us say, of the wide sheet as compared with the narrow sheet?

Mr. MARSHALL. There has been, and that is my point exactly, and these new extras are much more realistic than the old extras.

The CHAIRMAN. What effect will they have on the customer?

Mr. MARSHALL. They will have the effect on the customer of making him see whether he cannot use a cheaper size than to demand special wrapping of paper and special loading, and it will force him to buy the cheapest he can use.

The CHAIRMAN. Well, there are other questions we can ask, Mr. Marshall; it is all very interesting.

I want to thank you on behalf of the committee for your presentation.

Senator SPARKMAN. Mr. Chairman, let me ask another question.

The CHAIRMAN. Senator Sparkman?

Senator SPARKMAN. I just wanted to ask Mr. Marshall this question: He anticipates that the steel industry may have to increase its prices during 1950. He says certainly his company is going to feel the pinch, and I assume that similar companies will.

Now, suppose instead of increasing the price of steel, the big companies cut the price of steel. What is going to happen to your company?

Mr. MARSHALL. It will have quite an effect on us.

The CHAIRMAN. Good or bad?

Mr. MARSHALL. Bad. [Laughter.] It will be quite bad.

The CHAIRMAN. I wanted to hear your emphasis.

Senator SPARKMAN. In other words, the small companies are more or less at the mercy of what we call Big Steel so far as the prices are concerned.

Mr. MARSHALL. They are at their mercy but large and small alike are subject to economic conditions. They do just what we do. They try to keep their mills running at the fullest amount they can, and the price of steel is set by the economic conditions, and what a person will pay for it.

During recent years, they would have paid 10 times as much as the steel companies would have charged. The steel companies kept their prices down, and that was an unusual situation, but ordinarily the price of steel is set by the consumer.

Senator SPARKMAN. You think, then, that the competitive market will take care of the situation?

Mr. MARSHALL. I am sure of it.

Senator SPARKMAN. All right; thank you, sir.

The CHAIRMAN. The committee stands in recess until 2:30 this afternoon.

(Whereupon, at 12:45 p. m., the committee recessed, to reconvene at 2:30 p. m., on the same day.)

AFTERNOON SESSION

Present: Senators O'Mahoney (chairman) and Sparkman; Representatives Patman, Buchanan, and Rich.

Also present: Senators Brien McMahon and William Benton; Representative Chase Going Woodhouse; Theodore J. Kreps, staff director; Grover W. Ensley, associate staff director, and Fred E. Berquist, of the committee staff.

The CHAIRMAN. The committee will come to order.

Mr. Homer, if you are ready to proceed, we shall be glad to welcome you on the witness stand. We will be very happy to hear from you.

STATEMENT OF A. B. HOMER, PRESIDENT, BETHLEHEM STEEL CO.

Mr. HOMER. Mr. Chairman and gentlemen, I want to thank you for extending my appearing here today from Wednesday when I was scheduled. I had a directors' meeting yesterday in New York and I appreciate your consideration.

The other point I would like to make is that after my regular presentation I would like to make a few comments on this New England steel plant situation, if there is time to do so.

The CHAIRMAN. We will be very happy to have you make that statement. You may have noted that Senator McMahon and Senator Benton, of Connecticut, have come to the committee meeting this afternoon apparently in anticipation that you may make some statement about New England.

Mr. HOMER. Yes. Shall I proceed with my statement?

The CHAIRMAN. If you please.

Mr. Homer, Congressman Patman suggests that perhaps you might prefer to make the New England statement first. I suppose his suggestion arises from the fact that this morning we had Dr. Neal's testimony. Were you here?

Mr. HOMER. No; I was not, Senator.

The CHAIRMAN. Well, I do not want to interfere with your convenience. You may proceed as you please, either with New England first or not.

Mr. HOMER. I thought the purpose of my coming here was to talk about the price situation.

The CHAIRMAN. It was indeed; that was the purpose.

Mr. HOMER. And that being the subject, I would like to read through it first, and then cover the New England steel situation, if that is all right. That is the order in which I am set up to go. I can change it if you wish it.

The CHAIRMAN. We will not ask you to change it. You may proceed. We thought you might prefer the other, but it is as you desire.

Mr. HOMER. Thank you.

Mr. Chairman and gentlemen, I am here today in response to your request that a representative of Bethlehem Steel Co. meet with your committee to discuss the recent adjustments in our steel prices.

Since I am appearing before you on the last day of your hearings on the subject of steel prices, I am assuming that you are generally familiar with what occurred in the market for steel products during the latter part of December and I shall endeavor to be brief in outlining the price action that was taken by Bethlehem and our reasons for taking such action.

Between December 16 and 20, 1949, four of our principal steel-producing competitors published new price lists on most rolled-steel products. Bethlehem immediately gave consideration to the relation of the new market prices to our own price structure.

In spite of the general impression that all prices had been increased, the fact is that prices for some rolled-steel products had been reduced. For example, under the new quotations issued by our principal competitors the base price of tin plate was reduced approximately $3.30 per ton and the new market prices for cold-rolled sheets in certain gages and in the wider widths were down as much as $13 per ton. On the other hand the new prices for sheets in the narrower widths, as well as the prices of many other steel products, were increased.

It appeared to us that the market prices of most rolled-steel products had, on an over-all average, been increased approximately $4 per ton, of which $2 represented the average increase in base prices and $2 represented an estimate of the average effect of the revisions which had been made in the extra lists.

That our average production costs in 1950 would be higher than our 1949 costs had been apparent to us for some time.

We knew we would be faced in 1950 with substantial increases in the cost of providing our employees with increased pensions and a new social-insurance plan. Such additional pension and social-insurance costs will, it is estimated, amount to about $2 per ton of our rolled-steel products if we operate at 100 percent of capacity, and around $2.50 per ton if we operate at 80 percent of capacity. Since the aggregate amount of most pension and social-insurance costs is a fixed charge which shows but slight variation as the rate of production rises or falls, the increase in our pension and insurance costs per ton of product will be much larger if our operating rate in 1950 should fall below 80 percent.

While the increased cost per ton of product of providing our employees in 1950 with increased pensions and social insurance will depend upon our 1950 rate of operations, the total increased cost of such additional pensions and insurance can be accurately estimated. The total amount by which our pension and insurance costs in 1950 will exceed such costs in 1949 is estimated to be $20,750,000.

As was set forth in Mr. Grace's letter of December 16, 1949, to Bethlehem's stockholders, the estimated increase in pension costs to Bethlehem in 1950 due to the pension agreement entered into between Bethlehem and the United Steel Workers of America will be $12,500,000. The increased cost of social insurance as provided for under the union agreement will be $6,250,000 and the increase of one-half percent in Federal social security pay-roll taxes for old-age and survivors insurance will amount to approximately $2,000,000.

Since July 1948, which was the date on which Bethlehem had last adjusted its prices, 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.

Further increases in cost appear to be imminent. Scrap prices are unseasonably low and we have been told that if the 3-day workweek in the coal mines is continued there will be further increases amounting to 50 cents to $1 per ton in the cost of purchased coal. This increase applied to all the coal we are currently purchasing is equal to an increase of from 30 to 60 cents per ton in our steel-product costs.

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. In good years, when we have operated at a high rate of capacity, we have earned more. For example, we earned 8.1 cents per dollar of sales in 1940, the last year before America's entrance into the war, and in 1929 we earned 12.1 cents per dollars of sales.

Much more significant than our profit rate is what we have done with the dollars of profit that we have earned, and what we have been and are required to do with such profits if we are to keep our existing plants and facilities fully modernized and efficiently and effectively productive.

Our net income for 1949, as announced yesterday, was, in round figures, $99,000,000—for 1948 it was $90,000,000.

During the full 4-year postwar period ended December 31, 1949, our total net income was $271,000,000, out of which Bethlehem paid out $106,000,000 in dividends.

Thus during the 4 years since the end of the war our average profit rate was 6.1 cents per dollar of sales, and from these profits our stockholders received moderate dividends, which amounted to less than 4 percent on the book value of the common stock.

When current dollars are adjusted to reflect the increase in the cost of living index, it is quite apparent that our stockholders are not receiving unduly large dividend payments since, on the basis of 1940 dollars, our stockholders are currently receiving 19.4 percent less in dividends than they did in 1940 and the market value of their shares in 36 percent lower than it was in 1940.

In this connection it may be of interest to note that, on the basis of 1940 dollars, our employees are currently receiving 16.3 percent more in hourly earnings than they did in 1940 and that their weekly earnings are 14.8 percent greater than they were in 1940.

After the payment of dividends, Bethlehem had left out of its total net income during the four postwar years, the aggregate sum of $165,000,000; of which about $32,000,000 was expended for increases in inventories and accounts receivable, leaving $133,000,000 available for other purposes.

During the 4-year period just ended Bethlehem spent every penny of that $133,000,000 of retained profits, plus every cent of the total depreciation and depletion reserves of $110,000,000 which we had accumulated during that same period, or a total of $243,000,000; and we spent that entire amount for but one purpose, and that was to carry forward our program of improving and modernizing our existing productive facilities.

In addition to that $243,000,000, Bethlehem, during those same 4 years spent $74,700,000 more, partially in improving its existing equipment and partially in making additions to its over-all productive capacity.

You may be interested in knowing where that additional $74,700,000 came from.

In 1949, we sold a large bond issue and additional shares of our common stock and retired $2,000,000 of bonds through the sinking fund with the result that during 1949 we realized a net increase in cash of $68,000,000 from this source. We obtained an additional $6,300,000 through the sale of properties and we also reduced our cash and securities by $400,000.

Thus, notwithstanding a net increase of $68,000,000 in cash which resulted from the bond issue and sale of our common stock, Bethlehem ended the last 4 years of near capacity operations with a reduction in its cash and securities.

I believe that management is exercising only proper prudence under present conditions when it follows the principle that a company such as ours must rely on its current revenues to provide reasonable dividends over and above its full economic costs, and that such costs include not only its current costs of production but also the full cost of keeping its facilities efficiently and effectively productive to the high-

est modern standards by replacing finishing capacity which has become obsolete either through scientific progress or changes in consumer demand, and by rebuilding productive capacity when its efficiency has fallen noticeably below current standards.

To us it is clear that there can be no long-term security and survival for any industrial enterprise unless its existing facilities are rebuilt or replaced from current sales revenues whenever the production efficiencies of its facilities fall below current modern standards or when obsolescence sets in for any reason. Of course, the maintenance of production efficiencies to current advancing standards inevitably involves some growth of productive capacity, since as the productive efficiency of our equipment is improved the volume of our productive capacity is directly affected.

The staff of your subcommittee on investment has accurately expressed our view of the true function of profits when it says that—

> it is a truism that the free private competitive enterprise system cannot function unless prices cover cost plus a margin of profit sufficient for survival, security, and growth.

The estimated cost of completing our current authorized facility modernization and improvement program is more than $93,000,000. This current program involves the construction of extensive light-product finishing capacity to take care of changes in the demand for products and to utilize existing capacities to their fullest extent; and it involves extensive expenditures in new coal and ore properties to offset the reduced production of certain of our existing mines.

Largely through improvements to our existing equipment during the 4 years ended December 31, 1949, we increased our ingot capacity from 12,900,000 to 15,000,000 tons per year, or over 16 percent in 4 years.

Bethlehem is currently producing steel in record tonnages and with outstanding efficiency. But such record production is only attainable through the use of a vast variety of huge, powerful, and costly production tools.

The facilities that Bethlehem now owns and uses in its day-to-day operations would, at today's prices, cost in the neighborhood of $3,500,000,000. Though the figure is large, it accurately reflects Bethlehem's estimated costs today of replacing our existing structures and equipment.

It is to be noted that the figure of $3,500,000,000 does not include any amount to cover the cost of the land on which our facilities are constructed, nor does it include any amount to cover the cost of Bethlehem's coal reserves and iron ore deposits from which we are now obtaining much of our ore and coal, and from which, over the last 10 years, Bethlehem had mined and removed over 97,000,000 tons of highest quality iron ore and over 76,000,000 tons of low sulfur metallurgical coal. Such high quality ores and coal are today almost irreplaceable, and it is not possible even to attempt to estimate the cost of replacing them.

But we do know today's cost of replacing our existing structures and equipment. Coal mining and washing facilities now cost Bethlehem about $10 per ton of annual coal production capacity. Facilities for use in mining, preparing, and transporting iron ore now cost between $25 and $30 per ton of annual ore production capacity; and

the current cost of steel making and finishing facilities, including coke ovens, blast furnaces, open hearths, electric furnaces, and fully integrated rolling and finishing capacity, is between $200 and $250 per ton of annual steel ingot capacity, depending on the type of finishing facilities to be installed.

One of the inescapable facts of steel mill economics is that existing production facilities have a useful life of limited duration. They not only wear out, no matter how well they may be cared for and maintained, but they become obsolete as the science of steel making advances and as the demands of our customers shift from one type of steel to another, and from one form of finished product to another.

Bethlehem cannot assume that its existing facilities will have an average useful life of much in excess of 30 years. 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, 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?

Mr. HOMER. The original cost?

Mr. PATMAN. Yes. About a billion dollars?

Mr. HOMER. I would have to get those figures. It depends upon whether it is the depreciated cost or the original investment cost. Which costs do you refer to?

Mr. PATMAN. The original investment costs.

Mr. HOMER. I think we can get it in a few minutes. If I may proceed, we will submit that.

Mr. PATMAN. Fine.

The CHAIRMAN. May I ask, Congressman Patman, were you referring to the statement at the bottom of page 3?

Mr. PATMAN. No, sir, I was referring to this statement Mr. Homer just read, where he said he wanted the right to set aside each year out of his sales revenue enough to amortize the replacement costs at present value, which would be $117,000,000 a year.

Mr. HOMER. Of course, Senator, that does not help you today because when you replace these facilities you have to replace them at present-day costs.

Mr. PATMAN. But there is a big difference the way I see it.

Mr. HOMER. It does not help you very much to know what you spent 30 years ago in providing facilities today.

Mr. PATMAN. If your capital investment were a billion dollars, and now the replacement value of the plant is 3½ billion, you want the right to raise prices enough and have the consumers pay this increased value. Now that would be fair to all of you in the industry, as between those in the industry, but for an outsider it would make it prohibitive to come into the business, would it not?

Mr. HOMER. It might.

Mr. PATMAN. You would be using capital taken from the consumer.

Mr. HOMER. It would depend on price level, or what his revenues or his operating conditions would be.

Mr. PATMAN. You would be using "costless" capital taken from the consumers, in other words, getting a bonus from the consumers.

Mr. HOMER. What is that term—"costless capital"?

Mr. PATMAN. That is right. It was used here by a witness and stricken from the record, and I have picked it up and have been using it ever since.

Mr. HOMER. I did not know that you could get anything today which would cost nothing.

Mr. PATMAN. Whenever you charge more than the consumer should pay for the purpose of buying something as a capital expenditure, that cost is capital to you, the way I see it. It has not cost you anything.

Mr. RICH. But there is not any law stating that a man cannot ask the price for his material he wants to. And if you have got a competitive business, he would not do business. He would put himself out of business.

Mr. PATMAN. I agree with you, but this is not a competitive business. As evidence of that fact, is the fact to me that here we have the leaders of the capitalistic system in America coming here and not saying that by reason of supply and demand they have to raise prices. They do not mention supply and demand, but they give reasons about pensions and insurance and things like that to raise their prices. They have forgotten the free enterprise system.

Mr. RICH. Cannot you figure out enough when a man gives you figures here on how much it is going to cost for pensions and how much it is going to cost for each individual manufacturing cost, that they have to increase their prices if they want to pay dividends? They must take in more than they spend to exist.

Mr. PATMAN. It is very strange they would all increase exactly the same in the whole industry. It is shocking to me. They have forgotten the law of supply and demand. They are just thinking about increasing to the prices they want to increase to, and all together at the same time.

Mr. RICH. They had 100 percent production a couple years ago, and are dropping down, and the chances are down to 50 or 70 percent, as he shows here in his statement.

Mr. PATMAN. Mr. Chairman, will you bear with me one minute, please? I want to take a statement made to your committee, the Temporary National Economic Committee, a few years ago, and ask this gentleman his views on this.

Mr. Feller was asking Mr. Grace questions:

Mr. FELLER. Well, I am talking now about published prices at the moment. With respect to published prices, is it your policy to announce as a published price whatever price is publicly announced by some other unit in the industry?

Mr. GRACE. When we put out a schedule, what we call our official prices, they usually represent and are the same as our competitor has put in the market. And in most instances, as a general practice, not looking for a little difference here and there—as a general practice that pace is set—if that is a good word—by the steel corporation.

Mr. FELLER. It would not matter, however, in an actual case if some company would come out at some time in the future, some company other than the steel corporation with a different published price. You would still follow that, and you have done that in the past.

Mr. GRACE. I would still follow that.

Is that your policy, to follow the United States Steel when they announce a price schedule, Mr. Homer?

Mr. HOMER. Not necessarily. It would depend upon the competitive conditions. We have in this last price increase followed the price changes. I do not say it necessarily follows that what you say is right, that you have to do exactly the same. I do not see that follows at all. It depends upon what the competitive level of prices is.

You could very easily go above if you want, but if you do that you would lose the business.

We had that happen just within a year where we raised prices above what the established level was, we started to lose business, and we just were forced to go back to what the market level was.

Mr. PATMAN. If you had been asked these questions——

Mr. HOMER. I think that happens with eggs, or butter, or anything else you want to sell.

Mr. PATMAN. If you had been asked these same questions, that Mr. Grace was asked, would your reply have been the same?

Mr. HOMER. Well, I have given you my reply. I am not talking for Mr. Grace. I am giving you my reply. I think the reply I just made is an answer to your question, is it not? Have I answered your question?

Mr. PATMAN. Well, you have answered it from your standpoint; yes, sir.

Mr. RICH. Well, he cannot answer it from your standpoint.

Mr. PATMAN. I am asking him to answer. I am not calling on the Congressman from Pennsylvania to, either.

Mr. HOMER. How many years ago was that one?

The CHAIRMAN. Let us get back to your statement, Mr. Homer. This question of depreciation, which has been a major part of this recent presentation of yours, would seem, according to the evidence that has been presented here, to be largely a question of measuring the manner in which it is taken.

Mr. HOMER. What is allowed by the Internal Revenue?

The CHAIRMAN. There is one method allowed by the Internal Revenue, and accelerated depreciation requested by some industrialists.

But it seems to me, upon the basis of what you said on page 3, that perhaps we might get some idea of what your measuring stick is.

You say:

> One of the inescapable facts of steel-mill economics is that existing production facilities have a useful life of limited duration. They not only wear out, no matter how well they may be cared for and maintained, but they become obsolete as the science of steelmaking advances and as the demands of our customers shift from one type of steel to another and from one form of finished product to another.

Mr. HOMER. Right.

The CHAIRMAN. Now, my question to you is whether when you are talking about the depreciation which is sufficient to allow you to replace your facilities at present-day costs, are you talking of all of your facilities, or of a part of them? Let me ask you this question: Of the facilities presently owned by Bethlehem, how many of them are less than 5 years old? What dollar value could you put on that?

Mr. HOMER. I would have to refer back. We have it, Senator, but I could not tell you offhand. But this figure of 30 years is what we consider to be an average. True, there are some facilities that wear

out in less than that time. There are some that may wear out in a longer time. There are some facilities that may become obsolete in less than 30 years. We do not know.

The CHAIRMAN. Now, you have X amount of facilities which were built 30 years ago?

Mr. HOMER. We have some that probably were built longer ago than that. But we have a lot that have been built since then. This is an average figure as we see it.

The CHAIRMAN. All right. For the purposes of illustration, your measuring stick, let us say you have a portion of your facilities that are 40 years old, another portion that are 25 years old, and another portion 20, 15, 10, and 5, and the like.

Mr. HOMER. Yes.

The CHAIRMAN. Now, when you decide to set up your depreciation, do you set it up on the replacement costs of the entire aggregate of your facilities or, if not, on what proportion?

Mr. HOMER. We break it down into groups, classify it, depending upon the type of equipment and the life of that equipment, and these groups all have different age values and different depreciation rates. It is all added up in the end. It is not averaged at the beginning, and that is the figure that you use. It is all broken down and everything is classified.

The CHAIRMAN. Well, you want to depreciate a facility that was built 10 years ago and which still has 10 years of life——

Mr. HOMER. You would have a higher rate of depreciation.

The CHAIRMAN. Do you want to depreciate that at present replacement costs?

Mr. HOMER. Well, you cannot. You have got to depreciate it at the rate based on your original value of that as classified in the various groups.

The CHAIRMAN. Then you would not depreciate such a plant at present replacement costs?

Mr. HOMER. If we build it today, we would replace it at that rate applied against present costs.

The CHAIRMAN. Apparently I am not making myself clear.

Mr. HOMER. One of the troubles is we would like to, but we cannot, Senator. We have got to make it up some other way, and that is the whole point of what I am saying here. If I could complete this presentation, perhaps that would clear up that question.

The CHAIRMAN. I will be very happy to have you.

Mr. RICH. Is it not a fact, right here, that the Internal Revenue Department has set up a list of depreciated values, we will say, a brick building at 3 percent?

Mr. HOMER. That is right.

Mr. RICH. And certain other kind of buildings, 4 or 5 percent. For an automobile 25 percent. For most of your machinery, 5 and 6 and 7 percent?

Mr. HOMER. That is right as to the general basis.

Mr. RICH. So that you take the percentage that is set out by the Internal Revenue Code especially for your income-tax purposes and on which they permit you to take that over a period of time. I know they have in our business. We have to take those depreciated values annually. We cannot take what we would like to sometimes, because on some machines they make a mistake and don't allow enough depreciation. On some machines they allow plenty.

The CHAIRMAN. Now, I know I did not make myself clear, because the Congressman from Pennsylvania usually gets the point when it is first announced. What I am trying——

Mr. RICH. We get there together eventually.

Mr. HOMER. I hope I will get there with you.

The CHAIRMAN. Mr. Homer, you have already arrived. You are here.

There has been a dispute here with respect to how depreciation should be measured. There also has been testimony that some industrial concerns for purposes of income tax comply with the schedule of the Internal Revenue, but for the purpose of paying dividends and arranging their business and planning for the future, they use this other depreciation method which is based upon replacement costs. Am I right in that?

Mr. HOMER. I believe some of them have stated that they are doing that; yes. We do not, Senator.

The CHAIRMAN. So I was trying to determine what the precise method is which you do use in depreciation so far as setting up your rate of profits. Now you may explain that in your own way as you go along. I am not talking about your tax return at all.

Mr. HOMER. The easiest way to explain that is for the purpose of determining our earnings as stated in our financial statement, we use what is determined for us by the Internal Revenue Department in determining what is allowed depreciation for income-tax purposes. And whatever is left over goes in as our net earnings. And we do not put that or any part of it into another reserve for additional depreciation funds. We just consider that as our earnings to use as I have outlined in here.

The CHAIRMAN. Have you seen our pamphlet on basic data?

Mr. HOMER. I glanced through it, Senator.

The CHAIRMAN. I used this when Mr. Fairless, of United States Steel, was on the stand and Mr. Voorhees, and I turned to the table which appears on page 22, table 14, which purports to give the rates of return on stockholders' investment after taxes. And the United States Steel did not accept these figures for the periods from 1917 to 1948, and they presented their own figures which showed a much smaller rate of return.

On the other hand when Admiral Moreell was testifying on behalf of Jones & Laughlin, he accepted the Federal Trade Commission report.

Now I have found that the difference between the two is this: That the Federal Trade Commission in making these computations did not use the accelerated depreciation figure. United States Steel did. Jones & Laughlin did not.

Now, the rate for Bethlehem you will see in the second column, and it gave you in 1948 a rate of 14.93 percent; for 1947, 9.25 percent; for 1946, 3.87 percent, and so on backward.

Now, my question to you is simply: When it suits your convenience, let us know whether you accept the Federal Trade Commission rates of return as set forth in table 14 for Bethlehem or if you reject them. And if the difference between the two is based upon a different calculation of depreciation.

Mr. HOMER. Well, Mr. Chairman, I think that in view of what I have explained as to the method by which we handle our depreciation

rate, that the figure is substantially the same as we would calculate it.

I might refer to our case presented before the Presidential Steel Board in New York, on page 40, chart C, which gives a figure of net income as percentage of net worth of principal industrial groups as compared with Bethlehem, for 1948. The source is the National City Bank and Bethlehem annual report.

In that statement we show 14.5 percent. So it is substantially the same figure as the one you show there which is 14.93. Without a very careful examination of the basis on which it is prepared in here, I would say it is substantially the same.

The CHAIRMAN. I am sorry to have taken so much of your time off of your direct presentation, but I think this question of how depreciation is figured and should be figured is of great importance in determining what the profit rate actually is.

Mr. RICH. Mr. Chairman, is it not a question also that even although the Internal Revenue might give you certain figures to go by for depreciation, that in various plants they differ as to the way they are used—whether you use them 8 hours a day, whether you have two shifts for 16 hours, or three shifts at 24 hours. And the depreciation would be that much greater, depending on how hard they might be using them. One plant would use a certain machine a whole lot harder than another.

Mr. HOMER. I think you are perfectly right, Congressman.

You take the war, for instance. Our facilities were used at a very high rate during the war, and that is one reason why since the war we have had to get back to normal with them. We had no opportunity then. They were all being used. We could not shut anything down, and we had to improvise and try to keep our capacity up. And now we have been going through a period of rebuilding, and it has cost money, and that is what I am trying to point out here.

Mr. RICH. And some people would use a machine and it would last 10 or 20 percent longer than if another man used the same machine.

Mr. HOMER. The rate of depreciation during a period like the war is a greater deal higher than any average rate that is established under any rules and regulations by some governmental department.

Mr. RICH. Some fellow would run a ship into one of your docks, and into the part that is supposed to hold it in position, and he could break the whole thing off.

Mr. HOMER. That is correct. It might even sink it.

Shall I proceed, Mr. Chairman?

The CHAIRMAN. If you please.

Mr. HOMER. Bethlehem cannot expect that the reproduction costs of the facilities it is currently using will, during the foreseeable future, be noticeably less than they are today. It must be recognized, as the President's Council of Economic Advisers stated in their 1949 Economic Report that:

> The United States dollar has had its real value lowered in the course of the economic adjustments induced by World War II. And there is no likelihood of a near-time restoration of that former value. But there is nothing sacred about the price markets of 1939 or 1926, and the attempt to restore them would probably create more hardship than it would alleviate. To be sure, we want to achieve reasonable steadiness of the dollar, although at a price level necessarily higher than in prewar times.

The fact must be faced, and to Bethlehem the facts are that merely to keep its existing plant and equipment efficiently productive by re-

placing and rebuilding worn-out and obsolescent capacity, Behlehem should, on the average, procure at least $117,000,000 each year. We cannot think of doing it by borrowing the money or we would very soon reach the limit of our borrowing power. And a mere glance at the stock market will show that it would be impossible for us to float an annual issue of stock in any such amount for steel-plant reconstruction.

May I submit some figures for Senator Patman that he asked for as to the original costs?

Mr. PATMAN. I am like Mr. Rich. Do not call me "Senator." I would love to be called by that distinguished title, but I am not entitled to it.

Mr. HOMER. I beg your pardon.

The CHAIRMAN. Oh, no pardon is needed.

It will be quite satisfactory if you want to put it in here.

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.

Mr. PATMAN. I know that, but my point is——

Mr. HOMER. I was not sure.

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

Mr. PATMAN. That is the way it is figured today, from actual costs?

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.

Mr. HOMER. Replacement cost.

Mr. PATMAN. That is right. And have prices fixed so that he can make up enough out of sales revenues, to quote the gentleman exactly, to have $11,000,000 a year depreciation.

Mr. HOMER. That is exactly what I am trying to point out.

Mr. PATMAN. And then you would have your plant, and when the $3,500,000,000 have been paid, two-thirds of that will have been paid by the consumers in higher prices.

Mr. HOMER. Is that your "costless" capital you are talking about?

Mr. PATMAN. That is right. 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. Let's get the fact. It is perfectly clear from what you say, as a matter of arithmetic, if I understand it, 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. That is the original cost.

The CHAIRMAN. The original cost.

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 of your facilities in 10 years.

Mr. HOMER. Well——

Mr. RICH. Oh, no.

The CHAIRMAN. Let him answer.

Mr. RICH. Look here, we want to be fair.

The CHAIRMAN. I do.

Mr. RICH. Remember you have to replace at today's value—if you wear a pair of shoes out that cost you $4 and you have to pay $12 for a pair of shoes today, you have to figure on $12.

The CHAIRMAN. That is what you and I would do, but I want to know what Mr. Homer is doing. And you are not the witness.

Mr. RICH. If he does not do that, there is something wrong with him.

The CHAIRMAN. Let him tell us.

Mr. HOMER. I think my whole statement, Mr. Chairman, follows right along and tries to explain that point to you.

The CHAIRMAN. I think so, but is this not correct? One hundred and seventeen million dollars a year in 10 years would amount to $1,170,000,000?

Mr. HOMER. Your arithmetic seems to be correct.

The CHAIRMAN. That is right.

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

The CHAIRMAN. That is what I want you to explain. Now why do you not agree with the statement that since 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.

The CHAIRMAN. Yes.

Mr. HOMER. Not the replacement costs. We cannot replace our facilities on the basis of the original costs.

The CHAIRMAN. Of course, I know that.

Mr. HOMER. We can only replace it on the basis of the actual cost today of replacement.

The CHAIRMAN. I am not disputing that. As a matter of fact, I think you are making a statement almost against interest, because you are telling us that $117,000,000 a year is enough for you to carry on this replacement.

Mr. HOMER. No; I have not.

Mr. RICH. He did not say that, at all.

The CHAIRMAN. Let him say so, please.

Mr. RICH. You are trying to make him believe something he did not say.

The CHAIRMAN. No; I am just trying to get something in my head. And if the Congressman from Pennsylvania would bear with me—there is no depreciation on congressional patience, Mr. Homer.

What, then, is the meaning of this sentence which I quote from you?

> The facts must be faced, and to Bethlehem the facts are that merely to keep its existing plant and equipment efficiently productive by replacing and rebuilding worn-out and obsolescent capacity. Bethlehem should, on the average, procure at least $117,000,000 each year.

Now would that be sufficient to keep you in operation?

Mr. HOMER. On the average to keep our plant up to date and efficient and cover the depreciation and obsolescence, I would say it would approximate that on the average.

The CHAIRMAN. That is all I was trying to find out.

Mr. RICH. Supposing the cost went up. We are getting in inflation now. And, supposing it goes up to $6,000,000,000, will it be enough?

Mr. HOMER. It will not.

Mr. RICH. Certainly.

Mr. HOMER. It is only on the basis of present conditions.

Mr. RICH. And you understand that, do you not, Mr. Chairman?

The CHAIRMAN. I do. But fortunately for the consumers of the country Mr. Homer wrote his own evidence and not the Congressman from Pennsylvania.

Mr. RICH. I am not trying to put words in his mouth. Believe me, I would not think of that. They know more in a minute than I ever knew. I am in business myself and I know myself you have got to do those things. And if your costs increase you have got to figure on the amount that is going to be necessary to replace it when the machine wears out. That is just good common sense, is it not, Mr. Homer?

Mr. HOMER. That is exactly right, Congressman. It is the situation we find ourselves in today. We have been going through a period of inflation and that is what built up this $3,500,000,000 figure as against this $1,000,000,000.

Mr. RICH. And if we keep issuing money and going in debt at the rate of $7,000,000,000, the sky will be the limit after a while.

Mr. HOMER. We may get up to $7,000,000,000, I do not know.

Mr. PATMAN. The more steel companies increase the price of steel, the more the replacement cost is for the steel companies, and then the more you have to set aside for replacement.

Mr. HOMER. I do not know whether it works quite that way, Congressman. It may be the tail wags the dog or the dog wags the tail, depending on how you look at it.

Mr. PATMAN. 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.

Mr. HOMER. It is a question of whether the price of steel goes up because the price of steel goes up, or whether it goes up because of something else. And we can argue on that a long time and we do not get anywhere. But I do not think you can blame it on the steel industry and that is what you are trying to do, I think. I think there are a lot of other factors in the situation which affect our situation and maybe indirectly increase prices other than just the price of steel alone.

Mr. PATMAN. What I cannot understand, Mr. Homer—I know you are bound to have low-cost producers and high-cost producers in the steel industry—I do not understand why it is all of you go up almost exactly the same amount every time.

Mr. HOMER. What happens to eggs and butter on the market?

Mr. PATMAN. Of course, they go up and down according to the law of supply and demand except for the floor.

Mr. HOMER. I am glad that somebody mentioned the law of supply and demand. I thought it had gone out the window.

Mr. RICH. And subsidies. Do not forget to put that in, Mr. Homer—subsidies.

Mr. PATMAN. The farmers are not as fortunate in being able to fix prices like the steel industry.

Mr. RICH. They have them fixed for them.

Mr. PATMAN. The Government affords the farmers some floor under their prices. The steel industry does not need that because they fix their own prices.

Mr. HOMER. No; I cannot agree with that, Mr. Congressman. The steel industry does not fix its prices. The prices are fixed by the customer and the demand and the market conditions. And we might just as well get that one straight now.

Mr. PATMAN. When you all go up $4 a ton, or whatever it is, the customer is helpless. He has got to pay it. It is a seller's market.

Mr. HOMER. It is the same way with butter and eggs.

Mr. PATMAN. As long as there is a monopoly in the steel business, it is a seller's market and always will be.

The CHAIRMAN. I suggest now, in the interest of expediting the hearing——

Mr. RICH. I want to correct my colleague when he says it is a seller's market. When you have not the demand for that, when the steel companies have not the demand, it certainly is a buyer's market, then, for any product. That is natural in the private-enterprise system.

Mr. PATMAN. Except in a monopoly; yes.

Mr. RICH. Whether steel or anything else.

The CHAIRMAN. In the interest of attempting to finish this presentation this afternoon, I am going to ask the members of the committee not to argue with the witness, and let us not argue with ourselves. Let us rather allow Mr. Homer to present his facts and let us question him on the facts in his statement.

Mr. HOMER. Thank you. I will be glad to proceed.

Senator SPARKMAN. Mr. Chairman, I assume from that the rest of us will have an opportunity to question him.

The CHAIRMAN. As soon as he finishes, certainly.

Mr. HOMER. The only source from which we can, with prudence, hope to derive the funds required to keep our existing facilities effectively and efficiently productive is current revenues from the sale of our products.

In 1949 the aggregate amount of Bethlehem's total depreciation provisions plus the total amount of its net income retained by it (after the payment of moderate dividends) was only $102,000,000, which is $15,000,000 less than the average yearly amount of $117,000,000 required to keep our existing facilities up to high standards of effective and efficient production.

These, briefly stated, were some of the facts we had in mind while we reviewed the new market prices for rolled-steel products quoted by our principal competitors between December 16 and 20, 1949.

We were completing 4 years of near-capacity postwar operations with a reduction in our cash and securities, notwithstanding the fact that we had, during that period, incurred a net increase of $68,000,000 in our long-term debt and capital stock.

We had during 1949 operated at a reasonable profit rate, which, as announced yesterday, was 7.8 cents per sales dollar.

We were during 1949 failing by $15,000,000 to realize from sales revenues the average annual amount required to keep our existing facilities efficiently and effectively productive to high current standards of steel-mill practice.

We faced substantial increases in production costs in 1950.

It was clearly apparent that only by following the new market level of prices for our steel products could we have any reasonable opportunity of realizing a profit rate in 1950 which was not substantially below our profit rate for 1949.

Accordingly, between December 20, 1949, and January 5, 1950, we made a series of price adjustments with the result that our current prices applicable to domestic sales are generally at the new market level.

Late in December we also made adjustments in our prices with respect to export sales of our products. These export-price adjustments were brought about as the result of the competitive market for steel in foreign countries.

The recent devaluation of the pound and other foreign currencies and the increased production of steel in England, Belgium, Luxemburg, France, and in the western zone of Germany has created a competitive situation in world markets, most of which are short of dollar exchange, which has made it increasingly difficult for us to maintain our normal export sales volume. However, on the basis of better service and quality, American mills have until recently been selling a reasonable amount of steel in foreign markets at prices which were somewhat higher than prices charged for domestic sales.

This differential between domestic prices and export prices developed in the latter thirties, when, with German and Italian mills withdrawing from world markets, the export market became quite tight and the price of steel in world markets rose above the domestic price. That differential continued until late in 1949.

On December 16, 1949, our principal competitor reduced its export prices on some of its products. While Bethlehem has been meeting the competition of foreign mills in foreign markets through better service and better quality of its products and sold during 1949 approximately 10 percent of our total production of rolled-steel products in foreign markets, it was clear that we could not meet the competition of our principal American competitor in those markets unless we met the adjusted export prices which that competitor had put into effect on December 16, 1949.

Accordingly, on December 20, 1949, we adjusted our export prices to meet those of our principal American competition.

We are currently selling certain of our products, such as sheets, rails, rail accessories, and tin plate in the export market at prices which are a few dollars higher than our domestic prices for such products. Our export prices for our other steel products are about the same in the export market as they are in the domestic market. None of our products are currently being sold for export at a price which is below our current domestic prices.

The necessity for adjusting our export prices will become obvious upon consideration of the following facts. Somewhat limited tonnages of merchant bars are now being offered by west German and Luxembourg mills for delivery in Cuba at $25 per ton less than our current delivered price there; in Sweden and Israel the price of for-

eign mills for this product is $27 per ton under ours; and in the Philippine Islands we are being undersold by $35 per ton. In Puerto Rico, one of our own possessions, foreign mills are offering reinforcing bars at $43 per ton less than Bethlehem's current delivered price. Plates from foreign mills are offered in Sweden at $23 per ton below our current price and in Norway from $25 to $30 a ton below our current prices. Structural shapes are being offered by foreign mills for delivery in Cuba at from $20 to $26 per ton lower than our current delivered export prices. I could cite you instance after instance of this kind and as production in the west German and other foreign mills increases the tonnages being offered by them will, of course, increase correspondingly.

I might tell you that the foreign mills have invaded our domestic market quoting prices considerably below our own. Structural shapes manufactured in Luxembourg 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 prices of our shapes produced in nearby Bethlehem. A sales pamphlet circulated in New York City by representatives for a Belgian steel mill declares, "You can save 30 percent to 40 percent below American mill prices."

The present plans for the economic recovery of Europe include an expenditure by the Economic Cooperative Administration of over one-half billion dollars for new steel-making facilities in western Europe. By 1953 the United Nations Economic Commission for Europe estimates that there will be a surplus of 8,000,000 tons of finished steel products for export from European countries.

Almost simultaneously with the American plans to build up the steel industry of Europe, the United States has drastically reduced the tariff rates on all imports of steel. Present import duties on iron and steel products are nominal. Today the United States is not only the most attractive market for steel products, since it is the source of American dollars for which there is a universal demand, but for all practical purposes the United States is the only free market for steel products in the world.

Though Bethlehem has been meeting the competition of other American producers in the export market, it is obvious that we cannot possibly meet the price competition of foreign mills. Our production costs are just too high. We are continuing our sales in foreign markets today only because we offer better service and quality than many of the foreign mills. Notwithstanding our better quality and service, indications are that we have lost a good part of our export market. During the fourth quarter of 1949, our export sales constituted slightly over 4 percent of our total steel sales as compared with a normal ratio of 10 to 12 percent.

In pricing its products for domestic and foreign sales, Bethlehem has endeavored to achieve a fair level of earnings based on long-run considerations rather than on the maximum earnings that could be obtained in any single year. We have sought a level of earnings based on fair prices which would provide not only for a reasonable return to our investors and for reasonable security for our employees in terms of wages, insurance, and pensions, but also for the constant modernization, improvement, and growth of our plant and equipment

in order to effect all possible production economies and also to satisfy steel requirements at future high levels of business activity.

The prices of our steel products have increased since 1936–39 far less than have wholesale prices in general and wholesale prices for raw materials (see chart No. 1); far less than the cost of raw materials, of construction, and of purchased equipment (see chart No. 2); and also far less than the average hourly earnings of Bethlehem's steel plant employees and the United States Bureau of Labor Statistics Consumer Price Index, chart No. 3. For example, while average steel prices after reflecting the recent price adjustments have risen only 63 percent since 1936–39, the average earnings of Bethlehem Steel plant employees have increased 113.3 percent; coal has increased 120 percent; scrap, 69 percent; general construction, 111 percent; coke ovens, 132 percent; blast furnaces, 136 percent; and large electrical equipment, 97 percent. It must be obvious that, when manufacturing and construction costs have increased far more than have the prices of finished products, our customers are benefiting from operating economies, from large-scale production, and from the installation of efficient plant and equipment.

I am glad I have had this opportunity to present to you some of the practical considerations which must not be lost sight of in any study of the very important and complicated problems involved in establishing workable price-cost-profit relationships in our present industrial society. We at Bethlehem are always willing to contribute what we can do to a discussion of these problems. It is through open-minded discussion and through analysis that progress can be made to determine the proper balance of all the factors involved. Perhaps the principles expressed by the Secretary of Commerce as quoted on page 8 of the Fourth Annual Report of the Council of Economic Advisers are helpful guides in this direction, and I would like to quote a few lines, as follows:

> We have not yet reached the time when the various economic groups forget their special interests and talk out their differences in a spirit of sweet reasonableness. However, we have made and are continuing to make progress. Most Americans now understand the importance of business investment as well as the importance of mass purchasing power. We have passed the time when intelligent Americans use the word "profit" as a curse. I believe all of us can agree on the fundamental principle that profit is good when it is reasonable and when it is used to produce more of the things we need.
>
> To this problem we must apply the idea of balance. What division at any given time will promote the smooth operation and further the balanced growth of our economy? To answer this question we must know as much as possible about our economy and we must also be willing to abide by the facts. In other words, we should bring to the solution of our problem scientific analysis and a scientific attitude of mind.

I cannot improve on that statement as a statement of principle.

Thank you.

The CHAIRMAN. Now, do you care to make your comments on the New England situation?

Mr. HOMER. I would, Mr. Chairman, unless you want to do some other questioning.

Mr. Chairman and gentlemen, with reference to the New England steel plant, the proposed steel plant, I have before me a press release of the afternoon newspapers of Wednesday, January 25, 1950, in which it states that—

On Thursday, Senator McMahon will ask that this statement be included in the committee proceedings.

I would like to read the first three paragraphs of that statement:

The people of New England are no longer willing to accept the status of second-class citizenship in the availability of steel.

It is common knowledge in the steel trade that one large company, Bethlehem, supplies about two-thirds of all the steel that now goes to New England fabricating plants. This means that competition, as the term is generally understood, is virtually nonexistent where New England is concerned. Instead of competition we have conditions that border on monopoly, and this situation threatens the economic prosperity of one of the Nation's leading manufacturing centers.

This domination of the New England market by Bethlehem is factual and not theoretical. Too often, even now when wartime conditions no longer prevail, New England firms are compelled to accept what is available from this one big company, or go without.

Mr. Chairman, before I proceed with the reading of my statement, I would like to say that I was born in New England.

The CHAIRMAN. May I interrupt you at this point? Since you read from Senator McMahon's statement, and the Senator is here, I am going to ask the Senator, do you want your entire statement in the record?

Senator MCMAHON. Yes, Mr. Chairman; I think this would be a good time to have the statement as a whole go into the record, and if the witness would not object, that it appear in whole right at this point.

Mr. HOMER. I have no objection.

Mr. RICH. Well, Mr. Chairman, this thing has me bothered now. I do not know what this is all about.

We are here as a committee to investigate the increase in cost of steel prices. Now, we are going to put the president of the Bethlehem Steel Co. on the spot to answer publicly questions that some Senator might want to ask. I do not think it is a right thing to do. I do not think it is a just thing to do.

If the Senator from Connecticut wants to ask the Bethlehem Steel Co., why does he not go to his office or call him to his office? Why are we going to listen to this here?

Mr. PATMAN. This question is involved, because the question of monopoly is involved, possibly a monopoly with respect to an increase in price.

Mr. RICH. We are not investigating the increase in monopoly.

Mr. PATMAN. We certainly are.

Mr. RICH. We are investigating the rise in prices.

The CHAIRMAN. If the members of the committee will indulge me, I would like to say that Mr. Homer took the initiative. He asked permission to make a response or some comment on the New England situation.

The chairman did not have the slightest knowledge that he had a press release in his hands. This is the first I have known of the press release.

Mr. Homer desires to make a comment on what a Senator said, and I do not think he needs the protection of this committee. I rather think Mr. Homer can take care of himself.

Mr. HOMER. If I get the opportunity, I would like to.

Mr. RICH. If I were Mr. Homer, I would invite him to come to my office. I do not know why we should take up our time here today in this inquiry to iron this out, because they want to build a steel plant in New England.

If they want to build a steel plant in New England, that is all right with me, but I do not think it is our business here to try to get Mr. Homer to build one, and I do not think it is any of our business, whether they build one up there or not.

The CHAIRMAN. Well, I am sure the Congressman from Pennsylvania will indulge the New England Senators, Senator McMahon, Senator Benton, here this afternoon.

Mr. RICH. I have not anything against the Sentaors at all.

The CHAIRMAN. Senator Bridges, Senator Tobey, Senator Saltonstall, Senator Lodge, Congressman Nicholson, Congressman John Heselton, why, the whole New England delegation.

Mr. RICH. I know they are interested, but I do not approve of the procedure that we are going through here.

If I were down there on the witness stand, I would tell them if they wanted to come and talk to me about building a steel plant in New England, to come down to my office and I would tell them whether I could build one or not. Make me the same proposition, and I will either take it or leave it, and I do not think it is right. I do not think it is a just thing to do.

The CHAIRMAN. Well, fortunately the Congressman is not on the witness stand; Mr. Homer is.

Will you proceed, Mr. Homer?

Mr. HOMER. I had started to say, Mr. Chairman, that I was born in New England.

The CHAIRMAN. Excuse me, Mr. Homer, at this point we will place in the record the release from Senator McMahon referred to previously.

(The document referred to follows:)

The people of New England are no longer willing to accept the status of "second-class citizenship" in the availability of steel.

It is common knowledge in the steel trade that one large company, Bethlehem, supplies about two-thirds of all the steel that now goes to New England fabricating plants. This means that "competition," as the term is generally understood, is virtually nonexistent where New England is concerned. Instead of competition we have conditions that border on monopoly, and this situation threatens the economic prosperity of one of the Nation's leading manufacturing centers.

This domination of the New England market by Bethlehem is factual and not theoretical. Too often, even now when wartime conditions no longer prevail, New England firms are compelled to accept what is available from this one big company, or go without.

Recently a well-known New England dealer tried to obtain pipe from Bethlehem, a concern with which he had done business on many occasions before. He was informed that the product was not available. Bethlehem apparently decided to sell its product to preferred customers elsewhere. As everyone realizesfi, the inability of a manufacturing company to secure a basic commodity such as steel at the lowest market price is dangerous to its continued operation. Many other New England dealers and manufacturers have had similar experiences.

Even in those areas of the steel industry where the product is supplied by other companies, current prices charged New England fabricators are too often out of line with those charged elsewhere. A manufacturing concern in my home State was advised recently that the cost of a steel product which it has been using for years had jumped up $19 a ton, or an increase of more than 14 percent. An increase of that size is too great for absorption by a small manufacturing concern which must maintain its competitive condition.

The arbitrary elimination of competition in the New England steel market must be halted. The exsting situation is bad, not only for New England but for the country as a whole. This elimination of competition, whether it derives from open or tacit agreement among leading steel producers to allow this one company a virtual monopoly of the New England market, must be ended.

The remedy for the situation is obvious. The steel industry must move out to meet its customers. The concentration of a basic industry such as steel is a severe handicap to the normal growth of industrial productivity.

The answer lies in the construction of an integrated steel mill in New England. The construction of such a mill is supported by all the facts of sound economics. There are now available at points adjacent to the Atlantic Ocean sufficient iron-ore deposits to justify the building of a New England steel mill which can operate at costs substantially lower than those now prevailing in the industry. Huge iron-ore deposits have been discovered in Labrador and in a few years Labrador ore will be entering the American market in quantity. The economic place to use this ore is in New England.

By mischance or design, the idea has been widely circulated that the drive for a New England steel mill originated in the minds of Washington "planners." That is false. The movement was initiated by the New England Council, a regional economic study group which is a non-profit-making, nonpartisan and nonpolitical organization. The New England Council includes in its membership upward of 2,000 leading New England businessmen and industrialists.

The case for a steel mill is based upon nearly 3 years of the most intensive study of the potential steel market. This study was carried on by successful, practical, hard-headed businessmen who based their conclusions on facts and not on fancy. The preliminary work done by the New England Council demonstrates that a New England steel mill is urgently needed and that it can operate at financial profit.

New England has a host of metal fabricating plants which are vitally essential for its continued prosperity. These plants employ thousands of skilled laborers at good wages. They are operated by men who have been in the business for many years and who have a thorough knowledge of modern industrial practices. New England is a high wage area and that makes for all-around community prosperity.

But New England is handicapped by a lack of raw materials, particularly steel. If these plants should be compelled to curtail their operations or to move elsewhere because of shortage of available steel. it would be economic suicide for New England. We don't propose to let that happen.

Fortunately the new iron ore strikes along the Atlantic make any movement away from New England wholly unnecessary. On the contrary, the new ore deposits make New England the ideal location for an integrated steel mill.

The economic facts about the proposed New England steel mill will be presented to the Committee on the Economic Report by Dr. Neal of the Federal Reserve Bank of Boston. I shall merely emphasize that what New England wants is an integrated steel mill, privately owned and privately operated.

The sponsors of the steel mill project adopted the logical course when they appealed to leading steel producing companies to cooperate in this venture. I believe the record shows that the companies at first showed interest and willingness to cooperate. Later, there developed, not merely a general disposition to refuse participation in the project, but an attitude of active hostility against the building of a New England mill. The people of New England naturally resent any effort by any group, no matter how powerful economically, to attempt to dictate their economic future. I believe that on the record thus far, leaders of the steel industry have shown themselves extremely short-sighted in their apparent efforts to discourage a New England steel mill. The facts of economic progress, and the prosperity of the Nation, must not be subordinated to their private judgments or special financial interests.

In the light of the facts, I trust that leaders of the steel industry will take a new look at the New England steel-mill project. They will find this project is wholly consistent with industrial expansion under private auspices. A failure to build this mill will be bad, not only for New England. but bad for the economy of the entire United States.

Mr. HOMER. I have great interest in the prosperity of New England, and when an accusation of this kind is published, and particularly in connection with this hearing, although I agree with Representative Rich that it has nothing to do with it, in my opinion, I think it ought to be handled somewhere else, I feel that, as president of the Bethlehem Co., I ought to make a comment on it because it was initiated by someone else, not from me.

I want to make a denial that anything of this kind, as we are accused of here, is so, and I think that if there are any facts that support such a statement on behalf of the Senator from Connecticut, I wish that he would give them to me now for the purpose of the record so that we can examine them, because he states that, "This is factual, and not theoretical."

I think it is highly theoretical, and not factual.

Senator McMAHON. Mr. Chairman, that seems to call for some comment from me, if it is in order at this time.

The CHAIRMAN. Yes.

Senator McMAHON. Mr. Homer, what part of the New England market do you supply?

Mr. HOMER. We supply all of New England.

Senator McMAHON. What part of the total steel consumed in New England do you supply?

Mr. HOMER. Well, I think that depends upon what you might estimate as being the total market, and the demand in New England.

Senator McMAHON. How much do you ship into New England?

Mr. HOMER. We ship into New England what we estimate to be about 26 percent of the total market.

Senator McMAHON. What do you estimate the total market to be?

Mr. HOMER. Our estimate is it will not exceed 2,000,000 tons.

Senator McMAHON. And you ship in slightly in excess of 500,000 tons?

Mr. HOMER. Approximately that, 1949; yes.

Senator McMAHON. Dr. Neal, do those figures comply with your studies of the situation?

Mr. NEAL. I think that that figure is in line—I do not have my figures with me—but I think it is in line so far as the total is concerned.

Senator McMAHON. You say so far as the total is concerned?

Mr. NEAL. Yes. When you get to individual products you might find, of course, quite different percentages.

Senator McMAHON. In other words, in some lines they do dominate that particular line?

Mr. NEAL. That is my understanding.

Senator McMAHON. How about the percentage of sheets, cold-rolled sheets, what percentage do you supply?

Mr. HOMER. Well, your statement, Senator, was that we had shipped into New England——

Senator McMAHON. Just a minute, before we go to the statement, what percentage of cold-rolled sheets do you supply?

Mr. HOMER. I am answering your old question, not a new question; I am not answering a new question. Your statement said that we shipped two-thirds into the New England area and, therefore, there was a monopolistic situation.

I would like to know on what facts you base that statement, because you say your statement is factual, not theoretical, and you give me your facts. I have given you mine.

Senator McMAHON. All right, Mr. Homer. Now, answer this question for me. What percentage of the cold-rolled sheets do you ship?

Mr. HOMER. That has nothing to do with the question I asked.

Senator McMAHON. Do you refuse to answer that question?

Mr. HOMER. No; but you refuse to answer me.

Mr. RICH. What are we having here? This is not right; this is not a just thing to do, and I object to it, Mr. Chairman, and I ask you to proceed in the regular order with respect to what this committee was called for.

This is no place to put a man on the spot.

Mr. PATMAN. I suggest that this is, since the witness wishes to make a statement with respect to the New England steel mill; that is the question involved here. It is not a question of any statement of Senator McMahon which he made, is the way I see it.

The CHAIRMAN. Mr. Homer desires to proceed.

Mr. HOMER. I will proceed. There has been considerable discussion as to the advisability of constructing an integrated steel-making and finishing mill in New England and as to the consumption of rolled-steel products in that area.

Let me give you such information on that subject as I have.

In order that there may be no misunderstanding, I ask you to understand that in speaking of New England, I am referring to the States of Maine, Vermont, New Hampshire, Massachusetts, Rhode Island, and Connecticut.

I have seen several estimates of the New England market and I believe that 2,000,000 tons per year of all rolled-steel products is about the correct figure.

In 1949 Bethlehem shipped a total of 523,000 tons of rolled-steel products into New England.

Senator MCMAHON. How much?

Mr. HOMER. Or about 26 percent of our estimate of the area's annual consumption.

Senator MCMAHON. Just a minute.

Mr. HOMER. Bethlehem has been serving the New England market for steel products for a long time. We have found it to be one of the most highly competitive markets in the country. Our competition comes from existing mill capacity not only within New England, which supplies a large proportion of the New England rod demand, but it comes also from all the large integrated, multiple-product steel plants in the Pittsburgh, Youngstown, Cleveland, and Buffalo areas and from the large integrated mills in Harrisburg, Conshohocken, Coatesville, and Ivy Rock, Pa.; Tonowanda, N. Y.; and Claymont, Del. As I have already told you in my discussion of steel prices, foreign steel mills are now offering finished-steel products in Boston at from $20 to $30 a ton below our delivered prices and by 1953, when it is estimated that European mills will have an annual surplus of 8,000,000 tons of finished-steel products for export, New England will not only be an easily reached market for a substantial part of that 8,000,000 tons of European steel but it will be a highly attractive market since it is both a free market and a dollar market. Much of this 8,000,000 tons of European steel will be flat-rolled products produced in new, modern, and efficient mills.

Competition in the sale of steel products in New England has always been intense. We see nothing to indicate that there will be any lessening of competition in that area.

Before anyone can seriously consider the construction of a new integrated steel mill today, very careful consideration will have to be given to today's costs of steel plant construction. Such costs, as

everyone knows, are now very close to their all-time peak. The current cost of steel making and finishing facilities, including coke ovens, blast furnaces, open hearths, electric furnaces and fully integrated rolling and finishing capacity, is between $200 and $250 per ton of annual steel ingot capacity, depending on the type of finishing facilities to be installed. These figures do not include any amount to cover the cost of coal or ore mining facilities.

Newspaper stories from New England have reported that estimates have been made which would indicate that a steel-making and finishing plant, having an ingot capacity of 1,250,000 tons per year could be built for $225,000,000, or about $180 per ton of annual ingot capacity. To me this seems unrealistically low unless the finishing facilities of the mill are to be small, relatively inefficient and limited to the production of one or two products. However, let's assume a 1,250,000-ingot-ton plant could be built for $225,000,000. That plant would have a capacity for the production of about 800,000 tons of finished steel products per year. With interest at 3½ percent and depreciation at 3½ percent of the cost of the mill, the depreciation and interest charges alone on that investment would amount to about $20 per ton of finished products if the plant were to operate at its full-rated capacity. At an 85 percent operating rate, interest and depreciation alone would amount to almost $25 per ton of finished product. At today's prices for finished steel products, that newly constructed 1,250,000-ingot-ton plant could anticipate nothing but red figures on its income account from the very first day of its operations.

In selecting a location for a new integrated steel plant, the transportation costs involved in assembling raw materials cannot be ignored. Since about 5 tons of raw materials are required to make 1 ton of finished steel products, freight costs must be paid on 5 tons of raw materials but on only 1 ton of finished product.

The keep transportation costs low, integrated steel mills must be located as near as possible to their sources of raw material. New England has neither coal nor iron ore.

The current interest in a New England steel plant seems to stem in part at least from what we have been reading in the papers about the recently discovered Labrador iron ores. A great deal of additional evploratory, development and engineering work still remains to be done on the Labrador properties and it looks as if from 4 to 5 years will be required before any quantity of ore can be obtained from this source. It is entirely possible that eventually some of this Labrador ore will be available for a steel plant on the Atlantic coast, but no more so than ore from other foreign sources. In other words, if a New England steel making and finishing plant appeared to be a feasible and profitable undertaking, the availability of Labrador ore alone would be of little weight in any consideration of the advisability of the construction of such a plant.

To get competitively low production costs a steel plant must have large modern mills and must operate them at a high percentage of their rated capacity. For example, one of our modern, efficient, continuous, hot strip mills will produce in excess of 1,800,000 tons of sheets per year and in doing so will consume 2,500,000 tons of ingots. A mill of substantially lower capacity; even if operated at 100 percent of its rated productivity, would develop unit production costs ma-

terially higher than those obtainable through the use of the large mass-tonnage strip mill.

The requirements for steel products in New England are such that a wide range of finishing mills is necessary to service New England steel consumers. New England probably has more diversified industries within its borders than any other section of the United States. For that reason its rolled steel product requirements cover a range of products substantially greater than many other areas. With New England steel requirements ranging from structural shapes, plates, sheets, bars, tubular goods, wire, strip, pipe and tubes and with all of these products being specified in all sizes, grades, sections and finishes, it can be seen that the facilities necessary to produce such a wide range of products would be of many and varied types. At the present time Bethlehem is shipping into New England the product of six different bar mills just to be able to cover the wide variations in our customers' bar specifications.

Facilities to produce all kinds and variations of rolled-steel products are not available in the existing mills currently serving New England. Bethlehem has undertaken a facility modernization and improvement program which involves the construction of extensive light finishing capacity to take care of changes in the demand for products and to utilize existing capacities to their fullest extent. When completed our current construction program will increase our capacity to produce light flat-rolled products at Lackawanna, N. Y., and Sparrows Point, Md., by 1,400,000 tons per year.

A thorough study will, I believe, clearly establish the fact that existing steel-producing plants, which are now serving New England, including those that are now located in that area, can do a much better job of supplying New England requirements, and do it at a much lower cost to the consumer, than could possibly be done by any new, relatively small integrated steel mill that might be constructed there today.

It is inconceivable to me that any source of private capital, after due study, would provide the funds required to construct even a relatively small limited-product steel-making and finishing mill in New England. If it is uneconomical from the standpoint of private capital, it is equally without merit from the standpoint of Government funds.

Thank you.

Senator McMAHON. Can I ask a question?

The CHAIRMAN. Yes.

Senator McMAHON. Mr. Chairman, I realize I am a guest of the committee, and I certainly do not wish to have any privilege that I should not have. However, this business of New England steel is of vital concern to all of New England and the fact remains that we are a high-priced steel area.

I think you will agree, Mr. Homer, that because of freight charges from Sparrows Point to New England, that the cost of steel in Worcester, and Hartford, and New Haven is, of course, more than it is around the vicinity of Baltimore. Is that not true?

Mr. HOMER. Well, I would say and assume that there would be a difference due to the freight rate.

Senator McMAHON. Yes and, of course, that puts us at a disadvantage in New England.

Mr. HOMER. That does not mean that there might be a difference in prices, base price.

Senator McMAHON. Well, do you mean that the fabricator around Baltimore pays the same price as the manufacturer now in New Haven?

Mr. HOMER. No. The same base price, and you would add freight to it.

Senator McMAHON. Now, what is the basis——

Mr. HOMER. I am talking about the competition in New England. How do I know what it might be in New England, at Worcester, for instance?

Senator McMAHON. Yes, but whether the base price is the same, due to increased freight costs, it stands to reason that we have to fabricate higher-priced steel than does the fabricator next to your plant in Baltimore. That is a statement of the obvious.

Mr. HOMER. That might be true; yes.

Senator McMAHON. And so, you will acknowledge that it would be to the advantage of the manufacturers in New England, who deal in metal, to have a closer source of supply.

Mr. HOMER. Yes, but you are no different in New England from any other part of the country.

Senator McMAHON. I am not asking that. Maybe these are statements——

Mr. HOMER. I know you were not, and that is why I brought it out. I have said that you have no different situation in New England than you have in any other part of the country.

Senator McMAHON. Except that in New England, according to the study that has been made and presented so ably by Dr. Neal this morning, there seems to have come into juxtaposition not only the market but the source of ore, together with the other elements, namely, coke and limestone and water that go into the making of steel.

I think you would agree with me that a steel mill in New England would result in cheaper steel to the manufacturer of New England.

Mr. HOMER. I do not agree with you, that is what I am trying to point out.

Senator McMAHON. You do not agree with me on that?

Mr. HOMER. I do not agree with you.

Senator McMAHON. Now, Mr. Homer, have you discussed the matter of building a New England steel mill with the other people in your company in an executive capacity?

Mr. HOMER. Oh, yes.

Senator McMAHON. Have you had any discussions with any officials of any other company relative to the building of such a mill?

Mr. HOMER. No, no.

Senator McMAHON. At no time and at no place?

Mr. HOMER. No.

Senator McMAHON. I would like to ask you, Mr. Homer, if you did not refuse to furnish the sales figures of Bethlehem to the New England Council when they were making the investigation as to the amount of steel that you shipped into New England?

Mr. HOMER. I do not recall that. I know we discussed the matter with representatives of the New England Council.

Senator McMAHON. It is my information——

Mr. HOMER. They came down to my office in New York, and we discussed one afternoon the New England situation, the market and the supply.

Senator McMAHON. Did you then give them the figures?

Mr. HOMER. We gave them approximate figures of what the situation was, or we showed them the figures, and we followed that up later on with discussions with them on it.

Senator McMAHON. And it is true that you gave them the figures of the amount of steel that Bethlehem shipped into the market?

Mr. HOHER. Generally, yes; over-all figures.

Senator McMAHON. What do you mean by "generally"? Did you tell them that you shipped in——

Mr. HOMER. It varies year by year, and you have to specify a certain time.

Senator McMAHON. Well, did you tell them that you had shipped in 503,000 tons?

Mr. HOMER. I do not know specifically whether we did, Senator.

Senator McMAHON. I see. It is my information that that information was refused.

Let me ask you this——

Mr. RICH. Let me ask you, Senator, suppose he did refuse it? That is the business of his particular company; and supposing you asked him the name of customers he shipped to? He would not give you that information. If I were in a competitive business, I would not give it to you.

Senator McMAHON. Mr. Rich, I am not making any comment or drawing any conclusion.

Mr. RICH. I do not see why you have to come here and ask the gentleman that question when you can go to his office and get it.

Mr. HOMER. Senator, I did not refuse to give them any figures.

Senator McMAHON. Did they get any figures from any official of your company?

Mr. HOMER. I do not know.

Senator McMAHON. They did not get them from any official.

Mr. HOMER. I think there is a good reason for it. Why should we disclose any sales pattern in any territory so that our competitors could see it? Why should we do that?

Senator McMAHON. All right, you can refuse.

Mr. RICH. Mr. Homer, I would not give it to him either.

Mr. HOMER. There is nothing wrong with it either, Senator, that is the point I am trying to bring out. You are trying to imply that we did something wrong.

Senator McMAHON. I am making no implication at all.

Mr. HOMER. Yes, you are; why are you bringing it up? Why should we not refuse it?

Senator McMAHON. I will tell you why I am bringing it up.

Mr. HOMER. We are trying to do things open and aboveboard, but we do not like to be put in the position that we are putting things wrongly all the time, like your release says we did. You have no facts to back that up.

Senator McMAHON. All right, let us see. What was the total——

Mr. HOMER. You give me the facts to back it up; I am willing to talk about the rest of it.

Senator McMAHON. What was the total over-all amount of sheets that you shipped into New England?

Mr. HOMER. What has that got to do with it?

Senator McMAHON. Well, you dispute the accuracy of the facts.

Mr. HOMER. You accused us——

Senator McMAHON. Wait a minute until I finish. Let me finish the question.

Mr. RICH. I do not believe in this, Senator. I believe it is as wrong as anything can be, and I do not propose to sit here, whether he is a Senator of the United States or whether he is a Representative or anybody else—I do not believe in this business that you are going into now, and I think it is wrong, and you have no business bring these New England fellows in here today on this to quiz the Bethlehem Steel Co. or any other steel company; the whole thing is a set-up here, and why did you not tell me something about what was going on here before you brought all these New Englanders in here? I did not know anything about it, and I am not going to stand for anybody coming before any committee of the Government, and being persecuted or trying to have a lot of questions asked of them that do not pertain to our inquiry, when they should go to the president of the Bethlehem Steel Co., to his office in New York or Philadelphia, and if he refused to give that information to you, that is his business.

The CHAIRMAN. Congressman Rich——

Mr. RICH. The quiz is all wrong.

The CHAIRMAN (continuing). The request has been made by numerous members of the Senate and of the House—it has also been made by Mr. Homer.

As I said a moment ago, the publication of this release was a matter about which nobody on this committee had any information.

When Mr. Homer arrived in this room this afternoon, he volunteered himself the statement that he desired to make some comments upon the New England situation, after he had finished his prepared statement.

Mr. HOMER. Why shouldn't I?

The CHAIRMAN. Of course, why shouldn't you.

Mr. HOMER. There is an accusation here which says that—

This domination of the New England market by Bethlehem is factual and not theoretical—

and we do not agree it is factual, and I am trying to find out from the Senator who made this statement, what the facts are.

Senator McMAHON. That is what I am trying to do.

Mr. HOMER. And he asks me how much sheets I ship in there; that has nothing to do with it. Let him give me the facts; I know our own facts.

The CHAIRMAN. All I am commenting on is this: that apparently you do not desire to have Congressman Rich act as your attorney.

Mr. RICH. He did not ask me to act as his attorney.

Mr. HOMER. I know nothing about that.

Mr. PATMAN. I think the witness ought to be able to answer the questions.

Mr. RICH. And then the insinuations that Mr. Homer is trying to evade something or trying to do something that is dishonorable or dishonest, I do not believe in that. I do not propose for anybody to put me in that position, and I do not like anybody else to be put in that position. I do not care who they are. I never saw Mr. Homer before; I never met him; I do not know him, but I would not stand for any person to be imposed upon.

Mr. PATMAN. He is a very forthright witness, and I am sure he will be able to answer the questions.

The CHAIRMAN. You may proceed, Mr. Homer. I will give you your chance.

Mr. HOMER. I finished. I just want the Senator to answer my question of what the facts are.

Senator MCMAHON. I am not here to answer Mr. Homer's question. He brought up this subject and I am here to ask him some questions.

Mr. HOMER. Do you think that is fair?

Senator MCMAHON. Of course, it is fair.

Mr. HOMER. Why? You can ask me anything, but I cannot ask you anything.

Senator MCMAHON. You can ask me any question when I get through asking the question and when you get through answering mine.

Is there any line——

Mr. HOMER. That is not fair either.

Senator MCMAHON. Is there any line, Mr. Homer, in which you sell, either in plates or bars or wire, cold-rolled sheets or hot-rolled sheets over 50 percent of the market?

Mr. HOMER. I think the answer is no.

Senator MCMAHON. What percentage—what is the biggest percentage in the items of steel that I have given you that you sell?

Mr. HOMER. Sheets and strip.

Senator MCMAHON. What percentage of sheets in the market do you sell?

Mr. HOMER. What is your estimate of the consumption of sheets and strips in New England? I do not know how I can answer it until you tell me what the base is.

Senator MCMAHON. I am interested in what yours is. You must have an estimate of it. Let us take——

Mr. HOMER. This seems to be a sparring match to see who weakens first.

Senator MCMAHON. Let us find out whether you dominate the market in New England in any of these items.

Mr. HOMER. Then you answer these questions as to the facts as to whether we ship two-thirds of the steel into New England, the New England territory.

Senator MCMAHON. Mr. Chairman, is he here to answer the questions or not?

Mr. RICH. No, sir, he is not here to answer those questions and, Mr. Chairman, you have got no business to bring the president of any corporation in here and let this Senator from Connecticut come down from New England and ask him those questions. The Senator from Connecticut is not a member of this committee, and he has no right to be in here, and is here only by courtesy, and we are not here to have a New England quiz.

We will go on with this program in the regular order or it is not right; and I say that, notwithstanding my good friend, the Senator from Connecticut. He has got a right to go to his office and ask him those questions, but you are not going to do it here today. You are not going to put the man on the spot, and I am not going to see anybody put on the spot here. I want to be fair to everybody.

Mr. PATMAN. I think the chairman should be allowed to decide that.

The CHAIRMAN. Mr. Homer, may I inquire as to your position upon this matter? Are you willing or unwilling to permit the Senator from Connecticut to address these questions to you, or do you wish me to rule on the question of the Congressman from Pennsylvania that you should not be required to or requested to answer these questions.

Mr. HOMER. I have not any objection to facts, Senator.

The CHAIRMAN. I assure you the committee will give you every opportunity in the world to present your side of the case. Nobody here has any desire to prevent you from doing that.

Mr. HOMER. I already have presented the facts to refute the Senator from Connecticut's statement that we shipped two-thirds into the New England district, and he has not told me the facts on which he based that statement. I am just asking him for facts now.

I have given him mine; he has gone off on something else, which has nothing to do with it.

The CHAIRMAN. I am frank to say that I do not recall your giving any statement with respect to what you shipped in or what somebody else shipped in. Now, you are interested——

Mr. HOMER. I read it in the first page of my statement. It says that in 1949 Bethlehem shipped a total of 523,000 tons of rolled-steel products into New England, or about 26 percent of our estimate of the area's annual consumption.

Mr. PATMAN. That is the aggregate. The Senator from Connecticut asked him about different types.

Mr. HOMER. Do you not accuse somebody on the basis of monopoly with respect to the aggregate? That is what the accusation is by the Senator.

Senator MCMAHON. If you had 26 percent of the total market, you dominate the price situation in that market, particularly in some of those items, where you run a greater percentage of the total market.

Now, what I am trying to find out, Mr. Homer——

Mr. HOMER. Your statement was that it was two-thirds.

Senator MCMAHON (continuing). Are some facts. You say that I have not given the facts. You say you have them in your possession. Now, let us present them for the record. Where do you get the total of 2,000,000 tons in the New England market?

Mr. HOMER. Well, I have not seen your facts, Senator.

Senator MCMAHON. I am asking you where did you get the total of 2,000,000 tons in the market? Have you taken a census of your competitors on that subject?

Mr. HOMER. No; it is our own estimate.

Senator MCMAHON. Where did you arrive at the 2,000,000-ton figure?

Mr. RICH. He said he estimated it.

Mr. HOMER. It is our estimate.

Senator MCMAHON. What do you base your estimate on?

Mr. HOMER. A study of the market.

Senator MCMAHON. Did you base it on discussions with your competitors?

Mr. HOMER. A study of the market. We know what the general consumption is in a lot of territory in the country; New England is one of them. It is our business to know. How can we plan our business if we do not know?

Senator McMAHON. Of the 2,000,000 tons in the market, how many tons were in cold-rolled sheets?

Mr. HOMER. I gave you that—I will take it back, I did not give it, but I will.

Senator McMAHON. That is what I want.

Mr. HOMER. In 1949 it was 159,000 tons.

Senator McMAHON. That is the total?

Mr. HOMER. Yes.

Senator McMAHON. How much of it did you ship in?

Mr. HOMER. No; that is what we shipped in; that is what you asked for.

Senator McMAHON. I see. What was the total of cold-rolled sheets?

Mr. HOMER. What is your estimate of it?

Senator McMAHON. I am not here to answer your questions.

Mr. HOMER. You are accusing me.

Senator McMAHON. I am asking you for the facts.

Mr. HOMER. You are accusing me.

Senator McMAHON. And I will further make the accusation that you and United States Steel announced your expansion plans when you found out that the businessmen of New England—not the politicians, as you would have the people believe—finally determined that they were either going to make steel there or else they were going to slowly die, and that they are not going to permit United States Steel and Bethlehem to sentence them to slow death.

Mr. HOMER. Well, that is another theory instead of a fact.

Senator McMAHON. It is a theory that is held by the businessmen of New England, Mr. Homer, not by the politicians, as you would have us believe.

Mr. RICH. Well, can't the businessmen of Massachusetts come here——

Senator McMAHON. They have come to me because—just a minute, Mr. Rich, if you will—because they have been men from the New England delegation, and they have explained to us that we have lost our textile trade to the South, and they have——

Mr. RICH. You did not lose it because of the steel industry. Do you not know what you lost the textile industry from?

Senator McMAHON. Wait a minute.

Mr. RICH. You had better wake up a little there; you have been a long time getting away——

Senator McMAHON. Wait a minute, Mr. Rich, why jump to a conclusion that I do not hold at all. There are a great many different factors with respect to textiles. What I was pointing out was that the manufacturers of New England know that if they cannot manufacture with competitively priced steel that their economy of New England is gradually to go down hill, and that is a situation which they are not inclined to accept without examination, and I am happy to say that they have their representatives in the Congress who can help to make that examination for them, and I understood that that was one of the purposes of this investigation, to find out whether the price of steel to the citizens of the United States was fixed by a monoply and was fixed by arbitrary agreement or was fixed by the law of supply and demand.

Now, Mr. Homer, let us go to the figures,

Mr. RICH. Let me say this to you, Senator, if you are figuring on getting a steel plant built in New England, and expect the aid and assistance of the steel companies that you are now cross-examining, I wonder whether you are on the right track.

No steel mill would ever go and try to help you out in the steel business, the way you are trying to put them across the barrel this afternoon.

Senator MCMAHON. Now, Mr. Rich, let me answer that one; let me give you some information and background on that subject.

For over 3 years the subject of a New England steel mill has been explored and discussed and studied, not my me and not by the Representatives in Congress, but by the businessmen through all of New England.

Mr. RICH. That gentleman sitting over there (Mr. Neal) put up one of the best advertisements for the New England steel mill, and if you would let him go ahead, he did enough advertising for your New England steel mill today, more than I have ever heard anybody else do; he did a grand job, and now you are going to spoil it all. [Laughter.]

Mr. HOMER. May I ask a question?

Senator MCMAHON. Just a minute, and let me answer that.

The CHAIRMAN. Don't bother answering Mr. Rich.

Senator MCMAHON. I think that assertion is a very bad assertion. Please let me make this statement, and I ask to make it uninterrupted, because it is based on facts.

Dr. Neal did make this study. It is a fact that the New England council, through its representatives, has been in quiet negotiations, which I have known about, and other members of the New England delegation, with the other steel mills in the United States. I believe not with you because you had the Sparrows Point plant.

Mr. HOMER. They have been talking with us.

Senator MCMAHON. That is right. For your information, but not with the hope of inducing you to go into the New England market.

Mr. HOMER. They never asked us.

Senator MCMAHON. They knew your attitude.

Now, Mr. Rich, what happened was——

Mr. HOMER. How did they know that?

Senator MCMAHON (continuing). What happened was that suddenly every steel company, every big steel company in the United States, suddenly cut off their interest just like that, and we have a move by United States Steel in eastern Pennsylvania, and we have another move by Bethlehem, to enlarge the Sparrows Point plant for the purpose, in my opinion, of trying to bluff out the New England businessmen from going ahead with the project.

Mr. HOMER. Your opinion is not correct.

Senator MCMAHON. Just a minute.

Mr. HOMER. But you are going on from one thing to another.

Senator MCMAHON. I want to finish this statement.

Mr. HOMER. You are accusing us of something that is not true.

Senator MCMAHON. I think I am entitled to the courtesy of being allowed to finish my statement.

Mr. HOMER. And I deny it.

The CHAIRMAN. You will have your opportunity.

Mr. HOMER. I do not know whether I will.

The CHAIRMAN. Yes, you will; I will guarantee your having an opportunity.

Senator MCMAHON. Now, Mr. Rich, Dr. Neal testified this morning, and I agree with you that he made a magnificent presentation, but that presentation has been made to most of the major steel companies in the United States and they have turned it down, and the reason that they have turned it down is because by a concert of agreement, in my opinion, led by Big Steel, they have decided that New England will not have a steel mill.

Now, I would like to ask Mr. Homer this question.

Mr. HOMER. May I ask my question now? I was very patient listening to you. What is, in your opinion, the estimated consumption in the New England market?

Senator MCMAHON. Between nearer 3,000,000 tons than 2,000,000 tons.

Mr. HOMER. Well, then, that drops us down quite considerably lower insofar as our percentage is concerned.

Senator MCMAHON. It may be; that may be. How many——

Mr. HOMER. We are getting worse and worse now as you go along.

Senator MCMAHON. All right, Mr. Homer.

Mr. HOMER. That is a long way from——

Senator MCMAHON. You get better and better.

Mr. HOMER. That is a long way from two-thirds.

Senator MCMAHON. We are getting better and better with Bethlehem Steel and United States Steel because we hold some trumps, and you are not in a position to trump our hand.

Mr. HOMER. Let us see what they are.

Senator MCMAHON. We will show you what they are.

Mr. HOMER. Good.

Senator MCMAHON. You said 159,000 tons of cold rolled sheets. What percentage of the cold rolled sheets was that shipped into New England?

Mr. HOMER. Well, I would like to have your estimate, Senator.

Senator MCMAHON. I am asking you, sir, what your estimate is. You challenge mine.

Mr. HOMER. Well, I still do.

Senator MCMAHON. What percentage——

Mr. HOMER. I still do.

Senator MCMAHON (continuing). What percentage is 159,000——

Mr. HOMER. Well, you are accusing me of having a monopolistic situation.

Senator MCMAHON. Mr. Chairman, I am asking the witness a question.

Mr. HOMER. You tell me what the facts are. You say your accusation is based on facts. What are the facts?

Senator MCMAHON. In other words, Mr. Homer, you refuse to give the facts, as you did before?

Mr. HOMER. I am not refusing to give them, but refusing to give them until——

Senator MCMAHON. All right, give them. What was the total of the cold-rolled sheets?

Mr. HOMER. It is only an estimate.

Senator MCMAHON. What is it?

Mr. HOMER. You give me yours. [Laughter.]

Senator McMAHON. Mr. Homer, here is a question of price domination. You know, as an industrialist, that you can dominate a market with 26 percent or 33 percent——

Mr. HOMER. I have not found it yet.

Senator McMAHON (continuing). And sometimes with 15 percent of a market.

Mr. HOMER. There is still 75 percent, and other competitors in there, and how do you dominate that market?

Senator McMAHON. Let me ask you this.

Mr. HOMER. You said two-thirds before, Senator.

Senator McMAHON. You shipped in 159,000 tons of cold-rolled sheets?

Mr. HOMER. Yes.

Senator McMAHON. What is the total cold-rolled sheets in New England?

Mr. HOMER. You know. You make your own estimate on it.

Senator McMAHON. Do you refuse to give me your estimate?

Mr. HOMER. I am not refusing to give anything; you give it to me.

Senator McMAHON. Yes, you are.

Mr. RICH. He does not have to give the estimate.

Senator McMAHON. I am asking for the last time; Mr. Chairman, I do not intend to pursue this any further. What he is doing is that he is not giving it to me.

Mr. RICH. He does not have to give it to you.

Senator McMAHON. That is all I want to know.

Mr. HOMER. All right, you have told me that your estimate is 3,000,000 tons and I have told you that we shipped in 523,000 tons. The percentage is getting lower and lower to take care of a market. Under those conditions, I should think——

Senator McMAHON. I am going to ask you some questions. If you do not want to answer them, that is all right. You told me that you shipped into that market 159,000 tons of cold-rolled sheets. Now, do you care or do you not wish to tell me what your estimate of the total cold-rolled sheets is that are consumed in New England?

Mr. HOMER. About 22 percent.

Senator McMAHON. Twenty-two percent. That would make a total of how much?

Mr. HOMER. Divide the 159 by 22.

Senator McMAHON. The hot-rolled sheets—how many thousand tons of hot-rolled sheets do you ship in?

Mr. HOMER. That is total sheets.

Senator McMAHON. Will you break it down between cold and hot?

Mr. HOMER. I haven't any break-down.

Senator McMAHON. You have no break-down?

Mr. HOMER. Not with me.

Senator McMAHON. It may be 8 percent of the cold-rolled-sheet market, but correspondingly bigger.

Mr. HOMER. I don't agree to that. You can't put words in my mouth. You say you have the facts. Why don't you use them?

Senator McMAHON. I have the facts and I am going to give them to you in just a minute after we get through with this.

Mr. HOMER. I am glad to hear it. It has taken a long time.

Senator McMAHON. We are making some progress. On plates, what percentage of the market do you have?

Mr. HOMER. About 48 percent, but that includes our big shipyard program there at our Quincy yard.

Senator MCMAHON. Forty-eight percent.

Mr. HOMER. Which is shipping to ourselves. I think most of that program is our shipyard program.

Senator MCMAHON. Is 48 percent sufficient to dominate the price in the market?

Mr. HOMER. Not when you are selling to yourself most of it.

Senator MCMAHON. What percentage of the 48 percent do you sell to yourself?

Mr. HOMER. A good part of it.

Senator MCMAHON. What percentage?

Mr. HOMER. I have to estimate that.

Senator MCMAHON. You mean you will give it for the record later?

Mr. HOMER. I could probably get that figure.

(The information referred to above is as follows:)

Sixty percent of the plates we shipped into New England were sold to our shipyards.

Senator MCMAHON. How about bars?

Mr. HOMER. Between 22 and 23 percent.

Senator MCMAHON. Twenty-three percent. Do you know the total amount of bars shipped in there?

Mr. HOMER. I think I have given you enough of that to indicate it is a pretty low figure in every case.

Senator MCMAHON. Is 23 percent of the bars more than anybody else ships into the New England market?

Mr. HOMER. I haven't any idea.

Senator MCMAHON. How did you make your estimate to get the total amount of tonnage that went in there?

Mr. HOMER. That is our estimate of the consumption.

Senator MCMAHON. Then you must have known how much of these items others were shipping in.

Mr. HOMER. That doesn't follow.

Senator MCMAHON. That doesn't follow?

Mr. HOMER. No.

Mr. RICH. May I ask a question? Do you have any accurate way of knowing all the steel that is consumed in New England?

Mr. HOMER. No, we have no accurate way of knowing.

Mr. RICH. Isn't most any other steel man's guess about as good as yours?

Mr. HOMER. I think it might be if he is in the market and has representatives up there and is able to size up the conditions, he might be as good.

Mr. RICH. How many steel mills have representatives in New England selling steel?

Mr. HOMER. Pretty nearly all that ship steel in there.

Mr. RICH. Would that be 10 or 15?

Mr. HOMER. I do not know the exact number there, but I think it would run 15 or so, easily.

Mr. RICH. That is all; must be plenty of competition.

Senator MCMAHON. On wire, what is the percentage of wire?

Mr. HOMER. I think I have given you about all I need to.

Senator MCMAHON. You do not care to give that? That is all right with me. I will not insist on it.

Mr. HOMER. You have got a big wire mill right up there is Worcester, you know, right in the heart of it.

Senator MCMAHON. You do not care to give us the estimate of the amount you have in that market?

Mr. HOMER. We do not do very well in that market. I will admit it. It would not help your picture. It would be worse.

Senator MCMAHON. You want to help me out?

Mr. HOMER. Yes.

Mr. RICH. Now, Bethlehem has a wire mill in Williamsport, Pa., and I want them to manufacture wire in Williamsport to send up there, if they can.

Senator MCMAHON. Let me ask you this. In each of these items do you ship more into that market than any other steel manufacturer?

Mr. HOMER. What is that again, Senator?

Senator MCMAHON. In these items that we are talking about do you ship more of them in there than any other steel manufacturer?

Mr. HOMER. I do not know. I do not know what the others ship in there.

Senator MCMAHON. You have no idea as to what your competitors ship into that market?

Mr. HOMER. I would not know.

Senator MCMAHON. And yet you know the percentage that you ship of the total market and you know what the total market is.

Mr. HOMER. We make an estimate of it.

Senator MCMAHON. I see. What do you estimate, then——

Mr. HOMER. That is why I would like to know your figures. I would be interested in somebody else's estimates.

Senator MCMAHON. What do you estimate, Mr. Homer? How would you estimate you stood in the various classifications in that market? Are you first, second, or third, and, if so, in what category?

Mr. HOMER. I would not know. I have no way of telling.

Senator MCMAHON. Do you think that you dominate the market in any one of these categories?

Mr. HOMER. I would not say so. I do not see how we can when we only ship 25 percent in there.

Senator MCMAHON. How many companies are in there; 15 other companies?

Mr. HOMER. Might be that.

Senator MCMAHON. Yes. Now, of course, it stands to reason that the more companies that you have in there, the less percentage you have to have of the total to dominate the market.

Mr. HOMER. That does not follow. Your arithmetic is not right on that.

Senator MCMAHON. That is not true?

Mr. HOMER. No; it does not necessarily follow.

Senator MCMAHON. We will let that stand in the record.

Mr. HOMER. All right.

Senator MCMAHON. Now, I just want to say this.

Mr. RICH. What are you making a record for, Senator?

Mr. HOMER. I would like you to answer the question.

Senator MCMAHON. I am making the record for gentlemen who may give this record closer attention than some members of the committee might wish to give it, and they are right here in the room, and they have got ears.

Mr. RICH. You ought to do that on your side of the Capitol.

Senator MCMAHON. We will do it right here.

Mr. RICH. You are a guest of the committee. You are taking our time up, and we are here for another purpose.

Mr. HOMER. I have given you my facts. Now, will you give me yours?

Senator MCMAHON. Yes.

Mr. HOMER. What is your estimate of the total consumption in New England?

Senator MCMAHON. I will give you some facts before we get through. About the little manufacturers in New England who say when you come in here and tell us that you have raised steel——

Mr. HOMER. My question was——

Senator MCMAHON. Wait a minute.

Mr. HOMER. You are not responsive to my question.

The CHAIRMAN. He will be around.

Senator MCMAHON. Let's not conduct a cross-examination.

The PRESIDING OFFICER. Let the Senator finish his question or his statement.

Senator MCMAHON. I just want to say to you this, Mr. Homer: that when you come in here and say that steel prices have been raised $4 a ton and put out this propaganda to the people of the United States, and when the little manufacturers in New England write me that they have had a boost in excess, one of them said, of $19 a ton on his particular class of steel, when I can see those manufacturers unable to absorb this great increase, then I say to you it is time that the Congress of the United States looked into the situation.

I am going to put in this record a couple of letters—I would not dare add the names of the companies who have written me——

Mr. HOMER. Why not?

Senator MCMAHON. Concerning the price situation as it affects them. As far as the figures contained in this statement are concerned, they did not come out of my head or out of my office. They came from the gentlemen who have statistically studied this situation for 3 years, and they may be in error, Mr. Homer, in some respects due to the fact that you apparently were as uncooperative in giving them figures as you have been reluctant here today to advance them.

Mr. HOMER. You told me everybody else was cooperative.

Mr. RICH. I do not think he has been reluctant. You have asked him to give figures on a guess.

Mr. HOMER. I have given more than I should have.

The CHAIRMAN. Mr. Homer, let me intervene at this point because the price issue is a really very important one.

Mr. HOMER. That is what I thought.

The PRESIDING OFFICER. In Iron Age of December 29, I found this statement:

> The December 16 price change by United States Steel is drastic. Base price increase is nominal, but the changes in extras were substantial both ways, up and down, raises and reductions in extras run as high as $14 a ton on some items with a few changing as much as $35 a ton. Sheet steel prices have been revised to the extent that buyers must completely change their thinking as to what types and sizes of steel are the most economical to use.

That statement from Iron Age coincides with statements that have been produced in evidence here by witnesses that the prices on the

extras were the really significant changes and that they greatly increased the cost of steel to the consumers and particularly to the fabricators who must pass those on to their consumers and who find it necessary in some cases to make cost increases running not 2 percent or 4 percent or $4 a ton, but in some cases as high as 14 and 19 and 26 percent. That is really a most important aspect of this situation as I see it. Take your own case of extras.

What would you say would be the change with respect to a particular item of 36 by 96 by 0.125 or 11-gage cold-rolled sheet steel, stretcher-leveled quality for delivery in 20-ton lots? Let us say in Boston, to get away from Connecticut.

Mr. HOMER. You want me to give the extras on that?

The CHAIRMAN. Yes; what would be the cost?

Mr. HOMER. I cannot give it to you off-hand, Senator.

The CHAIRMAN. You have it?

Mr. HOMER. We could calculate it, yes.

The CHAIRMAN. Let me ask you the question that I asked——

Mr. HOMER. May I try to answer your question that I think you started off with, that there seems to be a variation in the amounts of these extras?

The CHAIRMAN. Yes.

Mr. HOMER. I think that is perfectly true. It averages out about $2 a ton as we see it, the increase. There are some that go up, but there are a great many that go down, but the average is up around $2, and as for modernizing, as we see it, of the extras, that applies to the basic prices of steel when certain special specifications are required. A lot of them had been getting out of line over a long period of time with our changes in equipment and methods of production, so that they no longer represented the actual cost of some of these changes due to these extras and specifications and additional work required by the customer. So that it arrived at a point, I think, where a lot of things were being done that were not being paid for, and I think this new price list, as we see it, does represent a little bit closer actually paying for what you are getting.

Now, those prices are not always realized, and you can estimate that it is $2 a ton, but it has to be worked back over some actual pattern of the past, some product pattern of the past, but that product pattern may not be the case next month, because when the customer sees that it is an extra increase on a certain item, he may say, "Well, I got that from steel manufacturers before, and I didn't have to pay for it, but now that I have got to pay for it I am going to change my specifications, because I don't need it any more, or I will change my production a little bit, so I don't need it any more," with the result that he does not order that kind of extra any more on his product, and we may not even realize that. I do not know whether $2 a ton is representative. It may be only $1 a ton average.

The CHAIRMAN. The point at which I am getting is this: That the statements of the large steel companies in announcing to the press their increase referred exclusively to the basic price and an examination of the statement of the other steel men as, for example, the statement of Mr. Phelps of the Oliver Corp., a manufacturer of farm machinery, he presented this list. This does not represent any change of pattern; this represents the pattern that company was following and will continue to follow.

Here is a certain type—C–1095 steel used on row-crop cultivators: Old price, $88 a ton; new price, $105 a ton; increase, $17 a ton; percent increase, 19.3 percent.

Here is another one: Mild steel angle used in various machines: Old price, $75 a ton; new price, $83 a ton; increase, $8 a ton; percentage increase, 10.6.

Long terne sheets: Old price, $96 a ton; new price, $111 a ton; increase, $15; percentage increase, 15.6 percent. And so it goes.

Mr. HOMER. But you just mention the ones that went up. There are some that went down.

The CHAIRMAN. There were some that went down, but the average increase was far above the 4-percent increase which was announced by the steel manufacturers when they first publicized this.

Mr. HOMER. I do not know. That is not our estimate.

The CHAIRMAN. Let me read this.

Mr. HOMER. That is somebody else's estimate. It all depends upon what the product pattern is you use in applying these rates, but I am trying to point out that we do not realize them, some theoretical basis may be calculated. For instance, if you had a lot of wide sheets in there, on which prices have been reduced, you might even work out a decrease in prices.

The CHAIRMAN. Have you reduced the prices on wide sheets?

Mr. HOMER. Yes.

The CHAIRMAN. That is to say, you have abolished the differential between wide sheets and narrow sheets?

Mr. HOMER. I will go back and tell you why. In the old days they got these sheets off these narrow hand mills. Sheets were all small size and extras were settled on that basis.

Now, as we developed these new processes with these tremendous big continuous-sheet mills and wider widths, we found that our costs of manufacturing these sheets were going down all the time, because we were getting up into this tremendous production. As I just mentioned a big-sheet mill with wide widths would produce 1,800,000 tons of sheets a year. Now, as we went along, the old hand-mill extras applied on these wide sheets and they were too high, did not apply any more because our costs were going down all the time.

So in this adjustment the wide-sheet extras have been lowered. Now, if a customer is buying wide sheets, he may find that he has had a reduction in price.

The CHAIRMAN. I am awfully glad you brought that up, because it brings to mind a statement made to me by a small fabricator who, like the purchasing agents, which I will quote here in a minute, does not want to be quoted by name. Would it surprise you to know that this small enterpriser, just running one little shop prior to December 16 and long after the hand mill was abolished, was buying these wide sheets at the prices which you formerly quoted before the reduction was made, but then he would take these wide sheets and slit them, cut them into narrower sheets, fabricate them; he had a differential there; he could buy the wide sheets, cut them, and build up a profitable business for himself.

But now the big producer lowers the price on the wide sheets, thereby abolishing the differential and incidentally throws the little fellow out of business.

Mr. HOMER. If he is slitting, he gets the advantage; does he not?

The CHAIRMAN. Apparently not.

Mr. HOMER. I would think it would be more favorable for him.

The CHAIRMAN. I do not see it that way, because he had a differential.

Mr. HOMER. Strip went up. If he had bought strip, he would have had an increase, but buying wide sheets and slitting them, he should have had a decrease.

The CHAIRMAN. You reduced the price and reduced his differential.

Mr. HOMER. It should have increased it.

The CHAIRMAN. Would there by any chance be an intent upon the part of a large integrated fabricator so to alter these extras as to have that effect upon the little fabricator and get the business for the big one?

Mr. HOMER. I do not think there is anything of that kind that I could put my finger on.

The CHAIRMAN. I am no steel man, Mr. Homer. Probably you can judge that from my questions. However, I get these questions only from the published statements and the verbal statements of men who are in the business.

Mr. HOMER. I think it is a question of getting a fair price for what you do.

The CHAIRMAN. Let me read read this. This is the bulletin of the National Association of Purchasing Agents, January 18, 1950:

> The steel market report which was published 2 weeks ago may be disappointing to some because it does not openly criticize the thing which we as buyers have every right to be critical of. On the other hand, I don't believe that 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.

That is January 18.

> Also we should not furnish ammunition to Government or congressional investigators to use to harass either the steel industry in particular or business in general. Any company has the right to raise prices if it wants to to cover increased costs, and none of us has any conception as yet of the magnitude of the cost of the $100-a-month-pension movement that has been started by the steel strike settlement.

Now there you have the testimony of a purchasing agent, which is confirmed by the statement in this week's Time magazine on page 77. This is under "Business and Finance, the Pension Bill":

> United States Steel this week announced that the cost of the strike-won pensions and insurance benefits for its 290,000 workers would be 67.5 million a year in addition to 10.5 million which the company is already paying. In a proxy statement to its 240,000 stockholders big steel asked them to approve the plan which will add 6 percent to the corporation's annual wage bill. While the added cost was not far away from what had been unofficially estimated, steel users were complaining that the increase in steel price to pay for the pensions announced as $4 a ton was turning out to be far more than that. 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.

There is the picture drawn for us by purchasing agents, by steel men, who are unwilling to testify lest they step on the toes of the big fellows who supply them. That really is a very serious question, Mr. Homer. Would you care to make any comment on it? Do these extras——

Mr. HOMER. I think I have already indicated and I do not think anyone has denied that some of the extras may run more than the average of $2. After all, when you get an average, there must be some higher and some lower. We have not claimed that the maximum is $2, Senator.

The CHAIRMAN. Would you have any indication of what the maximum is?

Mr. HOMER. You have read off some of them there, which I assume are correct.

The CHAIRMAN. I think they are factual.

Mr. HOMER. But, on the other hand, you have only asked the people who have had increases.

The CHAIRMAN. People who came here.

Mr. HOMER. You have only read off the ones that have written in to you about increases. Have you had any letters from people that have had decreases? They do not write to you about that.

The CHAIRMAN. Mr. Homer, I told you about the fabricator, the little fabricator in New England, who came to me personally and said, "Our price was reduced but it did away with our differential and it probably will put us out of business."

Now I am just quoting you facts, sir. I am not trying to accuse you; I am just trying to find out what is going to be the effect upon the economy of the United States by these increases.

Mr. HOLIER. That last statement is hard to understand about the price going down and costing him more.

The CHAIRMAN. Senator Benton, you have been a pretty prominent man in the business world. Do you care to ask a question at this point?

Senator BENTON. I would like to make a brief comment, if I may, Mr. Chairman, on my observations from listening to Senator McMahon and Mr. Homer this afternoon. I have been very much impressed with how much I heard about steel in the last month because I had heard very little about it prior to the middle of December.

I do not know anything that Mr. Homer would agree amounted to much about the steel business, and I am sure Senator McMahon does not pose as an expert in the steel business, because these various reports come in to us from New England businessmen who are eager to persuade us to take an aggressive interest in this field and Senator McMahon is quite right that these pressures come from the business community in New England, as you must know.

I have been interested in this estimate of volume, whether it is 2,000,000 or 3,000,000, because manifestly if it is only 750,000 tons, your 26 percent becomes 67 percent. I have no knowledge of what that volume is, but it would be determinant perhaps on indicating whether there is a real chance to operate a successful mill in New England.

Mr. HOMER. You are quite correct.

Senator BENTON. Anyone trying to figure out whether to put public money into it or private money ought to get the most authentic figures he can. I think it is a wholly different question, and this interested me in listening to the colloquy between Mr. Homer and Senator McMahon on this subject of price domination.

We get these letters saying that you dominate the price in New England. That information comes to us. Senator McMahon is told

that you dominate the price because you do 67 percent of the business, perhaps by some of your competitors. I do not think it is important whether it is 67 percent or 50 percent or 26 percent on the subject of price domination. It is important on determining the size of the market in New England, but it is not important on the subject of price domination necessarily. I have seen businesses where manufacturers dominate the price with 15 percent or 5 percent or 18 percent or where because they have 40-percent volume in one area, they can dominate other areas, the price structure, with 5, 10, 15, or 20 percent.

As you talk of the complexities of the steel business, it is easy for me to see how it is possible to dominate a price structure by certain controls in certain key areas, even without a substantial percentage in others.

Now, these figures were just given me, and I only suggest this, Mr. Homer—I do not know whether you will agree. Listening to this this afternoon, I am persuaded much more information and much more accurate information is needed before I would put money privately into a steel mill in New England and perhaps that same thing goes before public money is put into a steel mill.

I may say I think you have been very frank and candid on giving some of the information about your own business here this afternoon.

Mr. HOMER. Thank you.

Senator BENTON. But the census of manufactures—and I say this partly to show how Senator McMahon may get figures that may mislead him; whereas, this essential point on price domination could be quite correct, and that is the important point—here is the census of manufactures for 1947, and it shows New England sheet and strip volume was 494,000 tons.

Now, I do not know what the relationship is between sheet volume and strip volume. You have said that you do 159,000 tons, if I understood your properly, on sheet volume.

Now, even excluding strip, according to these census of manufactures figures, that would mean that on sheet volume alone—I want to emphasize I do not think the percentages are essential or necessarily vital to the argument, but merely to show how the figures are confusing to men that do not understand the business—your 159,000 tons would be 32 percent even without the strip volume of these figures that are put in my hands by the census of manufactures.

I merely offer that for what clarification it may be, Mr. Chairman, because I have been terribly interested in this subject, and Mr. Homer knows the pressures that Senator McMahon is under, that I am under, as I come into the Senate for the first time, that all the Congressmen from New England are under from the business community on this subject. I have felt them with great vigor here in my short stay in the Senate.

The CHAIRMAN. You are going to feel some more of them, I promise you that.

Senator BENTON. I am sympathetic with the Senator, as I am with you, Mr. Homer, in your own dilemma.

The CHAIRMAN. Mr. Homer, let me hand you this sheet and one for you, sir, and one for the reporter. I desire to read first, if I may,

Mr. Homer, from your statement on page 1 toward the end of the first column:

It appeared to us that the market prices of most rolled steel products had, on an over-all average, been increased approximately $4 per ton, of which $2 represented the average increase in base prices and $2 represented an estimate of the average effect of the revisions which had been made in the extra lists.

Now, the paper that I have handed you was handed to me by one of the members of the staff for an examination of your own extra list. (The paper referred to is as follows:)

In order to obtain more specific data as to what the 4 percent or $4 per ton increase as stated by the industry as an average increase would mean to a consumer of a specific size in his regular production, we have taken the size of 36 x 96 x 0.125 or 11-gage cold-rolled sheet steel, stretcher leveled quality for delivery in 20 ton lots to Boston, Mass.

The figures used as based on your published list of extras for cold-rolled sheets are shown below.

TABLE 1.—*Price prior to Dec. 20, 1949, as per your No. 14A1, dated Apr. 27, 1949*

Base per hundredweight	$4.00
Per hundredweight width and gage extra	.30
Per hundredweight stretcher leveled extra	.25
Per hundredweight freight	.63
Total net price hundredweight f. o. b. Boston	5.18

TABLE 2.—*Present price as per your No. 14A1, dated Dec. 20, 1949*

Base per hundredweight	[1] $4.10
Per hundredweight, width and gage extra	[2] .70
Per hundredweight, stretcher leveled extra	[3] .50
Per hundredweight, length extra	[4] .10
Per hundredweight, wrapping extra for shipment	[5] .12½
Per hundredweight freight	.63
Total net price per hundredweight f. o. b. Boston	6.15½

[1] $2 per ton increase.
[2] $8 per ton increase.
[3] $5 per ton increase.
[4] $2 per ton increase, not charged prior to Dec. 20.
[5] $2.50 per ton increase, not charged prior to Dec. 20 ($19.50 per ton increase).

It is not true that the extras as shown are all uniform today among all producers and were announced after Carnegie-Illinois has published their new price schedule?

The CHAIRMAN. The price in table 1 was that which existed prior to December 20, 1949, according to your No. 14A1, dated April 27, 1949, and this was for that size 36 by 96 by 0.125 or 11-gage cold-rolled sheet steel, stretcher leveled quality for delivery in 20-ton lots to Boston, Mass. There are three tables here. These tables, with their explanatory notes—the notes are set down in reference table 2—would indicate that computing the extras on this particular product, the increase is $19.50 per ton.

Mr. HOMER. Are you submitting this for us to check, Mr. Chairman?

The CHAIRMAN. Check or make a comment on, if you please.

Mr. HOMER. I am unable to make a comment until I have had the check made.

The CHAIRMAN. I can understand that.

Mr. HOMER. These calculations are of necessity rather complicated, and we would have to check on the product and what the specifications were, and what the prices would be as applying to this particular

commodity. I would be very glad to check it over and submit it to you by mail, if you wish.

The CHAIRMAN. I would appreciate it if you would do that.

Mr. HOMER. Would you like for us to figure out a few more that might show something else?

The CHAIRMAN. Certainly, show the decreases, if you will, and if you would take the time to go over your whole extra list and show us what the over-all net average increase is—in other words, all I am trying to determine is whether or not the little fellows who tell us, the consumers, the fabricators, who tell us—the Iron Age, which tells us—that the increase is a drastic one are right or whether the presentation made on behalf of United States Steel and Bethlehem that it was only a 4-percent increase is correct. All I want is facts.

Mr. HOMER. At your request I have checked our prices on 11-gage, 36 by 96 inches cold-rolled stretcher leveled sheets, which was the product referred to in the statement you handed me. Our production of cold-rolled stretcher leveled sheets in the very heavy gages is extremely limited, normally less than a few thousandths of 1 percent of our rolled-steel product production. The over-all effect of any increase in our price for this heavy-gage product is thus relatively insignificant and is fully offset by our price reductioins on the lighter, wider sheets.

Though our price for unpackaged 11 gage, 36 by 96 inches cold-rolled stretcher leveled sheets was increased $17 per ton, our price for unpackaged 21 gage, 72 by 120 inches cold-rolled sheets was reduced $17 per ton; and our price for 28 gage, 48 by 132 inches cold-rolled sheets was reduced $19 per ton.

The charges for packaging cold-rolled sheets depend on the kind of packaging and the size of the package specified by the customer.

If the customer asks that the product be wrapped in heavy waterproof paper, with 2 by 4 wooden skids under the package and the package and skids bound together with steel bands, then (*a*) if the package weight specified is under 500 pounds, our packaging extras have been reduced $10 per ton; (*b*) if the package weight specified is 3,000 pounds, our packaging extras are unchanged; (*c*) if the package weight specified is 10,000 pounds and over, our packaging extras have been increased 50 cents per ton.

While some packaging extras have been slightly increased, others have been very substantially reduced.

For example, if the customer specifies a package for sheets consisting of waterproof paper, top and botton unbent waster sheets, 2 by 4 wooden skids, all bound together with steel bands and in packages of less than 500 pounds, our packaging extras have been reduced $16 per ton.

If a customer orders 28 gage, 48 by 132 inches, cold-rolled sheets, packaged in waterproof paper, top and bottom unbent waster sheets, with 2 by 4 wooden skids, all bound together with steel bands, the net effect of our recent price adjustments has been a reduction of $35 per ton in the price of the packaged product.

Since the effect of the price adjustments depends to so great a degree on the specifications written by our customers, the over-all average price increase of $4 per ton which we anticipated when we put the new prices in effect may not be realized. As previously stated, we can do no more than estimate the net over-all effect of our recent price

adjustments on our average realized price per ton of rolled-steel products. It all depends on what our customers specify in the light of our recently published extra lists.

The extent to which our customers' specifications affect the average over-all price received by us for our rolled-steel products is graphically indicated by comparing the results of our operations for the month of January 1950, with the months of August and September 1949, which were the last 2 months prior to the steel strike that materially distorted steel-product shipments for the remainder of the year. The average price, including extras, realized by us on all our rolled-steel products shipped in January 1950 was only $3.56 per ton higher than the average price for all such products shipped in August 1949, and our average price in January was only $1.80 per ton higher than our average price in September 1949, despite the fact that every ton shipped in January was priced on the basis of our new and current base prices and extras.

Would you be surprised if everyone were right and it is one of those situations where you have to——

The CHAIRMAN. That is usually the case in Congress, everybody is right. But I have observed that in the steel industry you all move as a unit. When United States Steel announced the price, then the others come right along, and it is substantially the same price. That was what was shown in the hearings a year ago, it is what is shown now.

Mr. HOMER. And it will probably be shown in the future, Senator, because in order to stay in business, you have to meet the market level; if you are going to get in there and get it, you cannot have your prices way up high and expect to get business.

The CHAIRMAN. Well; I confess that I am a little bit puzzled in trying to understand the position of Bethlehem a year ago and the position of Bethlehem today, a very substantial producer, feeling that for purposes of competition when United States Steel raises its prices, it must also raise its price.

I should think that the competitive effect would be quite the other way and that if you retained your price, you might get a better market.

Mr. HOMER. I recall that from the last time I testified down here, and I think you misrepresented me on that. I have felt that right along.

The CHAIRMAN. It was in the record, sir.

Mr. HOMER. Not exactly.

The CHAIRMAN. I would not misrepresent you for the world.

Mr. HOMER. I do not think you would, but I think you must have misunderstood what I said. You in effect intimated that in order to meet competition we raised prices. That was not what I said or meant at all.

The CHAIRMAN. Now; was it to meet competition that you followed United States Steel up this year?

Mr. HOMER. May I explain it?

The CHAIRMAN. Certainly.

Mr. HOMER. This whole statement that I have just read today supports what my position is in connection with that, that you have a market level of prices, and 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, Mr. Homer, I want to read this from the New York Journal of Commerce of Friday, January 27, 1950, on the very point that you have just made.

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, which was not invented here, 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, why couldn't you 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, the new plan for $30,000,000, the expansion of Sparrows Point, get some of United States Steel's business?

Mr. HOMER. I think my answer to that, Mr. Chairman, is a rereading of this report, my testimony earlier is directed exactly to that particular point. I think it would be a waste of time to go over it again, but I think that I can do nothing more than ask you to refresh your mind in connection with the statement that I read previously in connection with the price situation.

The CHAIRMAN. Well, let's turn to your report, then. I had some notes here. For example, on page 5 you told us of the tremendous competition that domestic steel is now getting at the hands of foreign producers. In the second column on page 5 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 the volume it forces us do so, but there is one end result to that in my opinion. The more of this foreign steel that comes into this country the more unemployment we are going to have.

The CHAIRMAN. I have here a table from Steel magazine of January 2, 1950, from the United States Office of Business Economics on ex-

ports and imports of steel. I will show you how Steel magazine in its table shows the state of the imports. [Reading:]

United States exports and imports of steel products[1] *(in net tons), excluding advanced manufactures*

	Exports	Imports		Exports	Imports
1948—January	542,751	21,323	1949—January	436,255	284,142
February	486,956	15,234	February	386,939	293,209
March	494,766	45,621	March	455,940	298,844
April	438,560	48,798	April	565,140	184,289
May	381,707	27,982	May	553,950	161,729
June	380,391	55,263	June	599,093	109,133
July	366,149	50,754	July	668,053	56,133
August	343,673	67,741	August	509,644	50,667
September	326,221	129,400	September	521,553	19,327
October	377,496	162,035	October	----------	----------
November	281,097	119,611	November	----------	----------
December	463,376	181,716	December	----------	----------

[1] Includes scrap as well as finished steel products.

Source: Steel (magazine) Jan. 2, 1950, from U. S. Office of Business Economics.

Mr. HOMER. Our foreign sales are falling off very rapidly.

The CHAIRMAN. I am questioning you, sir, on your testimony that foreign steel is coming into the United States at prices lower than you can offer at the same time that you are increasing your domestic prices. It does not make sense to me.

Mr. HOMER. I do not see that it has any connection myself.

The CHAIRMAN. Very good.

Mr. HOMER. Not at the present time. There is a small amount of foreign steel coming in here, but it is bound to increase. We think in another couple of years it is going to be coming in in greater amounts.

The CHAIRMAN. I suggest if you reduce your prices, you could keep it out, and I would suggest——

Mr. HOMER. At $30 per ton reduction?

The CHAIRMAN. On the basis of Mr. Grace's report your earnings are so great that you would be in no danger.

Mr. HOMER. We would go right out of business. If you only analyze our statement for a moment, you will find out your estimate of the situation is hardly correct.

The CHAIRMAN. Well, I have here, sir, what appears to be your preliminary report for 1949. It is in your statement, you presented it to us today.

Mr. HOMER. We have given you all our figures in the back.

The CHAIRMAN. There they are—$99,283,529 net income for the period of 1949, as compared with $90,347,560 for the year 1948. You yourself handed those figures to the committee.

Mr. HOMER. Correct, and how much a ton is the profit that we made in 1949?

The CHAIRMAN. You tell us.

Mr. HOMER. You have the figures. No; you do not have them. Well, around 10,000,000 tons, $99,000,000, it is about $9 a ton, and you say we can reduce prices below the foreign price coming in of $25 or $30 a ton.

The CHAIRMAN. I do not tell you what you can or cannot do.

Mr. HOMER. I want to bring it out, Senator, that there is a big difference there. We will go out of business if we do it. It is very simple.

The CHAIRMAN. I just cannot see a big company which is making record profits, according to the statement of its financial executives, being in any danger of going out of business. Now, maybe you are.

Mr. HOMER. It may be record profits, but it is not enough, as I have tried to outline, to do what should be done under present conditions.

The CHAIRMAN. Mr. Fairless told us the steel industry has not been earning a fair return in 20 years.

Mr. HOMER. Maybe he is right. We have been dissipating our assets through too low prices. That is shown by the charts right in here. What has happened to all other prices and commodities in the country? They have gone up lots more than steel prices.

Senator MCMAHON. Do you think United States Steel Corp. would have raised its prices this last time if they did not think you were going to follow suit?

Mr. HOMER. I haven't any idea about it. I do not know. How can I tell what United States Steel Corp. thinks?

Senator MCMAHON. I see. You do not think they had any idea that you would come along and meet that price?

Mr. HOMER. I do not know. I do not think they had any idea about it.

Senator MCMAHON. But they have known that over a period of a generation whenever they have done it that you have met the same price.

Mr. HOMER. They may have; I do not know. I have no way of knowing.

Senator MCMAHON. That is the fact, is it not?

Mr. HOMER. I do not know that it is a fact, no; I do not know that it is a fact that they knew we were going to follow and raise prices.

Senator MCMAHON. Is it not a fact that whenever they——

Mr. HOMER. How do we know how they think or how do they know how we think?

Senator MCMAHON. I would not know.

Mr. HOMER. I would not know any more than you do.

Senator MCMAHON. Let me ask you this: Is it not a fact that every-time United States Steel has raised or lowered its price that Bethlehem has followed suit, together with the other majors in the industry?

Mr. HOMER. No, no, no; not at all. We raised prices and the Steel Corp. did not. We did that in the last year and the result was we had to go back to the old price basis on account of competition.

Senator MCMAHON. Is that the only time when there was diversity?

Mr. HOMER. I would not be able to tell you about it. We will find out.

Senator MCMAHON. I think the statistics will show that is not the fact, and if you did it last year, that it was the exception that proved the rule that whenever they made a price increase or decrease, the rest of the majors were found to be right in step with them.

Mr. HOMER. I think you are intimating facts that are theories something like the New England steel job.

Senator MCMAHON. You would like to keep it in the realm of theory.

Mr. HOMER. I would like to keep it in the realm of fact.

Senator McMAHON. That is where we intend to put it even if you would like to keep it in the realm of theory.

Mr. HOMER. I will not argue with you on that.

The CHAIRMAN. Mr. Homer, Senator Sparkman before he left came to me and indicated that he had two questions he would like to ask. He left the questions with Dr. Kreps. I will ask Dr. Kreps to present Senator Sparkman's questions.

Mr. KREPS. I am not sure I can do justice to Senator Sparkman's point of view, but the questions were as follows: He noted that you quoted the Council of Economic Advisers with approval on page 6 of your statement in regard to the problem of prices, profits, and so forth. We must apply the idea of balance. Also note that the Council itself made a statement specifically on the price of steel and on this recent price increase. You will find that statement given verbatim on page 43 of the pamphlet Basic Data Relating to Steel Prices.

The pertinent sentences from that statement are given on page 43 where the Council says:

> 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 rewarded; they can best be protected and advanced by those policies which will maintain and expand volume. Steel prices are a case in point. The statement 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-profits-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 known wage-rate increases.

I take it Senator Sparkman's point was to ask you whether you disagreed with that opinion of the Council, even though you agreed with their general principle.

Mr. HOMER. Well, in the first place, in response to this particular question, the quotation that I have used in my statement is not a quotation of the Council of Economic Advisers. It is a quotation of the Secretary of Commerce. In the second place, when you refer to the Council of Economic Advisers quoting somebody else, which is the Steel Fact-Finding Board, as I get it from the question, my answer to that is that we do not agree.

Is that responsive to your question?

Mr. KREPS. Yes. Now, the second item. As you probably know, Senator Sparkman is chairman of a subcommittee of this committee entitled "Subcommittee on Low-Income Groups." He has made a considerable study of the low-income groups.

They have found considerable impairment of human capital in those groups. He became interested when the presentation of the steel industry was made indicating the necessity for higher replacement costs and, indeed, depreciation and obsolescense charges for physical capital.

Had you thought that the wages reported are equally, if not more, inflated than your profit figures are alleged to be inflated, because they similarly disregard (*a*) the real earnings of labor over a period of time, and (*b*) the higher replacement costs at the present time?

He had the staff prepare a table which he asked be inserted in the record at this point. I shall ask that they be distributed.

(The table referred to above is as follows:)

Real earnings per "attached" [1] worker—iron and steel, 1930–48

Year	Average annual earnings [2] (1)	Percent capacity operations [3] (2)	Average annual earnings attached, worker [4] (1)×(2) (3)	Consumers' price index [5] (1935-39=100) (4)	Average annual real earnings [6] (3)÷(4) (5)
1930	1,640	62.5	1,025	119.4	858
1931	1,410	37.6	530	108.7	488
1932	1,044	19.5	204	97.6	209
1933	1,073	33.1	355	92.4	384
1934	1,166	37.4	436	95.7	456
1935	1,295	48.7	631	98.1	643
1936	1,446	68.4	989	99.1	998
1937	1,591	72.5	1,153	102.7	1,123
1938	1,359	39.6	538	100.8	534
1939	1,549	64.5	999	99.4	1,005
1940	1,643	82.1	1,349	100.2	1,346
1941	1,923	97.3	1,871	105.2	1,779
1942	2,283	96.8	2,210	116.5	1,897
1943	2,637	98.1	2,587	123.6	2,093
1944	2,781	95.5	2,656	125.5	2,116
1945	2,792	83.5	2,331	128.4	1,815
1946	2,696	72.5	1,955	139.3	1,403
1947	3,063	93.0	2,849	159.2	1,790
1948	3,392	94.1	3,192	171.2	1,864
Average 1930–48	1,936	68.8	1,466	114.9	1,200

[1] "Attached" means workers necessary to full-capacity operation of the iron and steel industry at the rated capacity of each year.
[2] Average annual earnings per full-time equivalent employee as estimated by the U. S. Department of Commerce: 1930–41 from National Income Supplement to Survey of Current Business, July 1947, table 26, p. 38. 1942–48 from Survey of Current Business, July 1949, table 26, p. 21.
[3] Percent of capacity operations, iron and steel industry; data from magazine Steel, Jan. 2, 1950, p. 127.
[4] Average annual earnings per attached worker. Assumes percentage of attached workers who are employed is the same as percent of rated capacity in operation.
[5] Source: Bureau of Labor Statistics.
[6] Average annual real earnings reflects real purchasing power of annual earnings per worker attached to the industry.

Mr. KREPS. This table gives the average annual earnings of labor. Now, a good deal of that labor is unemployed, but it is attached to the industry, to use a technical term. It is labor that has to remain near the plant and would be employed if the plant were operated at full capacity.

So the average annual earnings have to be spread out over those who are employed and those who are underemployed and unemployed. Of course, those earnings in order to get them on a real basis have to be deflated by the consumers' price index, and so you get average annual real earnings. Those have been computed for the period 1930 to 1948, inclusive, and the average wage, steelworker's wage, comes out for that 19-year period at $100 a month, almost exactly that figure. Senator Sparkman's statement in that regard is as follows:

In these hearings evidence has been offered as to the real earnings of the steel industry on its investment after allowing for the sharp rise in prices. It is appropriate to make a similar analysis of the real earnings of the workers "attached" to the industry. By "attached" to the industry is meant the number of workers necessarily available in order that the industry operate at capacity if demand so requires. This table shows:

(1) Between 1930 and 1948 the industry operated at an average of 68.8 percent of capacity so that on the average 31.2 percent of the workers attached to the industry were unemployed.

(2) The average annual real earnings per worker attached to the industry in terms of prices prevailing in 1935–39 was 1,200 per year or about $23 per week.

(3) This low figure of $1,200 per year for the steelworkers real earnings

is actually too high since it does not allow for income taxes which they pay. The figure is therefore comparable to profits before taxes.

(4) Real earnings per attached worker declined after 1944—

as you will notice in the table they were $2,116 in 1944 and have gone down since to a figure of $1,864 in 1948. To continue:

(4) Real earnings per attached worker declined after 1944 and in spite of a rise in 1947 and 1948, is slightly below the level of 1942 and about 12 percent below 1944.

(5) Real earnings were as low as $209 per year per attached worker in 1932. At no time was the figure as high as that usually set by experts in family budgets as a minimum standard of health and decency in an urban area in 1935–39 prices.

(6) The steelworkers are usually thought to be highly paid but this calculation indicates that over a period of 19 years the average income was not high enough to permit the worker to raise a family and provide basic health and educational opportunities for his children.

In other words, you could not replace the workers and apparently such replacement costs have not been figured.

This means industry was not paying current operating costs, replacement costs and obsolescence costs for the workers who operate the plants although industry has long since set up such provisions for its plants and equipment. If depreciation allowances for plant and equipment are as inadequate as industry claims, it is also clear that industry cannot object to the costs of similar replacements of its working force in terms of wages and pensions.

Now, the question simply is whether or not you have thought about such computations for your human capital as well as your physical capital, whether in your presentation such computation was considered and why it was rejected, because I note that in no case have I seen any figure which points out that the wages labor receives are subject to all the inflation that is alleged to be in the figure of profits.

What I take to be Senator Sparkman's question would be whether or not you considered that type of computation the type that ought to go with your computation on physical capital.

Mr. HOMER. Well, I believe my answer would have to be that I would have to study this method, being somewhat novel, and determine whether I could give an answer to the question. I cannot give an answer to it now. I would be glad to consider it and give some kind of answer to it.

Mr. KREPS. Again I am assuming that I am interpreting the sense of Senator Sparkman's question. Do you feel that the human stuff that you use up should have the same accounts set up for it—namely, replacement, depreciation, and obsolescence, which means pensions, et cetera—that you set up for your physical capital?

Mr. HOMER. I think our actions in connection with our pension plan and insurance and relief plan and hospitalization and all of those social-welfare plans are in that direction. Certainly, we have had a certain concept long this line, that there is something of that in the picture.

I do not know just how you measure it, as far as putting it on a mathematical basis goes, like the attempt that has been made here, but for 26 years we have had in effect a pension plan and a relief plan or insurance plan in effect for about 24 or 25 years, all of those conceived back in those days must have been on a basis of having some conception of, term it the expendable part of the human equation, and I would say, yes, it has been taken into consideration.

Mr. KREPS. Thank you very much.

Mr. HOMER. Whether that answers the Senator's question I do not know, and I would not be able to tell whether this calculation was right or wrong or give any opinion in connection with it.

The CHAIRMAN. Mr. Homer, may I express my own personal appreciation, and I am sure, the appreciation of the committee for your appearance here and for your patience in sitting there during a pretty long session.

Mr. HOMER. Thank you very much, Mr. Chairman.

The CHAIRMAN. I think all of these public hearings are in the long run very beneficial to all concerned and particularly the public.

Mr. HOMER. May I say it has been my experience to have attended quite a number of conferences of this type, and that we are always willing to be helpful and to contribute what we can to the understanding of some of these problems, because there are always two sides to them, and I think the more discussion we have, to a certain extent, the better we are all going to understand what the other fellow's problem is.

It has been a great pleasure and I thank you very much for your consideration.

The CHAIRMAN. Thank you.

(The charts and tables submitted by Mr. Homer are as follows:)

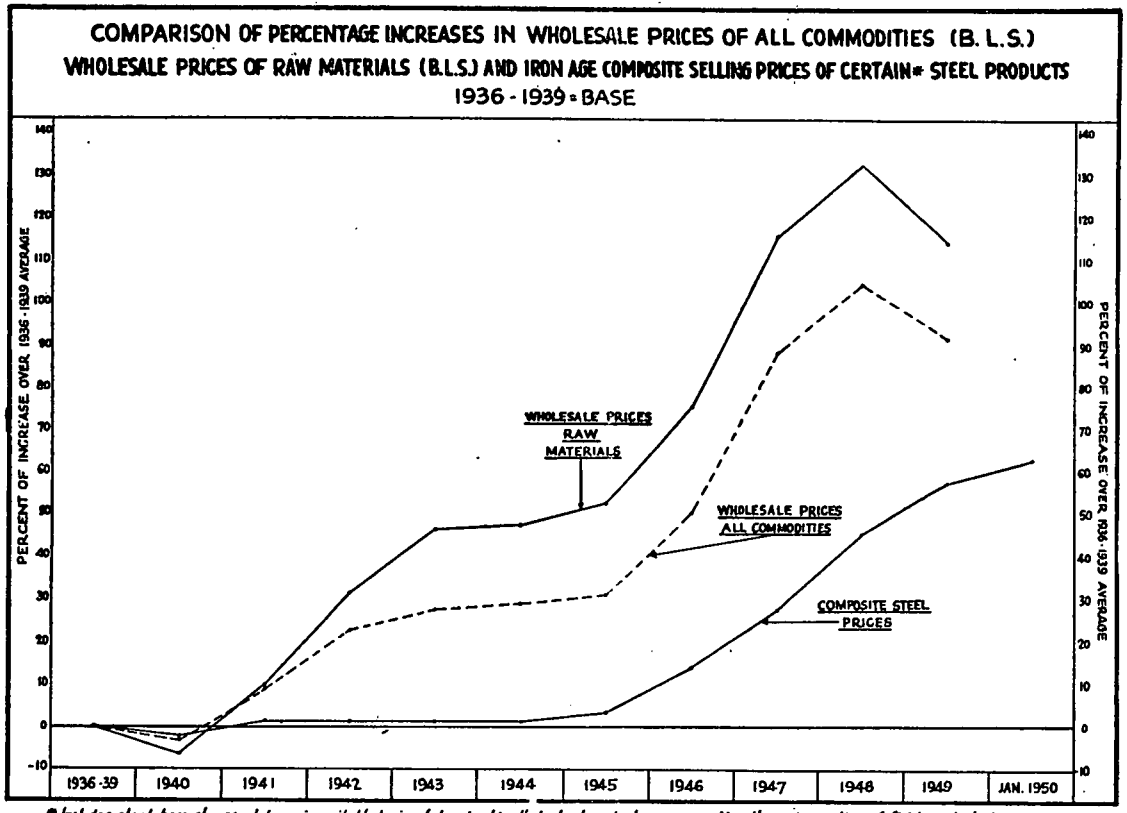
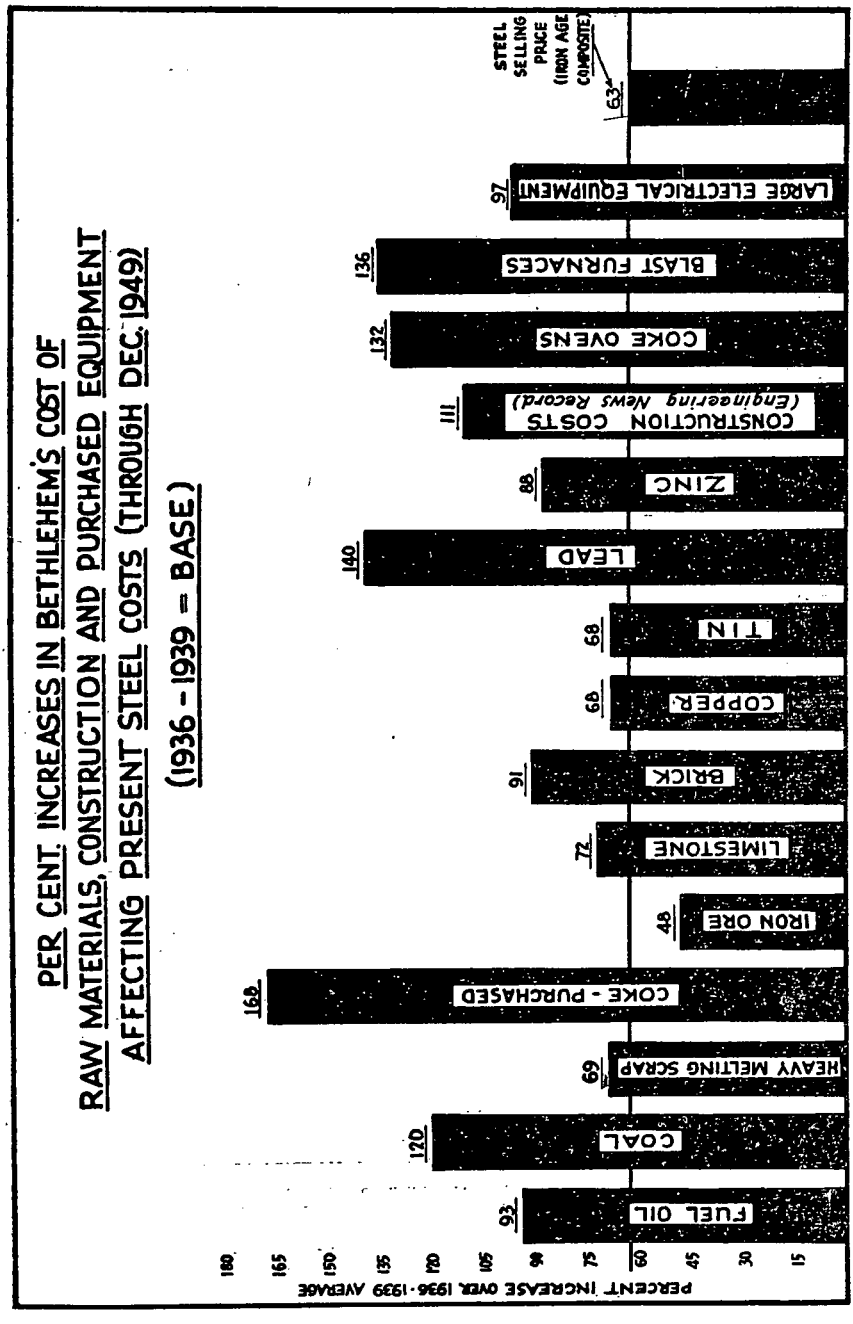


CHART No. 1

* Includes steel bars, shapes, plates, wire, rails, black pipe, hot and cold rolled sheets and strip, representing the major portion of finished steel shipments

CHART No. 2


PER CENT INCREASES IN BETHLEHEM'S COST OF
RAW MATERIALS, CONSTRUCTION AND PURCHASED EQUIPMENT
AFFECTING PRESENT STEEL COSTS (THROUGH DEC. 1949)
(1936 - 1939 = BASE)
PERCENT INCREASE OVER 1936-1939 AVERAGE
180
165
150
135
120
105
90
75
60
45
30
15
STEEL SELLING PRICE (IRON AGE COMPOSITE)
63
LARGE ELECTRICAL EQUIPMENT
97
BLAST FURNACES
136
COKE OVENS
132
CONSTRUCTION COSTS
(Engineering News Record)
111
ZINC
88
LEAD
140
TIN
68
COPPER
69
BRICK
91
LIMESTONE
72
IRON ORE
48
COKE - PURCHASED
168
HEAVY MELTING SCRAP
69
COAL
120
FUEL OIL
93

PER CENT INCREASE (OVER 1936-39 AVERAGE) IN BETHLEHEM'S AVERAGE HOURLY EARNINGS OF STEEL PLANT EMPLOYEES

(Exclusive of Selling and Administrative Forces)

COST OF LIVING INDEX (U.S. BUREAU OF LABOR STATISTICS)

and

IRON AGE COMPOSITE SELLING PRICES OF CERTAIN* STEEL PRODUCTS

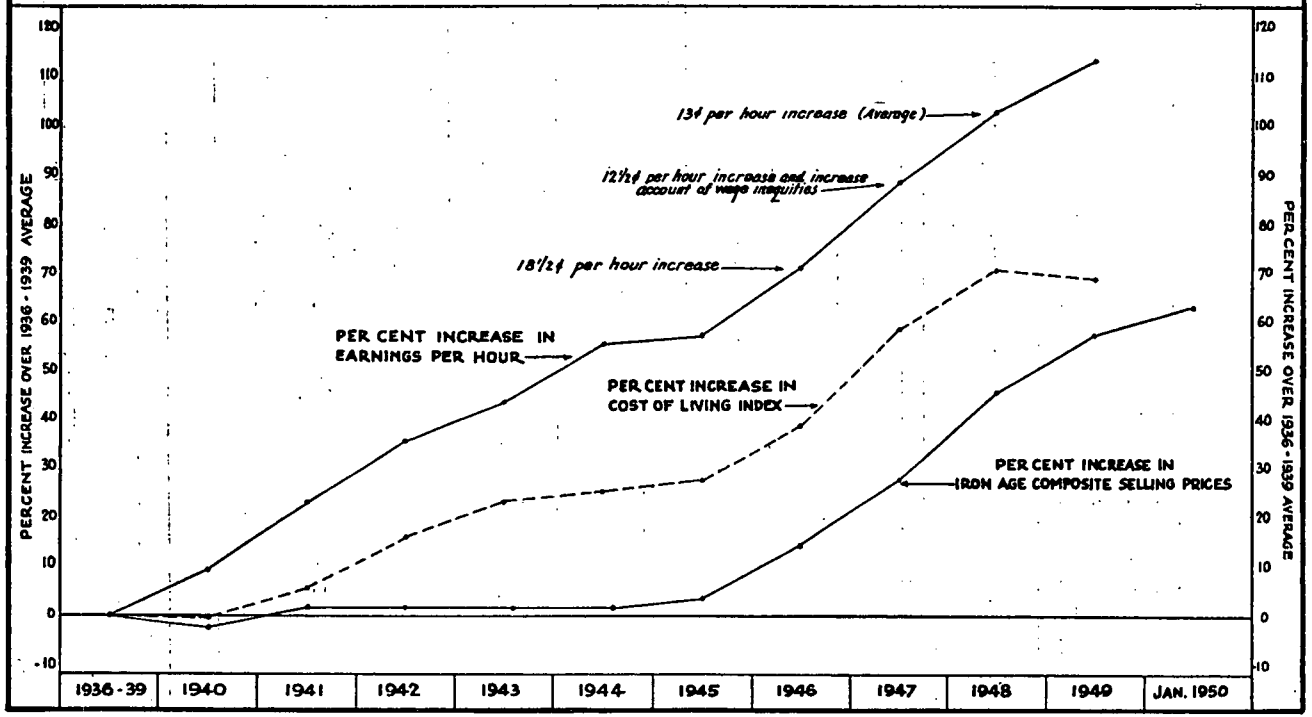


CHART No. 3

* Includes steel bars, shapes, plates, wire, rails, black pipe, hot and cold rolled sheets and strip, representing the major portion of finished steel shipments.

Bethlehem's income account, 1946 to 1949, inclusive

	Millions of dollars	Cents per dollar of receipts		Millions of dollars	Cents per dollar of receipts
Total revenues	4,412.8	100.0	Costs—Continued Federal income taxes	170.2	3.9
Costs:			Total	4,141.3	93.9
Employment costs	1,809.2	41.0			
Materials, supplies, etc	1,986.0	45.0	Total net income	271.5	6.1
Depreciation and depletion	110.0	2.5	Distribution:		
Interest and other charges	16.6	.4	Dividends paid	106.5	2.4
State and local taxes	49.3	1.1	Retained in the business	165.0	3.7

Bethlehem's available funds and expenditure thereof, 1946 to 1949, inclusive

[In millions]

Net income		$271.5
Less: dividends paid		106.5
		165.0
Depreciation and depletion provisions		110.0
Proceeds from property sold		6.3
Total funds available		281.3
Expended for additions and improvements		318.0
Expended for increase in inventories and accounts receivable	$40.9	
Additional investments in affiliates, etc	19.3	
Total	60.2	
Less increase in current liabilities	28.5	
		31.7
Total expended		349.7
Expended in excess of funds available		68.4
This amount made up by:		
Net increase in long-term debt and capital stock (net)	$68.0	
Reduction in cash and securities	.4	
		68.4

BETHLEHEM STEEL CORP. PRELIMINARY REPORT FOR 1949

The following is a preliminary report of the results of the businesses and operations of Bethlehem Steel Corp. and its subsidiary companies for the year 1949, comparing with the year 1948.

The results shown for the year 1949 have not been audited and are necessarily in important respects based upon estimates, which are subject to adjustment on final determination.

	Year 1949	Year 1948
Net billings	$1,266,843,001	$1,312,556,417
Total income before deducting items shown below	209,667,282	188,080,585
Less:		
Interest and other charges	5,264,729	4,905,423
Provision for depletion and depreciation	33,019,014	30,222,602
Net income before provision for taxes based on income	171,383,539	152,952,560
Deduct: Provision for taxes based on income	72,100,000	62,605,000
Net income for the period	99,283,539	90,347,560

The CHAIRMAN. Mr. Colvin, you were here on Wednesday ready to testify and we could not get to you. I asked you if you would come back on Thursday, you found it inconvenient because of previous negagements, but said you would come here on Friday, and here you are, having waited all day.

Mr. COLVIN. Yes, sir.

The CHAIRMAN. You have been in the hearing room and you know the limitations upon our time. Are you ready to proceed now?

Mr. COLVIN. Yes, sir.

The CHAIRMAN. Pardon me just a moment.

Mr. Montgomery, you also were to appear today.

Mr. MONTGOMERY. I was told to be here this afternoon.

The CHAIRMAN. You are here in town, and since you are, I felt Mr. Colvin was entitled to have precedence.

Mr. MONTGOMERY. Will the hearings go on next week?

The CHAIRMAN. No; we were to finish with you.

Mr. MONTGOMERY. Tonight?

The CHAIRMAN. Yes, if you will.

All right, Mr. Colvin.

STATEMENT OF WILLIAM H. COLVIN, JR., PRESIDENT, CRUCIBLE STEEL CO. OF AMERICA

Mr. COLVIN. My name is William H. Colvin, Jr., president of Crucible Steel Co., of America. We are pleased to respond to your invitation to testify regarding the recent steel-price adjustments because we have had and still have serious problems involving the cost-price relationships of the specialty and tool steels which constitute our principal products. A clear understanding of the problems of this company as a leading specialty and tool steel producer—not only on the part of you gentlemen, but also on the part of the public—is important to us and we welcome the opportuity to talk about them.

We have had previous contacts with governmental agencies concerning these problems. First, with the Office of Price Administration in 1947; second, in the hearings before the Steel Industry Board[1] in 1949; and third, in the 1949 hearings before the Senate Committee on Banking and Currency on the effect of the economic power of unions upon various segments of the national economy. In each of these instances, we have shown, we believe conclusively, that the tool and specialty steel producer has been continuously hurt for the past 10 years, and hurt badly, by constantly increasing costs, particularly wage costs, without adequate compensating price increases. Before touching on that problem here, we would like to describe briefly the nature of our business.

Nature of the tool and specialty steel business: Tool and specialty steel makers, of which we are one of the leaders, produce steel differing greatly from the steel produced by the large tonnage producers. In the case of tool steel, this is due to its expensive and high alloy content, the small quantities of the run, as to size, shape, and analysis, its

[1] Much of the material presented herein is contained in the detailed statement which we presented before the Steel Industry Board last summer. A substantial part of what is said therein represents a serious effort to explain our business and describe some of the peculiarities which differentiate it from tonnage steel producers. Copies of that statement are attached hereto and marked "exhibit A," and for a fuller understanding of our problem, your attention to it is invited.

costly metallurgical supervision, and the care and inspection required at all operational stages—all these resulting in exceptionally high man-hours per ton. Tool steels become component parts of the vast number of types of machinery, tools and devices used to cut, shape, and work hard substances such as other metals, minerals, stone, and particularly the steels produced by the tonnage mills.

Specialty steels, likewise require high man-hours per ton for many of the same reasons. They are used in the applications requiring unusual resistance to wear, pressure, tension, temperature, corrosion, and so forth.

Customers of companies such as our own number in the tens of thousands, most of them small businesses scattered throughout the country. We ourselves, are a small steel company, rated twelfth in ingot capacity,[2] but 9th in average number of employees. Although twelfth in rated ingot capacity, our capacity is but 1.6 percent of the total capacity of these same 12.

Fifty-six percent of our customers have a capital rating under $20,000.

Not only de we serve small business—we must serve it in small lots. The following table illustrates the small average size of a large percentage of our customer orders:

TABLE B.—*Tool and specialty steel customer orders for mill production, 1948*

	Percent of all items produced	Weight limits	Average weight per item
Our plant:			*Pounds each*
A	76.0	Under 1,000 pounds	271
B	70.6	do	297
C	48.1	do	348
Total, tool and specialty steel plants	63.1	do	302
In contract, D (tonnage plant)	79.3	Over 10,000 pounds	45,264

As has been said, tool and specialty steels inherently require exceptionally high man-hours per ton. When the problem of high man-hours per ton is related to the problem involved in dealing with a multitude of small-sized orders, the cost problem is alarmingly magnified. This relationship is strikingly illustrated by the following table:

[2] The table is as follows:

TABLE A.—*Relative size of steel companies*

Steel producers listed in order of rated ingot tonnage capacity, 1948:	
1. United States Steel	31,300,000
2. Bethlehem	13,800,000
3. Republic	8,600,000
4. Jones & Laughlin	4,815,000
5. National	4,050,000
6. Youngstown	4,002,000
7. Armco	3,563,000
8. Inland	3,400,000
9. Sharon	1,672,000
10. Colorado Fuel and Iron	1,409,000
11. Wheeling	1,409,000
12. Crucible	1,277,133

TABLE C

Our plant	Type of product	Man-hours per ton	Average weight per item
			Pounds
A	Tool and specialty steels	187.0	271
B	Cold rolled specialty steels	165.2	297
C	Machinery and alloy bars: stainless and tool steel sheets.	110.3	348
D (tonnage)	Hot-finished commercial bars	21.0	45,264

The highly individual nature of tool and specialty steel production is not only indicated by the small size of the order, and by the high man-hours per ton produced, but also by the infrequency with which particular heats recur on the melting schedules. The following table shows the facts:

TABLE D.—*Analysis of numbers of heats melted in our tool and specialty steel plant A, showing irregularity of recurrence in 1948*

Yearly recurrence:	*Percent of heats*
Never repeated	21.0
Repeated once	16.1
Repeated twice	14.3
Repeated between 3 and 9 times	25.1
Repeated between 10 and 99 times	21.5
Repeated between 100 and 199 times	1.7
Repeated over 200 times	0.3

We are thus confronted with a production problem not open to solution by mechanization, except in a limited degree. We must exercise the closest of expert supervision over an infinite variety of steel types and grades—we must turn them out in small quantities and short runs—we must change rolls and equipment frequently and with precision—and we must expect that the same grade and type will not often recur on our melting schedules. The economies which long runs, large tonnage, and a high degree of mechanization have brought to the tonnage steel producers are not available to us. Thus, the problems we face are not obsolescence, nor inefficiency of plant or equipment—our problems are inherent in the nature of our product and the very character of our customers' business which we serve.

Past profits of the tool and specialty steel producer have steadily declined and were wholly inadequate prior to 1949. The question which immediately arises is: Does the company receive adequate compensation for its quality product, considering the high man-hours per ton, the small average size of the order, the irregularity of recurrence of heats, and the expensive alloy content? The answer is "No," despite all that has been done by us to reduce costs by mechanization to the extent possible by economies of all kinds and by plant consolidation and modernization.

The answer was given in detail to the Steel Industry Board last summer and is equally applicable here. For the last decade, the cost of purchased materials and wage and salary rates, over both of which it is no longer possible to exercise effective control, has increased on a scale which has taken a greater and greater share of the sales dollar at the direct expense of the owners. In 1939, purchased materials and wages and salaries took 83.9 percent of the sales dollar—in 1948 these

same items took 90.7 percent of the sales dollar. After paying fixed charges in 1939, the owners had 5.9 percent left out of the sales dollar—in 1948 they had 2.7 percent left out of the sales dollar.

In other words, while there had been adjustments in prices during this period—increases in the cost of materials and services, our principal costs of doing business, had far more than absorbed the benefit of the increases.

A few figures will quickly illustrate the point. Average hourly earnings in our tool and specialty steel plants in January 1939 were $0.72 per hour. By the summer of 1949, they were $1.64 per hour, an increase of 129 percent, forced on us by industry-wide wage increases demanded of all companies, tonnage and specialty alike, by the industry-wide steelworkers union. However, price adjustments in the same period (prior to the recent adjustment) on a representative list of our tool steels were as follows:

TABLE E.—*Price increases, 1939–49*

	Percent of increases [1] from 1939 to 1949
Tungsten high-speed steels	30.7
Molybdenum high-speed steels	21.0
High-carbon-chrome steels	20.1
Oil-hardening steels	19.0
Carbon-tool steels	25.9
Alloy-tool steels	22.3
Hot-work steels	29.5

[1] Prices on these products were adjusted upward by about 10 percent in the recent price change.

The tremendous volume resulting from World War II concealed the squeeze which was steadily developing as a result of these increasing costs and noncompensating price adjustments. The ending of the war's volume quickly had its effect, as table F so clearly shows:

TABLE F.—*Profits as percent of sales*

	Before income taxes		*Before income taxes*
1948	5.0	1943	11.9
1947	3.0	1942	14.2
1946	—.5	1941	17.4
1945	2.0	1940	12.8
1944	10.0	1939	7.2

As a result, the company's return on net worth in 1948 was but 5.26 percent. This was less than half the return reported on the average by the tonnage steel producers.

Events in 1949 made the position of the specialty producer even more precarious and made price adjustment inevitable: It is obvious therefore that we were scraping the bottom of the barrel by the end of 1948. The events which occurred during 1949 intensified the squeeze. By the beginning of 1949 tool and specialty steel buying fell off sharply. By the third quarter it was almost nonexistent and we operated at a loss.

We said to the Steel Industry Board, sitting in July and August 1949, that we could not be expected to be placed in the same category as the tonnage producers and we laid bare the facts summarized here. The Board recognized the plight of the specialty steel producer, saying in part that the facts and circumstances of each individual company

should be examined and considered and that industry-wide pattern bargaining should be abandoned.

We resisted the union's demand for pattern bargaining on pensions and insurance during a strike lasting 51 days through October and November 1949 and were finally forced to settle within the framework of the Bethlehem-Republic-Jones & Laughlin-United States Steel pattern. These companies are tonnage producers and do not face such problems as have been referred to in this statement, due to their high degree of mechanization, large tonnage runs, and consequent low man-hours. The cost of the settlement is at least 10 cents per hour or $3,303,780 per year which would take 55 percent of all the 1948 net income of Crucible.

The price adjustment recently effectuated varies on our different products. In some instances there was no increase at all. In others, there was a modest increase. On tool steels, the adjustment was about 10 percent.

The individual adjustments on our hundreds of types of steels are available if you gentlemen wish to have me take the time to read them into the record. This increase will not by any means aline our company's products in a satisfactory cost-price relationship. But with us, price adjustments were long overdue; the pension and insurance settlement but intensified the pressure upon us and forced us, in part at least, to meet the issue.

The reason that we did want to participate in these discussions is the danger that always manifests itself when somebody begins to inquire into the affairs of the steel industry. They use that term as affecting some imaginary body whose problems and difficulties are much alike. We are in a segment of that industry and represent a part of it, the problems of which are entirely different and peculiar, and we resent the careless thinking which includes us under a general phrase called the steel industry.

Now, we are not a small company, but we are small in respect to the kind of business that we do, and our report that you have indicates that we are small because we deal in a market which is characterized by extremely small orders, and we show that something over 60 percent of our incoming orders are less than 500 pounds each.

The CHAIRMAN. What is the nature of your product?

Mr. COLVIN. We make tool steels and special high-alloy and high-carbon steels for particular application in almost all industries everywhere in the United States.

The effort to resolve these needs of our customers results in an application of man-hours per ton of product which bears no relationship whatsoever to the man-hours necessary to produce a ton of strip or sheet such as Mr. Homer was talking about a while ago. That increase in the number of man-hours is roughly five to nine times that required for a tonnage mill to produce a ton of steel. We are, however, required to match the cost of the man-hours, and all the other terms of employment which are translated into costs, with the tonnage mills.

Because ours is a specialty business and caters to people's needs where they have a special application, we have to make a variety of steel, the like of which would drive the operator of a tonnage mill mad. We also, for that same reason, have to do that in small heats. We have tables there which show that, I think, 21 percent of all steel

made by the Crucible specialty mills last year was not made more than once, and was never repeated in the course of the year.

One of our tables shows that only three-tenths of 1 percent of our heats were repeated 200 times.

We, therefore, affirm that when it comes to the application of uniform wages and terms and conditions, application of freight, the cost of high metals, and things of that sort, that this is an entirely different business. Fifty-six percent of our customers, the total of which is approximately 50,000 individual customers, 56 percent of that number have a credit rating of $20,000 or less, giving you an idea of the nature and breadth of the market we attempt to serve.

We have tables here showing what the owners of our business earned as a profit, distributed and undistributed, in the years before the war and what has happened to that share since the war, showing that the increases in costs were inadequately represented by increases in price to the extent that the owners' share in the best year we have had since the war was approximately 50 percent or a shade less than the owners' share before the war.

As a measure of the inadequacy of those price increases we have a table there showing what the increases in tool steels have been by various grades and classifications varying from a high of 30 percent in the case of tungsten steels—tungsten ore coming from China—down to carbon steels in the neighborhood of 20 to 22 percent. The result of the increase in labor and other factors and inadequate price relief was then to impose a squeeze upon these people who produce such things as we do.

There are some 14 specialty- and tool-steel companies of which we are the largest. Price increases were due and we affirm past due, quite regardless of the costs that were imposed on us last summer by the union agreement following the strike. We resisted the suggested increases in our costs by reason of pension and insurance before the union and before the fact-finding boards, and we took the longest strike, I believe, of anybody, trying to convince the union that the situation with us was one wherein we did not recommend price increases for the good of our business and affirmed definitely that if these costs were imposed upon us, price increases were inevitable.

We feel that in considering our cost level and the price level of our goods you must remember that we are directly competitive with other metals. An increase in the price of our high-alloy steels and specialty steels of all varieties makes us vulnerable from the standpoint of the encroachment upon our markets of other metals. We are not as free to raise our prices in the face of that competition as are the people who are manufacturing steel in great tonnage quantities, the average price of which is something in the neighborhood of 4 cents a pound. Therefore, we say that our owners have taken a very serious shrinkage or squeeze from the prewar to the postwar period and that price relief on our account was necessary. These increased costs made it even more so. All parties were advised that if higher costs were forced upon us price relief would be necessary, and that if price relief was sought it would not be a good thing for the business and all dependent upon it.

The record shows that the increased costs were forced upon us, a part of the necessary price relief has been sought, and only the nearby future

will indicate whether our suggestion that it will be a bad thing for the business will be borne out.

The CHAIRMAN. You say there are 14 firms producing the type of product that Crucible turns out?

Mr. COLVIN. No one firm produces everything we do and we do not produce some of the things that some of those 14 firms do, but among our various varieties of materials there are 14 or more firms producing similar competitive materials.

The CHAIRMAN. From whom do you purchase your raw materials?

Mr. COLVIN. We are an integrated company, owning ore and coal.

The CHAIRMAN. Do the major units of the steel industry produce the same or similar products?

Mr. COLVIN. Only one of the larger companies is Bethlehem, having a substantial tonnage capacity for carbon and die steels, and so forth, at Bethlehem. I do not believe they offer the high-speed tool steels.

The CHAIRMAN. I take it from what you say you do not regard that Crucible or its competitors in this special field is to be compared or ought to be compared with the larger companies; is that right?

Mr. COLVIN. That, of course, is rather a basic question with respect to this inquiry. The answer is we do not think so and we do not think that you prosper your studies as much as you should so long as you confine them to comparisons of one steel company with another. One of the difficulties that comes up always, it seems to me, in a study of steel profits, is that you compare one company with another in the steel business and you compare the same group with previous years.

You would be enlightened, I am sure, if you were to have prepared for you a study of the groups as compared with other groups. You would have then, I think, an easier chance to understand why such people as you have heard testify here regard their incomes of recent years, whether record or not, as inadequate—inadequate as compared to the success of many of their customers or other lines of work.

I submit that it is confusing and lacks perspective to compare steel with steel in past years or individual units of steel with other individual units of steel and not with automotive, oil, chemical, and so on.

The CHAIRMAN. How about your own specialty? Prices have been out of line, I take it, from what you say.

Mr. COLVIN. Yes, sir; and I think our record shows that is true. All steel increased its average price in the neighborhood of 60 to 63 percent, I believe. The highest item we have was 30 percent before this recent increase. We say in the presentation there that we have increased our prices 10 percent, and that was our objective. We are now of the opinion that in raising them 10 percent we actually achieved an increase of something like 11 percent, the difference being in our case as against the tonnage fellows, so far as I know, that there have been no reductions to compensate for any increases in extras which might have exceeded 10 percent.

The CHAIRMAN. The table on page 7 for certain types, beginning with tungsten high-speed steels and ending with hot-work steels, shows price increases from 1939 to 1949 up to 30.7 percent.

Mr. COLVIN. That is for tungsten, where tungsten itself, due to the affairs in China, took a drastic increase.

The CHAIRMAN. The lowest increase was on oil-hardening steels, 19 percent. Was that before the last increase?

Mr. COLVIN. Before the last increase.

The CHAIRMAN. The last increase is 10 percent above these?

Mr. COLVIN. Yes, sir; and I affirm now that on the basis of more detailed studies, we think that will probably materialize as about 11.

The CHAIRMAN. Table F shows profits of the company as a percent of sales.

Mr. COLVIN. Yes, sir.

The CHAIRMAN. Do you have a list showing profits on net worth?

Mr. COLVIN. I do not have it with me, but they are very much alike, because it happens that our net sales pretty closely approximate in recent years our net worth.

The CHAIRMAN. How about your dividend record?

Mr. COLVIN. Deplorable, sir. We are paying none.

The CHAIRMAN. You make this statement in the closing paragraph of your presentation:

> The individual adjustments on our hundreds of types of steels are available if you gentlemen wish to have me take the time to read them into the record.

Perhaps if you would file that statement with the committee, it would be helpful.

(The statement referred to follows:)

Type of steel:	*Percentage price change*
Tool and high speed	11.5
Stainless	0
Cutlery	0
Gun	0
Paper machinery	0
Special alloy	1.077
Machinery	2.496
Nitriding	—2.970
Dail	0
Onyx spring	0
Agricultural implement	—.144
Cold-rolled specialties	2.540
Cold-drawn specialties	.199
Hot-rolled specialties	.667
Automotive alloy	4.000
Stainless welded tubing	0
Weighted average	3.510

The above represents 85 percent of our business in 1949. On the other 15 percent there were small increases not exceeding above 3 percent.

Mr. COLVIN. Could I make one more statement?

The CHAIRMAN. Yes.

Mr. COLVIN. A moment ago you were discussing at some length the question of extras.

The CHAIRMAN. I wanted to ask you about that, I am glad you brought it up.

Mr. COLVIN. I had just one example. Our problems being those which do not lend themselves to mechanization or application of mechanics to resolve them throw these things into an exaggerated picture, which makes it easier, I believe, to understand.

For instance, a man buying a piece of high speed steel from us could order that in a 2-inch square, as a piece of tool steel. If he ordered that in a 2-inch square, he would have a base price and an extra for size. I telephoned to get the following figures, and I believe them to be correct.

After we had made this steel and it was completely satisfactory for physical qualities, metallurgical qualities, and chemical qualities,

and so on, then to reduce that raw piece of steel to a 2-inch square in addition to all the work that had been done to that point, we would add 10.8 man-hours for the individual ton. If, however, the customer said he wanted that in a quarter-inch square, the same steel, starting with the same raw material that had been made to that point, we would invest on the average 81.6 man-hours per ton.

Now, when labor, that extra 70 man-hours of labor, cost us 72 cents, as it did before the war, that difference had a value for which there was an "extra." Now that the average rate at that mill is $1.64½, there is a very great increase in the cost of that extra number of man-hours for the ton as between, let us say, in this example, a 2-inch square and a ¼-inch square. We are attempting in the variation between the one extra and another to recapture the increase in the cost, and in our case extra costs that we are put to are mainly extra labor.

The CHAIRMAN. Then I understand you to say that the base price in your industry is the price which is announced upon that form of steel which is basic to practically all the products that you turn out and the extras represent the extra costs necessary to reduce that basic piece of steel to the type ordered by the customer.

Mr. COLVIN. That would be correct in relating to the extra for size, another one would be extra for length, another one would be extra for chemistry. If we had to put in more nickel, cobalt, or tungsten, it would be greater in regard to extras than in the case of carbon steel, for example.

The CHAIRMAN. Is that typical or not of the whole industry?

Mr. COLVIN. I think it is typical of the whole industry, but reduced in the case of the tonnage mills by the fact that there are not those wide variations in man-hours I speak of here.

The CHAIRMAN. I think you have made that very clear. Thank you very much, Mr. Colvin, and again may I apologize for having kept you so long. I hope that the hearing was not altogether uninteresting to you.

Mr. COLVIN. I found it very interesting, and I am sure you are most grateful for my brevity. I thank you for your courtesy.

The CHAIRMAN. Thank you very much.

Next we will hear from Mr. Montgomery.

STATEMENT OF DONALD MONTGOMERY, WASHINGTON REPRESENTATIVE, UAW-CIO

Mr. MONTGOMERY. My name is Donald Montgomery and I am director of the Washington office of the United Automobile Workers (CIO).

The CHAIRMAN. I apologize to you, too, because you have had to stand around so long awaiting the opportunity to testify.

Mr. MONTGOMERY. Senator, I know you will not take it amiss if I tell you that I have discovered that in addition to the disability of not being able to vote when you are a resident of Washington, there is a second disability. You are displaced as a witness by those who live out of town. I hope it will not get so that we can only talk after sundown.

I wish to express my appreciation to the committee for this opportunity to appear and to present the views of our president, Walter P. Reuther, on this latest increase in steel prices.

We are concerned with the effect of this action by the United States Steel Corp. upon steel-using industries and upon our members who work in the automobile and agricultural-implement industries. Our testimony is directed to these questions: (1) How much has the price of steel been increased? (2) What will be the effect of increased steel prices upon the prices which consumers pay for autos, trucks, and farm machinery? (3) What will be the effect of increased steel prices upon the market for these products, and upon the volume of production and employment in these industries?

We do not know how much steel prices have been increased. The amount of the increase is as much a mystery as the reason for it. As Mr. Brubaker has stated to you, the steel companies have not made known how much they actually increased their prices. They know, but do not tell. No one else is in a position to know.

The companies' statement to the press is that the increased amounts to $4 a ton. Mr. Fairless on Tuesday told you it was $3.82. Mr. Brubaker has shown that it is substantially greater than $4. Iron Age says the cost of steel going into a car has been increased $6 to $8 a ton. Mr. Brubaker gave you a table of increases in base prices and extras, which he carefully qualifies as not telling the whole story because the steel companies have not told the whole story. Using his conservative estimates, and applying the increases to the various types of steel shipped to the auto industry during the first part of last year, we compute an average increase of $6 a ton. This figure makes no allowance for any pyramiding of the cost of steel as it moves through suppliers and fabricators on its way to the automobile manufacturer. A similar calculation for the agricultural-machinery industry comes out with an increase of $5.50 per ton.

I have attached to my statement four quotations from Iron Age, dated December 22, December 29, January 12, and January 19, on the subject of cost of steel to the auto industry. A reading of them will convince any member of this committee that the amount of the price increase is pretty much a mystery even to the auto manufacturers. What they are paying for extras seems to be anybody's guess. The articles indicate also that in addition to paying more for steel the auto companies may be forced to incur the cost of changing their manufacturing methods.

Coming next to the effect of the steel price increase upon prices of cars, the important fact is that it runs directly counter to the necessity for reducing car prices which automobile manufacturers have begun to recognize as the market for cars at present prices shows signs of weakening.

Press accounts may have given an exaggerated idea of reduction made in car prices since the steel price increase was announced. Oldsmobile was the first, with price reductions ranging from $55 to $358. In the series 76 Oldsmobiles, these apparent reductions were due to a switch from standard to optional basis of some $70 worth of accessories. Actually, except for the station wagon, these 76 series cars were slightly increased in price. In the series 88 cars, reported reductions of from $200 to $270 were due to switching hydramatic drive, as well as other accessories, to optional basis, so that the actual reductions ran from $27 to $60. Actual prices of the 98 series Oldsmobiles were slightly increased.

Station wagons in all three Oldsmobile series were reduced by more than $300. This is the nature of most of the price reductions announced so far. Ford, Mercury, Pontiac, Chevrolet, and Buick station wagons and other superstyle jobs have been reduced by amounts ranging from $148 to $326. Cadillac has cut prices $30 to $182. Packard reduced the price of Ultramatic transmission $40. Buick cut the price of Dyna-Flow drive $42.80. Accessories have been cut by several companies, but these cuts began before steel prices were increased. This is the pattern—mostly minor price reductions affecting chiefly the luxury lines.

More important is the announcement by Chevrolet that because of the steel price increase its prices will not be reduced, the announcement by Ford that it will not raise prices, and by Studebaker that it is holding to 1949 prices. Dodge has stated that it is holding prices. Prices of some Chrysler models were increased $30.

The over-all effect of higher steel prices on car prices to date is probably well summarized by Automotive Industries of January 15, which said:

> * * * Automobile prices, always a moot question, are even more unpredictable at this time. Toward the end of last year there were some selective reductions that appeared to be a trend, but that was sharply arrested by increases in basic steel prices. Manufacturers have been studying their costs, but the consensus of qualified observers is that prices will go up very little, if any, although decreases will be prevented in some cases and any that do materialize will be less than would have been the case had steel prices not been raised. A realistic view would be that with the coming intense competitive market shaping up, it will be very difficult to raise prices. * * *

What this means is that while higher steel costs may have little apparent effect upon automobile prices, they may have great effect on the prospects for auto sales, production, and employment. The fact is the industry is producing at a record high level right now for the spring market, but is expecting a slump in the second half of the year. It is running out of customers who can buy new cars at present prices. Hence it had already begun to cut off some of the luxury extras before the steel price increase came along. It is switching accessories and gadgets from standard to optional basis, so that customers can save money by buying less convenience.

Already the facts of production show which way the market tends. It is swinging to cheaper cars and to cheaper models. This is indicated by the following comparisons of 1949 production of passenger cars with 1948:

	Percent Increase
Chevrolet, Ford, and Plymouth	48.3
Pontiac, Oldsmobile, Buick, Dodge, DeSoto, Mercury, Nash, and Studebaker	31.4
Cadillac, Lincoln, and Packard	10.6

Station wagons and convertibles have not been keeping up with other models. Automatic transmission is being bought less frequently.

Ward's Automotive Reports, a trade letter which gives close attention to operating production schedules and to production prospects in the industry, has predicted that passenger-car output in 1950 will fall short of 1949 by 12 percent in passenger cars and 25 percent in trucks. Medium-priced cars are expected to be hardest hit. Chevrolet, Ford, and Plymouth will be favored. Furthermore, it predicts that about two-thirds of the 1950 production will occur in the first half of

the year. A look at the figures will show how pessimistic a picture this paints for the second half of the year.

	1949 production	1950 prediction	
		First half	Second half
Cars	5, 126, 788	3, 000, 000	1, 500, 000
Trucks	1, 131, 661	565, 000	285, 000
Total	6, 258, 449	3, 565, 000	1, 785, 000

The volume here predicted for second half 1950 would mean a cut in production of more than 40 percent from the level prevailing in 1949.

If a disaster of these proportions can even be printed as a possibility by a responsible trade publication, the question which should concern everyone is, How it can be avoided?

This and other trade publications indicate the answer. It is to hold prices down, to reduce them wherever possible, to achieve economies, and to build the kind of ordinary car that people with ordinary incomes can afford to buy. As I have already indicated, the auto industry has been making some passes in this direction. Nash is reported to be working on new lower-priced models, and has designed the N–X–I, a radical revision of existing luxury car design in the direction of cheap transportation. The industry has not yet, however, made any real cut where a real cut might count. Now comes the steel price increase which has put an end to talk of further price reductions.

This, we believe, is the important meaning of the steel price increase to the auto industry and to the Nation's economy. The same story applies to other steel-using industries, including agricultural machinery. The reports indicate widespread belief that prices to consumers cannot be raised and should be cut. They tell of the falling demand and of the need to stimulate sales. At first they indicated that the increase in steel prices would be absorbed, but already some are saying prices will have to be raised.

Like the auto industry, the steel industry looks for continuing strong demand for 6 months, and then a drop in production. Steel corporation officials are quoted as saying steel output will fall to 85 percent of capacity in the second half of the year.

How much unemployment will be created by a reduction in steel output to 85 percent of capacity? How much unemployment will be created by a cut of 40 percent, or even 20 percent, in auto output? How much unemployment will be created in other industries by this deliberate refusal of the steel corporation to consider the effect of its action upon the industries and the people of the United States? What assurance does this corporation have that the unemployment which it generates will not bring about a business crisis?

The corporation witnesses do not provide this committee with an answer. They ignore the very existence of the question.

The decision of United States Steel management to raise prices was a flagrant exercise of arbitrary power to extract the last drop of juice from the last orange. The only explanation we can suggest for its rash and untimely act is that this corporation decided to carry out a

policy it has defended in the past—to get what it can while the geting is good, and to lay up reserves for the slump that follows the boom. It looks dispassionately upon the prospect of reduced employment, providing it can fix its finances to weather the storm. To balance its books it runs the risk of throwing the entire economy out of balance.

We ask the committee to consider the gravity of this situation. The management of a single corporation makes a decision to impose a tax on the auto industry of at least $69,000,000 a year and of at least $13,000,000 on the agricultural-machinery industry, and of many more millions upon many other industries. This tax falls on these steel-using enterprises just when, for the first time since war broke out in Europe, business managements are sharpening their pencils to figure out where new business is coming from. It falls at a time when Mr. McGraw buys full-page advertising to tell the American people that what business needs is less taxation, not more.

The business advocates of lower taxes do not attack United States Steel for levying this arbitrary tax upon them. This is because they do not look upon this corporation as a government with power to levy taxes. That is a serious mistake on their part. United States Steel has demonstrtaed by this price-raising action and by the quick obedience of other steel companies that it has a power like that of a government.

But it is private government. It is irresponsible government. It answers to no one. It may account to stockholders for its profits, but it will not account to them or to anyone else if its price action launches a series of plant shut-downs and lay-offs 6 months from now. It will blame that on God or the Democrats.

The absolute power wielded by United States Steel Corp. is an evil socialism, because it is socialism without a franchise. The British Labor Government, whose policies these corporations abhor, stands for election on February 23. The American people who must submit to the arbitrary acts of the steel corporation are given no opportunity to reelect its management or to vote it out of office.

It is not for me, by way of illustration, to contrast the regard for the public interest shown by the union and by the corporation in last year's negotiations. The record speaks for itself, and Mr. Brubaker has justly put the matter in focus in his statement to this committee. But I would like to ask the members of this committee to compare the character of the statements brought to it by the union and by the steel corporation. The union has carefully documented what it has to say. It has been specific. It has furnished supporting details for its conclusions. It has cited sources. And where information is not available to it, it has said so and has given you its estimates, together with its method of arriving at those estimates. By contrast, the corporation has furnished you with general statements. It has not documented them. It did not find time in its presentation to set forth the facts about changes in its base prices and in its extras, or the volume of business that will be affected by the various changes in price and extras. It did not set forth in specific detail the changes in costs on which it bases its justification for raising prices. It did find time, however, to take the committee on a trip to a mountain of iron in the remote regions of Venezuela.

The unsupported statements of the steel corporation have gone out to the people, including the members of our union, asserting that the

pension agreement made this price increase necessary. The union has denied that. Anyone who has looked at both statements is not likely to be in doubt that the union, like the Fact Finding Board, is right when it says that the steel companies could absorb the cost of the pensions without raising prices. But most people will not have that opportunity. We ask this committee to obtain and verify all the facts which bear upon this claim of the corporation, and to give the American people its conclusion upon the facts.

This price increase is a very important matter to all of us. Nothing could bear more directly upon the opportunity of workers and farmers to acquire the purchasing power they need and to achieve and maintain full employment and good markets. Arbitrary decisions by dominating corporations to translate wage or pension improvements for the workers into higher prices reduce consumers' purchasing power and invite unemployment.

Auto manufacturers will tell auto workers that prices of cars can't be reduced because of pensions paid to steelworkers. Farm-implement makers will tell farmers that workers' pensions have forced implement prices up. We are convinced that such claims are false. We ask this committee to examine them and to pass judgment.

In conclusion, we wish to make a recommendation. We suggest that this committee, which is concerned with the maintenance of full production and full employment, consider whether an inquiry such as this one should not precede rather than follow a major price decision by a dominant corporation which may affect the trend of production and employment in the Nation for months to come. This is not a proposal of price regulation by an administrative agency. We are apprehensive of the facility with which a regulatory agency may be prevailed upon to administer to those whom it regulates. We are thinking only of the value of having a public preview of the facts with respect to any significant price determination by a corporation which sets prices for an industry to follow. We make this as a suggestion for the committee's consideration.

QUOTATIONS FROM IRON AGE

December 22, 1949 (p. 15).—The refrigerator manufacturer who is now using a 20-gage 22-inch-wide cold-rolled sheet 120 inches long got a $2 a ton base price increase and a $7 a ton increase in extras in the United States Steel changes. The automobile manufacturer who uses a 22-gage 60-inch wide sheet 120 inches long got the same $2 a ton boost in base price but extras on this size were slashed so that its cost per ton has been reduced from $104 to $94, a price reduction of $10 a ton. A 22-gage cold-rolled sheet 44 by 144 inches now sells for $5 a ton less under the new United States Steel schedules.

Smart steel buyers are therefore going over the new extra lists very carefully. Next the designers and production engineers will be called in. Buying practice of many firms will be changed, and perhaps in time so will design. If it is possible to redesign for wider sheets without much increase in manufacturing and assembly costs it will be done, with the net effect being a saving in steel cost to some fabricators despite the basic price increase.

December 29, 1949 (p. 15).—Automobile companies are concerned over the possibility that the cut in cold-rolled sheet extras for certain gages, widths, and lengths might be interpreted as a net steel price reduction to automobile manufacturers. They are particularly sensitive because since the war, car price increases have usually followed steel price increases. Automobile prices generally rose much more than did total steel costs. Though this was influenced by additional factors the public usually blamed higher car prices entirely on higher steel prices.

January 12, 1950 (p. 15).—The same attitude on absorbing higher steel prices prevails in Detroit where Chevrolet posted no advance on its new line last week. As a result of the heavy increases in extra charges on very wide sheets (the extra on 84-inch-wide cold-rolled sheet is now $47 a ton against an extra of $10 for 62- to 72-inch-wide sheets) some changes may be made: (1) Hoods may be made in two pieces; (2) some auto firms may weld small pieces on some sheets to avoid having to use the very wide sheets (one company is already doing this but applications are limited); and (3) car designers will make a concentrated effort to design for use of the more economical size sheets. Meanwhile, manufacturers of seam welders and slitters are licking their chops over business prospects.

January 19, 1950 (p. 15).—Scores of manufacturers have now finished cost studies showing that their steel went up more than the average of $4 a ton—on the basis of their historical buying pattern. On this basis increases of $10 and more a ton can be found. The Iron Age estimate of $6 to $8 a ton for automobile steel has been confirmed by a recent study in Detroit.

We undertook to ascertain the answer to a question which was a mystery at the beginning of these hearings and still seems to be after the steel witnesses appeared and testified, and that is how much the price of steel has increased. We present this additional evidence on that question, to which we hope the committee will get a final and definite answer with respect to each of the companies. Iron Age makes an estimate that the price of steel going into automobiles has increased from $6 to $8 a ton. They say that in the case of some automobile manufacturers it seems to amount to as much as $10 a ton. We made an estimate of it 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 to be governed by what Iron Age ascertained from the automobile manufacturers.

Then we look into the question of how much the price of cars has been affected by the increase in the price of steel. There has been considerable information in the papers indicating the price of cars is going down. We have examined those changes as well as we can. Many of the decreases that you have been reading about in the papers are not actual decreases in the price of cars, but are due to the fact that they are switching over from a standard basis to an optional basis with various accessories, such as hydramatic drive, et cetera. Our general conclusion as of now is that decreases that have taken place are mostly minor in amount or affect chiefly luxury lines such as station wagons, convertibles, et cetera, since the manufacturers are finding it more difficult to sell them.

The important part of the price fact respecting the automobile industry is that on the basic cars—Chevrolet, Ford, Studebaker, Dodge—the manufacturers say they are not reducing their prices, they are going to hold them. They have indicated that they had been thinking of reducing the price of cars; in the case of Chevrolet the statement was, "We cannot reduce the price because of the increase in the price of steel." I do want to read quite a good summary of the situation as it seems to exist in the automobile field:

Automobile prices, always a moot question, are even more unpredictable at this time. Toward the end of last year, there were some selective reductions that appeared to be a trend, but that was sharply arrested by increases in basic steel prices. Manufacturers have been studying their costs, but the concensus of qualified observers is that prices will go up very little, if any, although decreases will be prevented in some cases and any that do materialize will be less than would have been the case had steel prices not been raised. A realistic view

would be that with the coming intense competitive market shaping up, it will be very difficult to raise prices.

Therefore, we draw the conclusion, which we think is the important one as it affects our industry, deriving from this action of the steel industry in raising prices, that while it may have little apparent effect upon automobile prices, there may be great effect on the prospects for auto sales, production, and employment in our industry.

The industry is producing at top speed for what they expect to be a good spring market, but the industry is also making it very clear that they expect this market to come into serious difficulties in the second half of the year.

Ward's Automotive Reports sets out their opinion in regard to the 1950 market and what they think the volume of business will be. That is, that two-thirds of the 1950 production will take place in this good market in the spring and only one-third will be in the last 6 months. When you take that estimate and compare it with what we are doing in 1949, the present rate of production, you find they are estimating that volume is going to drop off 40 percent in the second half of the year from what we have now—that is Ward's Automotive Reports, a trade paper.

The Department of Commerce in a release put out January 9, 1950, estimating the prospects for the year in the automotive industry, comes to a very similar conclusion. It says that motor vehicle sales, both cars and trucks, will run from 5 to 5½ million in 1950 and that production and sales during the first 6 months will be at the levels prevailing during the last half of 1949. That level was 3,242,000 vehicles in the 6 months. Out of 5 or 5½ million total for the year, that would leave for the second half-year only 1,800,000 to 2,300,000 vehicles. Those declines would amount to 28 to 44 percent from the present level of output. In other words, we are facing a very serious situation in the automobile industry if these predictions are borne out.

I have been talking about the fact that the increase in steel prices is having this negative effect, in any event, upon the price of automobiles, and I want to be very clear in that respect so that my testimony will not be misunderstood. I am not saying that the automobile companies, especially the larger ones like General Motors and Chrysler, are unable to reduce their prices, or that the increase in the price of steel, whatever it turns out to be when we get the actual facts and the amounts of the increase, can possibly be sufficient to justify the position they are taking that prices because of this increase will not be reduced.

To buttress that point, I wanted to put into the record these few figures about the profits of the two profit leaders in the industry, General Motors and Chrysler, giving first these few figures about Chrysler's profits.

Their profit after taxes in 1946—I use rough figures—was 27 million, in 1947 67 million, in 1948 89 million, and in 1949, the first quarter, it was 19 million, while in the second quarter it was 34½ million, and in the third quarter 44.4 million.

These are as reported without any adjustments for the additional depreciation they have been taking. These profits amounted to the following percentages of net worth:

In 1946 10 percent, in 1947 23.7 percent, in 1948 27.4 percent, and in the third quarter of 1949 at an annual rate of 46.2 percent.

General Motors' profits after taxes for the same period are as follows:

1946 87½ million, 1947 288 million, 1948 441 million, 1949, first quarter, 136 million, the second quarter 167 million, and the third quarter 199 million.

As percent of their net worth, the GM results were:

1946 6½ percent, 1947 20 percent, 1948 28 percent, first quarter of 1949 at a rate of 30 percent, second quarter at an annual rate of 37 percent, third quarter at an annual rate of 44 percent.

Can they reduce prices? Here are what their profits were before taxes as a percentage of their sales, and it is the profit before taxes that would be affected, of course, if they reduced dollar value of sales by reducing price. This is General Motors' profit before taxes as a percent of sales:

1946 5.3 percent, 1947 14½ percent, 1948 17 percent, and for the third quarter of 1949 21.8 percent.

These enormous profits, I think, are most strikingly brought home by one additional figure I will give you. The profits before taxes as a percent of their total pay roll—wages and salaries. Here again I make the comparison with profits before taxes because if they increased wages it would come out of profits before and not after taxes.

Profits before taxes as a percent of the total pay roll of General Motors:

1946 10 percent, 1947 41½ percent, 1948 62½ percent, third quarter 1949 90.7 percent.

What that last figure means in plain English is that for every dollar they paid out in wages or salaries they earned 90.7 cents in profits before taxes.

I wanted to place these figures in the record to confirm my statement that when the automobile companies say the steel price increase is making it impossible for them to redue prices they are talking, I think, truthfully, but not in the literal sense in which you and I, Senator, would understand such a remark; truthfully, because they belong to the same club, because they think the same way, and if they can get a reason for not reducing prices and a justification to the public for not reducing prices they are not going to reduce them.

In other words, the steel price increase has come right at a time when these people know they have to find more customers if they want to maintain production and maintain employment. But these are all members of the club, and the United States Steel Corp. comes through with a great assist at this time and they give a price increase and tell the automobile companies, "You go along with us and hold your prices up, too."

What it all comes down to is that this stimulus given by the United States Steel Corp to its like-minded people in other industries—and I could quote some things from General Electric to show they are making the same use of the steel price increase and plan to increase the price of appliances, the whole group are heading this economy toward a very serious situation, perhaps before this year is out, and we believe that is the really important meaning of this steel price increase, not only to our industry but to everybody in the Nation.

How much unemployment this type of policy will create we do not know. The Steel Corp. witnesses, of course, do not provide this committee with an answer because they simply ignore the question. In

our opinion, this decision of United States Steel Corp. to raise this price was a very flagrant abuse of an arbitrary power enjoyed by that corporation. In our statement we have compared it with the levying of a tax, a tax of at least $69,000,000 a year on the auto industry and passed along by them, of course, to the consumer by not reducing prices when they could and should, a tax of at least $13,000,000 on the agricultural machinery industry and many more millions upon many other industries.

What we are really concerned with—and we know the committee is, too—is getting the facts of this matter and assessing the blame where it belongs. The steel corporations have had an excellent press, getting across their story to the people of the United States, the story Mr. Brubaker has shown to be totally false and which we know and believe to be false.

This reckless action by the corporation and by the obedient companies in the steel industry who immediately joined in and obeyed its orders and raised their prices, as some of them said, "to meet competition," we believe is not due to the pensions they are paying the workers, but is being used by them once again in their effort to enlist the public, the consuming public of the United States, against the good job that organized labor is trying to do to give this economy the purchasing power it needs.

This price increase is a very serious and important matter to all of us. Nothing could bear more directly upon the opportunity of workers and farmers to acquire the purchasing power they need and achieve and maintain full employment and good markets. Auto manufacturers will tell auto workers of the prices of cars, that they cannot be reduced because of pensions paid to steelworkers.

Farm implement makers will tell farmers their workers' pensions have forced implement prices up.

We think this committee has a very grave responsibility to examine the carefully worked out testimony Mr. Brubaker brought to you, to demand that these steel companies really answer your questions and tell you how much their average price has increased, which certainly they can do if they know enough about their business to stay in business, and then to tell the public whether there is any justification whatever for their claim that this price increase was made necessary by or was caused by the pensions which the steel workers won.

There is one other very important point I trust the committee report will help to make clear to the American public. In my opinion, Senator O'Mahoney, these hearings would be worth while if nothing had been introduced except pages 6 and 7 of Mr. Voorhees' prepared statement.

There you find the astonishing, frank declaration that in their view of a business operation the cash which they receive from their customers should not only meet the costs of production of the goods which are produced, but should also provide these manufacturers with the plants and the expansion of plants with which they produce them. They set forth this cash disbursement table which purports to show a deficit in cash of $112,000,000 for the period covered, 3 years, 9 months. Actually that table shows, when it is pulled apart, as it should be pulled apart, not a deficit of $100,000,000 for the period but a gain of $796,000,000 for the period.

They get this other figure by charging against the sales, by charging against the receipts from customers, capital expenditures they have made for additions and replacements to their property.

I understand, of course, that setting the thing up this way is just another device by which, you might say, they put patches on their financial pants when they come down to a hearing like this and try to convince the press and the public that they are in a poor way. But there is something much more serious involved, it seems to me, than merely that. They are trying to get across, and are doing pretty well with it in the papers, the notion that this is what profit is, that profit must provide them with their plant, that customers must provide them with their capital as well as pay the cost of producing the product and a reasonable charge for the use of the capital that went into producing it.

These pages here of Mr. Voorhees are a very frank admission that that is what they are trying to do. As I understand it, Mr. Moreell was asked what he thought was a fair return on investment, and I think he said 24 percent. There again you have the same bold assertion that we consumers must not only pay them for the use of the capital, we must provide the capital for them, pay them for their plant.

Just to make this clear and not an accounting technicality, let us take this example. Twenty-four percent a year. Suppose I own an automobile, I brought a new automobile, and you want to rent it from me to drive it around the block, and you ask me what rent I will charge you to drive it around the block and I say 24 percent of what I paid for it. So you rent it and go around the block once and decide to go around four times, and you go four times around the block and ask me what you owe me for the rent of the automobile, and I tell you 96 percent of what I paid for it.

I am sure if I did that, you would say to me, "I am not renting that automobile, I have bought it." You would say, "Don't I own it?" And you would certainly think you had a pretty good claim for the title to that car if you had paid 96 percent for four times around.

That is what they are asking the customer to do in 4 years—buying this company its plants. I think this committee, in addition to passing upon this question of whether the steel price increase was justified or not and what explanation there is for it, should help the American people understand what kind of notion of profit these corporations are trying to put across. The fact is their profits have become so tremendous, as profits have ordinarily been defined, and properly defined, that they are trying to get a new definition with which they can go on moving up, and it is on the basis of that new definition that they have the boldness to sit here and tell you they are in a very bad way and have not been making good money.

I want to conclude with just one practical recommendation, something I think this committee ought to consider. We suggest that this committee, which is charged with the maintenance of full production and full employment, consider whether an inquiry such as this one should not precede rather than follow a major price decision by a dominant corporation which may affect the trend of production and employment in the Nation for months to come. This, I want to make clear, is not a proposal of price regulation by a Government agency. We do not make that proposal because we are apprehensive of the

great facility with which a regulatory agency may be prevailed upon merely to administer it to those whom it is supposed to regulate. What we are thinking of is the value of having a public preview of the facts with respect to any significant price determination by a corporation which sets prices for an industry to follow.

The CHAIRMAN. It may be worth remarking at this point that I introduced such a bill in the Eightieth Congress.

Mr. MONTGOMERY. I trust the committee will consider it in its consideration of this question.

The CHAIRMAN. The bill was based upon the theory that when any particular industry develops a condition under which four or six or eight companies control a major part of the production of the industry, then price increases are a matter of great public interest and before increases should be allowed in interstate commerce, those producers should appear before an appropriate board and show the reasons why.

Mr. MONTGOMERY. Our suggestion—and this is not saying this is a better one than yours, I think they all ought to be considered—is that where a corporation obviously sets the prices which all others follow and where its price decisions are of a character that really affect the economy seriously, then such a requirement would be in order, and I have discussed this with our president, Walter Reuther, and I am making this recommendation on his behalf.

I do hope the committee will give it very serious consideration. Thank you, Mr. Chairman.

The CHAIRMAN. We are very grateful to you, Mr. Montgomery, and we are sorry you did not have more time and that we did not have more members of the committee here to question you.

Mr. MONTGOMERY. Thank you very much.

The CHAIRMAN. The session is adjourned.

(Whereupon, at 6:15 p. m., the session was adjourned.)

APPENDIX A

THE NEW ENGLAND COUNCIL,
Boston 16, February 6, 1950.

Mr. GROVER ENSLEY,
Associate Staff Director, Joint Committee on the Economic Report, Senate Office Building, Washington, D. C.

DEAR MR. ENSLEY: Please find enclosed herewith a copy of letter dated February 3 from the State of Connecticut Development Commission, relating to the nondelivery of steel to the New England market.

I think this in itself makes our case for a New England steel mill, and also possibly hints of some effort, concerted or otherwise, to freeze fabricators out of New England by denying them supplies of steel.

On my own responsibility, I think this reported attitude worthy of investigation.

With best wishes, I am

Sincerely yours,

JOHN E. KELLY, *Consultant.*

STATE OF CONNECTICUT DEVELOPMENT COMMISSION,
Hartford, Conn., February 3, 1950.

Mr. JOHN E. KELLY,
Consultant, New England Committee on Iron and Steel, New England Council, Statler Building, Boston 16, Mass.

DEAR JOHN: I thought that you would be interested in an experience which we have had during the past week.

We received a request for information from a Midwestern company engaged in the manufacturing of metal kitchen cabinets to supply them with information

regarding certain conditions prevailing in the State of Connecticut that would permit them to make a preliminary appraisal of a Connecticut location. The most important location determinants in the opinion of this company are: (1) The assurance of a constant supply of 22- to 24-gage steel plate; (2) the price; and (3) the availability of certain types and categories of labor.

We contacted the sales representatives of a number of steel mills which deliver to Connecticut manufacturing plants. All except one indicated that they are at the present time unable to deliver sufficient quantity of steel plate to meet the requirements of Connecticut manufacturers. As a matter of fact, they indicated that they are delivering only a percentage of quotas established for individual purchasers on the basis of deliveries during some previous period of time. One representative stated specifically that they are at the present time delivering approximately 60 to 65 percent of such quotas. All of them stated that, in view of this condition, they are unable to take on any additional customers. Only one company indicated that they might consider another customer, although they hastened to indicate that without any question they could not begin to make deliveries during the first half of the coming year and were not entirely certain as to whether they could make any deliveries during the second half.

This condition makes it important for us to review the development program insofar as it automatically places us in the position of knowing in advance that prospective Connecticut manufacturers using steel plate would be unable to consider the establishment of their business in the State until such time as steel supplies are available. Another condition resulting from the situation is the probability that Connecticut manufacturers using steel may be at a competitive disadvantage to the extent that curtailed deliveries either make it difficult for them to guarantee delivery to customers or increase their unit cost of operation.

Very truly yours,

ELMER R. COBURN,
Director, Research and Planning Division.

FEDERAL RESERVE BANK OF BOSTON,
February 6, 1950.

Mr. GROVER W. ENSLEY,
Associate Staff Director,
Joint Committee on the Economic Report,
Congress of the United States, Washington, D. C.

DEAR MR. ENSLEY: You may be interested in the attached copy of a letter and table which I have sent to Senator McMahon bearing on the subject of the New England market for steel.

The figures given by Bethlehem indicate that there is still a major difference of opinion as to how large the New England market is, especially for flat rolled products in which we are primarily interested.

Sincerely yours,

ALFRED C. NEAL,
Vice President and Director of Research.

FEBRUARY 2, 1950.

Hon. BRIEN MCMAHON,
Senate Office Building, Washington, D. C.

DEAR SENATOR: We have now gotten together the data on Bethlehem's share of the New England market in which you are interested, thanks to the questions which you asked at the hearing of the Joint Committee on the Economic Report on Friday, January 27. The attached table tells the story. On Bethlehem's own estimate of the New England market it has 26 percent of the total shipments of rolled-steel products in New England (line 9). If we use the Iron Age estimate of the market for 1948, Bethlehem would have 20 percent (line 6). However, the Iron Age method of estimate overstates the size of the New England market, so that I am sure that the 20 percent figure is too low. According to the Census Bureau data on steel consumed by the metalworking industry in 1947, a year when shipments were probably somewhat higher than they were in 1949, Bethlehem would have 43 percent of the New England market (line 3).

The only other tonnage figure given by Mr. Homer covers hot and cold rolled sheets. Mr. Homer said that Bethlehem shipped 159,000 tons of hot and cold rolled sheets into the New England market in 1949 and that this amounted to 22 percent of the total shipments. This would give a total consumption of sheets in New England of 722,000 tons (lines 7, 8, and 9). This figure is almost exactly

the same as the figure that we would get using the Iron Age estimates of hot and cold rolled sheet consumption in 1948 (line 6). However, if we use a reasonable estimate of the consumption of sheets derived from the Census Bureau figures for 1947 (line 1), Bethlehem would have 50 percent of the market for sheets.

It is very difficult to determine which of these figures is correct because the industry has never cooperated in a survey which would put all of these figures on a sound statistical basis. It seems safe to conclude this way: Bethlehem accounts for between 22 and something over 50 percent of the shipments of sheets into New England. If Bethlehem has but 22 percent of the shipments, then the market for sheets in New England is more than twice as big as the market that we have estimated in support of the New England mill. Therefore, the more nearly right Bethlehem's percentages are, the better is the case for a New England mill, not only because the market is bigger than we have estimated it, but because the portion of the market that Bethlehem does not supply is most likely supplied in large part from mills farther away than Bethlehem's and therefore costing the New England consumer more in freight than shipments from Bethlehem's mills.

I trust that this information will be of some use to you and that it may help to clear up some of the points under dispute. You may use it in any way that you see fit.

Sincerely yours,

ALFRED C. NEAL,
Vice President and Director of Research.

Bethlehem Steel Corp.'s share of the New England market

Consumption of steel mill shapes and forms by metal-fabricating establishments in New England	All rolled products [1]	Hot-rolled and cold-rolled sheets
1. Census Bureau data for 1947 [2] ---- tons	1,227,000	[3] 321,000
2. Bethlehem Steel shipments, 1949 [4] ---- do	523,000	159,000
3. Percent, Bethlehem to Census figure	43	50
4. Iron Age estimates for 1948 [5] ---- tons	2,590,000	[3] 711,000
5. Bethlehem Steel shipments, 1949 [4] ---- do	523,000	159,000
6. Percent, Bethlehem to Iron Age figures	20	22
7. Bethlehem estimate of market, 1949 [4] ---- tons	2,000,000	722,000
8. Bethlehem shipments, 1949 [4] ---- do	523,000	159,000
9. Percent, Bethlehem shipments to Bethlehem estimates [4]	26	22

[1] Omits wire, pipe, tubes, and castings, to the extent possible.
[2] U. S. Bureau of the Census, Geographic Distribution of Metal Mill Shapes and Forms and Castings: 1947, Dec. 30, 1949.
[3] 65 percent of total hot-rolled and cold-rolled sheet and strip. Division based on 1947 shipments of 14 companies reported in Senate Small Business Committee Report, Changes in Distribution of Steel, 1940-47.
[4] Testimony by Mr. Homer before Joint Committee on the Economic Report, Jan. 27, 1950.
[5] Iron Age, Steel Consumption in 1948

FEDERAL RESERVE BANK OF BOSTON,
February 6, 1950.

Mr. GROVER W. ENSLEY,
Associate Staff Director
Joint Committee on the Economic Report,
Congress of the United States, Washington, D. C.

DEAR MR. ENSLEY. I have reviewed Mr. Homer's statement and find that it raises but one point that we have not already dealt with in my statement. That point is how large a mill must be to obtain competitive costs. Mr. Homer said that to get competitive low-production costs a mill of 2½-million-tons capacity would be required and that the size of the mill we are proposing would "develop unit production costs materially higher than those obtainable through the use of the large mass tonnage strip mill." Obviously Mr. Homer is likely to be somewhat guided in taking his position by the fact that Bethlehem has so important a part of its own market at stake.

I should simply like to say that we have not proposed a 1¼-million-ton mill without very serious consideration of the problem that Mr. Homer raises. We have been guided by competent authorities and our proposal has been reviewed by a number of operating executives in steel companies who endorse the position that we have taken. On the face of it if Mr. Homer's statement is correct, the recently installed continuous-strip mill at the Alan Wood Steel Co., with an

annual capacity of but 218,000 tons, must be completely at the mercy of Bethlehem Steel which has competing mass-production units in the same market area. We find that the majority of strip mills in the country are below the size stated by Mr. Homer to be necessary to achieve competitive costs.

In view of all these circumstances, I think that we may dismiss Mr. Homer's contention as being but one opinion within the industry; it was perhaps dictated by a desire to safeguard a most profitable market for some of the most profitable products made by the steel industry.

Sincerely yours,

ALFRED C. NEAL,
Vice President and Director of Research.

FEDERAL RESERVE BANK OF BOSTON,
February 6, 1950.

MR. GROVER W. ENSLEY,
Associate Staff Director,
Joint Committee on the Economic Report,
Congress of the United States, Washington, D. C.

DEAR MR. ENSLEY. Attached are the documents relating to our effort to obtain a statistically sound survey, based upon shipments of steel companies, of the market for steel which might be served by a New England mill.

The first approach to the steel companies is covered in the letters sent by the members of the steel committee who interviewed the steel companies. I understand that John Kelly has sent you a set of these letters. Following these first interviews, I was asked by the steel committee to make a study of the market for steel that might be available to a New England mill. After consultation with Bay Estes, director of commercial research at United States Steel; Oliver Johnson, of Iron Age; Don Davenport, of the New York State Department of Commerce, and others, we drew up a questionnaire which called for information on shipments into New England, New York, and New Jersey, the information to be requested of all of the steel companies known to be shipping into this territory. Estes and Davenport both warned me that Bethlehem probably would never agree to furnish the information, but on the basis of the statements made by Bethlehem's executives to the members of our committee who interviewed them, I assumed that we might overcome that hurdle. Accordingly, on August 22, 1949, I sent copies of the questionnaire to Mr. C. H. H. Weikel, manager of commercial research of the Bethlehem Steel Co., Mr. A. H. Roosma, assistant to the president of Republic Steel, and Mr. B. E. Estes, director of commercial research of the United States Steel Corp. The letter in each case was the same except for the first paragraph. Copies of the letters to Bethlehem and Republic are enclosed.

On September 8 I received a reply from Mr. Roosma, copy attached. On September 21 Mr. Robert B. Wallace, New England manager of sales for Bethlehem Steel, called on me and told me that my letter had been considered by the top executives of his company and that he had been instructed to call on me and tell me that Bethlehem would not furnish the information requested. He said at the time that obviously Bethlehem had more to lose than to gain from such a survey and that that fact undoubtedly influenced their decision. Prior to calling on me, Mr. Wallace talked to Mr. Tibolt and Mr. Chafee, the two members of the committee who had originally called on Mr. Homer, and advised them of the purpose of his call on me. Enclosed also is a letter dated October 3 from Mr. B. E. Estes, director of commercial research at United States Steel, discussing the market survey but making no promise that United States Steel would give the information if a satisfactory means of gathering it were developed.

You will note that in my original letter to these companies I proposed that the information be sent to a third party so that there would be no question of our learning how much any individual company shipped into the New England market.

Naturally we have other sources of market information than those published from our own contacts in New England, but I believe that this chronology, together with copies of the letters attached, pretty well tells the story of our attempt to obtain market information from the three major companies which we believed to be most impo: tant in the market area under consideration.

Sincerely yours,

ALFRED C. NEAL,
Vice President and Director of Research.

AUGUST 22, 1949.

Mr. C. H. H. WEIKEL,
Manager, Commercial Research, Bethlehem Steel Co.,
Bethlehem, Pa.

DEAR MR. WEIKEL: When Bob Tibolt, Mystic Iron Works, and John Chafee, Saco-Lowell Shops, who are members of the New England Council iron and steel supply committee, called on Mr. Arthur Homer and Mr. John Mackall in January of this year, they were advised that your company would be interested in detailed figures on the requirements of the New England market. This same interest in good market information was evidenced by virtually all of the other steel companies which various members of our committee have contacted. Accordingly, I was delegated to draw up plans for a survey which would provide the information which the steel industry felt would be needed. As you will note, we have proposed a survey of steel shipments as the most economical and accurate way of getting the information.

While our plans for the market survey were being developed, the Iron Age survey was published and in addition the New York State Department of Commerce advised me that they were interested in making a similar survey. In order to avoid duplication of effort and unnecessary expense, we have agreed with the New York State Department of Commerce on a common questionnaire which will supply the information not only on the New England market but also on the New York, New Jersey, and Pennsylvania market. Also, in order to tie in our survey with the 1947 census of manufacturers, we have provided for a break-down of the information by industrial areas and used 1947 as the survey year.

The purpose of this letter is to acquaint you with our plans and to secure your suggestions and assistance on the survey. You will find enclosed some draft questionnaires calling for shipments by each company of a selected list of products to a selected number of States and areas. We have used the same classification of products as that used by the American Iron and Steel Institute with the exception that we have added pig iron, and wire rope, and strand. The proposed areas are defined in the same way as the standard metropolitan areas used by the census of manufactures with the exception that areas falling in two States have been split so as to preserve the State break-down. One set of questionnaires covers total shipments of all grades including alloy and stainless steel, and the other covers alloy and stainless steel only.

In addition to sending the questionnaires on shipments to producers and warehouses in the Northeast, we are also sending those producers and warehouses a questionnaire covering receipts. The receipts questionnaire is necessary to enable us to get a correct picture of the demand for semifinished and finished steel products which might be required to determine the probable market for new facilities. Similarly, in arriving at a correct consumption figure in total tonnage it is necessary to subtract from the total of shipments by producers in New England and outside the shipments which go to other steel producers for further processing and which would be reported twice as shipments, once by the mill producing the original product and again by the northeastern mill producing the product further processed.

I think from these brief comments and from looking at the questionnaires you can pretty well judge the sort of study that we can get.

In order to guarantee absolute confidentiality in the treatment of the data requested, we are endeavoring to get a completely independent third party to act as receiver and tabulator of the information. We are currently negotiating with the Bureau of Business Research of the Harvard Business School to act in this capacity. If you think that any more safeguards are necessary, I should be pleased to have your suggestions. We are endeavoring to do a thorough and completely impartial job and judging from what executives of most of the larger companies have told us, it is a job which the industry itself would appreciate, particularly in view of the discrepancy between the Iron Age study and other estimates of the northeastern steel market.

Would you be good enough to go over the enclosed questionnaires and procedure and let me know at your early convenience what suggestions you have for changes because we should like to get the study under way as soon as the vacation period is over?

Sincerely yours,

ALFRED C. NEAL,
Vice President and Director of Research.

OCTOBER 5, 1949.

Mr. B. E. ESTES,
Director of Commercial Research, United States Steel Corp.,
Pittsburgh, Pa.

DEAR BAY: I was pleased to get your comments on the proposed questionnaire for use in obtaining shipments information. I had sent it to Bethlehem and Republic as well as to your company and have had flat turn-downs from the two other companies.

As we agreed in New York, if we can't get Bethlehem there is no point in making a shipments study. To have Bethlehem and Republic both missing would make the shipments study a farce.

I appreciate the time and trouble that you have put in on reviewing the questionnaire and regret sincerely that the industry does not see fit to obtain the most accurate information that it can on the distribution of its products. However, I am much encouraged with the possibilities of using the figures compiled by the Senate Small Business Committee and by Iron Age and supplementing these figures with those from other readily available sources. I think by doing this we can get for the most important products so good an approximation of the market that we will have something that will stand up.

I should be pleased to exchange information with you on this approach. I understand that you have some estimates of your own and we are presently compiling some estimates ourselves. They come out so much larger than we had earlier anticipated that I think they constitute a real surprise for all of us.

Sincerely yours,

ALFRED C. NEAL,
Vice President and Director of Research.

UNITED STATES STEEL CORP., OF DELAWARE,
Pittsburgh, Pa., October 3, 1949.

Mr. ALFRED C. NEAL,
Vice President and Director of Research,
Federal Reserve Bank of Boston, Boston, Mass.

DEAR MR. NEAL: You have requested my comments on the draft set of questionnaires covering the steel-market study for the Northeast which were enclosed with your letter of August 22, 1949.

I have studied this material with considerable care and feel that the information requested, if it were available, would provide the basic facts necessary to making sound judgments on the problem with which you are concerned. A review of our records, however, indicate that considerable revision of the questionnaire would be required before it could be answered from readily available data. I suspect that any difficulties which we might experience would be less than those encountered by most other companies.

The following are some of the major problems which I forsee:

1. Data are collected on a county rather than on a city and town basis. This could be solved by defining your metropolitan areas on a county basis. I suspect that the tonnage differences would not be significant.

2. Our product break-down would not conform to that used in the questionnaire. This is true because the questionnaire uses the latest American Iron and Steel Institute break-down, whereas we are looking at 1947 records, and because geographical reports even now lack all the detail in the over-all reports. Particular problems would be encountered in the sheet and pipe and tube areas, and in the cases of wire rope and pig iron.

3. Alloy and stainless product break-downs are not in detail on our geographical reports, so that a report could not be prepared which either separated the alloy and stainless, or included the stainless distributed byproduct.

Generally speaking, problems of the type described above can be solved only by going back to actual sales invoices. This is bound to be a costly and time-consuming process.

Very truly yours,

B. E. ESTES,
Director of Commercial Research.

REPUBLIC STEEL CORP.,
Cleveland 1, Ohio, September 8, 1949.

Mr. ALFRED C. NEAL,
Vice President and Director of Research,
Federal Reserve Bank of Boston, Boston, Mass.

DEAR MR. NEAL: Your letter of August 22 in which you request suggestions for and participation in a survey of steel shipments in the New England area has been carefully considered.

While we are in sympathy with the proposed survey and appreciate your effort to keep the detail confidential, it has been the fundamental policy of this corporation not to disclose basic information. We regret, therefore, that we cannot see our way clear to furnish the requested data.

Yours sincerely,

A. H. ROOSMA.

AUGUST 22, 1949.

Mr. A. H. ROOSMA,
Assistant to the President, Republic Steel Corp.,
Republic Building, Cleveland, Ohio.

DEAR MR. ROOSMA: When Dr. George Waterhouse talked to Mr. White and you last January he was advised that your company was particularly interested in New England's steel requirements. This same interest in good market information was evidenced by virtually all of the other steel companies which various members of the New England Council iron and steel supply committee have contacted. Accordingly, I was delegated to draw up plans for a survey which would provide the information which the steel industry felt would be needed. As you will note, we have proposed a survey of steel shipments as the most economical and accurate way of getting the information.

While our plans for the market survey were being developed, the Iron Age survey was published and in addition the New York State Department of Commerce advised me that they were interested in making a similar survey. In order to avoid duplication of effort and unnecessary expense, we have agreed with the New York State Department of Commerce on a common questionnaire which will supply the information not only on the New England market but also on the New York, New Jersey, and Pennsylvania market. Also, in order to tie in our survey with the 1947 census of manufactures, we have provided for a break-down of the information by industrial areas and used 1947 as the survey year.

The purpose of this letter is to acquaint you with our plans and to secure your suggestions and assistance on the survey. You will find enclosed some draft questionnaires calling for shipments by each company of a selected list of products to a selected number of States and areas. We have used the same classification of products as that used by the American Iron and Steel Institute with the exception that we have added pig iron and wire rope and strand. The proposed areas are defined in the same way as the standard metropolitan areas used by the census of manufactures with the exception that areas falling in two States have been split so as to preserve the State break-down. One set of questionnaires covers total shipments of all grades including alloy and stainless steel, and the other covers alloy and stainless steel only.

In addition to sending the questionnaires on shipments to producers and warehouses in the Northeast, we are also sending those producers and warehouses a questionnaire covering receipts. The receipts questionnaire is necessary to enable us to get a correct picture of the demand for semifinished and finished steel products which might be required to determine the probable market for new facilities. Similarly, in arriving at a correct consumption figure in total tonnage it is necessary to subtract from the total of shipments by producers in New England and outside the shipments which go to other steel producers for further processing and which would be reported twice as shipments, once by the mill producing the original product and again by the northeastern mill producing the product further processed.

I think from these brief comments and from looking at the questionnaires you can pretty well judge the sort of study that we can get.

In order to guarantee absolute confidentiality in the treatment of the data requested, we are endeavoring to get a completely independent third party to act as receiver and tabulator of the information. We are currently negotiating with the bureau of business research of the Harvard Business School to act in this capacity. If you think that any more safeguards are necessary, I should

be pleased to have your suggestions. We are endeavoring to do a thorough and completely impartial job and judging from what executives of most of the larger companies have told us, it is a job which the industry itself would appreciate, particularly in view of the discrepancy between the Iron Age study and other estimates of the northeastern steel market.

Would you be good enough to go over the enclosed questionnaires and procedure and let me know at your early convenience what suggestions you have for changes because we should like to get the study under way as soon as the vacation period is over?

Sincerely yours,

ALFRED C. NEAL,
Vice President and Director of Research.

FEDERAL RESERVE BANK OF BOSTON,
February 6, 1950.

Mr. GROVER W. ENSLEY,
Associate Staff Director, Joint Committee on the Economic Report,
Washington, D. C.

DEAR MR. ENSLEY: I have reviewed our correspondence with steel companies relating to a New England mill. We have quite a volume of correspondence which deals with technical matters such as our sending information and answering questions, and I do not believe that you want all of that. I understand that Mr. Kelly has already sent you copies of the correspondence in his possession that bears directly on the attitude of the companies toward a New England mill. I believe that I have the original of but one letter giving that kind of reaction. That is the letter from Admiral Moreell which we have had copied. It says substantially what he said in his testimony on the subject.

In connection with reactions of the other companies, I don't believe that we had any correspondence at all with one. Everything was done by personal conference and by telephone so that the record on it is entirely outside the field of correspondence. The letter from Youngstown I believe Mr. Kelly has sent you because it was addressed originally to him. The reactions of the other companies, insofar as they were covered by correspondence, are indicated in the other letters which Mr. Kelly has sent. It seems, therefore, that a review of my own files produces only the one letter which I am sending along.

Sincerely yours,

ALFRED C. NEAL,
Vice President and Director of Research.

JONES & LAUGHLIN STEEL CORP.,
Pittsburgh 30, Pa., November 25, 1949.

Dr. ALFRED C. NEAL,
Vice President and Director of Research,
Federal Reserve Bank of Boston, Boston, Mass.

DEAR DR. NEAL: We have carefully studied the matter of our participating in the ownership of a proposed integrated steel plant to be located in New England and have decided not to participate.

In making this decision we are not passing judgment on the merits of the proposal. Our analysis indicates that the requirements in skilled talent as well as in funds would be beyond our capabilities.

We are heavily engaged in a program of improving our existing plants and making a modest expansion of ingot capacity through the construction of a new open-hearth shop at Pittsburgh. To complete this program will require all of our skills and energies, in addition to all of our available funds.

I have asked Mr. Archibald to assist you in any way possible and to give you information on the preliminary studies which we have made. These are far from complete, but some of them may be helpful.

I wish to thank you and Mr. Kelly for the confidence you expressed our organization by bringing this proposal to us.

Sincerely yours,

BEN MOREELL.

APPENDIX B

JONES & LAUGHLIN STEEL CORP.,
Pittsburgh 30, Pa., February 4, 1950.

Senator JOSEPH C. O'MAHONEY,
Chairman, Joint Committee on the Economic Report,
United States Congress, Washington 25, D. C.

MY DEAR SENATOR O'MAHONEY: Although I might well take exception to much of the testimony of Mr. Otis Brubaker before your committee on Thursday, January 26, I shall not burden you or the committee with rebuttal on any except three major points. On these three the integrity of the testimony which I presented on January 25 is questioned. This I cannot allow to go unchallenged.

In reference to my testimony that during the last 27 years J. & L. has paid to a holder of a common share a return of 1.6 percent on the average asset value of his stock, Mr. Brubaker, on page 563 of the official transcript, stated: "You have got to remember that the figures they gave you are not based upon the usual approaches to figuring the rate of return on investment. They have used a number of concepts that are not used in common accounting terminology which result in greatly reduced stated profits or return to shareholders." He testified that in his opinion my statement "is grossly misrepresentative of the actual facts." On page 564, Mr. Brubaker refers by comparison to the fact that dividends on our common stock amounted to 8 to 9 percent on what he called investment—"and not 1.6 percent as they stated in their statement." In my colloquy with you on page 371 of the transcript it is perfectly clear that the 8 to 9 percent referred to was current return on market value.

At no time did I confuse stockholders' return on investment and stockholders' return on market value.

I have emphasized that the 8 to 9 percent is current return on current market value. The 1.6-percent return on shareholders' investment is the average for a period of 27 years. The only comparable average on market value that I am able to strike is the average yield on average market value (average of yearly high and low) for the past 14 years. This is the only period during which there has been an active market in our stock. This figure is about 3.7 percent. Obviously this is a very rough indication, as we do not know what the weighted average market price was during this period, and even this would have very little bearing on what the great majority of our stockholders paid for their stock.

So far as "common accounting terminology" is concerned, I need only point out that table 14 on page 22 of "Basic data relating to steel prices," published by your committee on January 23, uses the same basis for stating return on stockholders' investment that I used, except that I used common stockholders' investment only, whereas the table to which I refer combines the common and preferred stock. You will remember that you pointed out, during my testimony, that my figures and the figures shown in the table for this corporation are approximately the same for the year 1948.

Mr. Brubaker's testimony in this connection is entirely unjustified.

On pages 691 and 692, Mr. Brubaker takes exception to my testimony regarding increased prices we have had to pay for fuel oil, scrap, and refractories. These were clearly stated by me to be increases experienced since the third quarter of 1949. I have had these figures carefully rechecked and the percentage increases stated by me on page 335 of the official transcript represent the increases in actual prices currently paid for the materials listed as compared with the average prices we actually paid during the third quarter of 1949. In each case the prices paid were market prices for the particular item in the area in which it was purchased plus freight to our mills, if any. Whether they correspond with indices or so-called "official quoted prices" which may or may not correctly reflect our actual experience is beside the point.

Again, Mr. Brubaker's testimony is without substance or justification.

Mr. Brubaker testified at length with respect to the amount of the increase in steel prices which were announced last December. In our case we stated this to be an average increase of about $4 per ton—$4.02 to be exact.

We arrived at this figure 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.

At the close of my testimony you were kind enough to refer to my answers to the committee as "prompt, frank, and forthright." I trust that Mr. Brubaker's unfounded statements regarding my testimony have not created a different feeling.

Very sincerely yours,

BEN MOREELL.

UNITED STEELWORKERS OF AMERICA,
Pittsburgh, Pa., February 13, 1950.

Senator JOSEPH C. O'MAHONEY,
Chairman, Joint Committee on the Economic Report,
Senate Office Building, Washington, D. C.

MY DEAR SENATOR O'MAHONEY: It has come to our attention that under date of February 4, 1950, Mr. Ben Moreell, president of Jones & Laughlin Steel Corp., addressed a letter to you with copies to the members of the joint committee, complaining that I had challenged the integrity of his recent testimony before your committee, and by implication, therefore, his own personal integrity. If there was any such implication left with the committee, it was entirely unintentional, and I certainly want to hasten to correct it. Both from my own contact with Mr. Moreell, and from those of other union representatives, we have only the greatest of respect for his honesty and integrity. I am certain that we made this feeling most clear to the committee, though it may not be as evident from the official record as would be desired. You are well aware that in some of the spirited conversational exchanges which occurred at the hearings with three or four persons talking at once, the record cannot possibly be as complete as was the spoken record or the understanding at the time, and questions asked out of context may easily be misinterpreted and cannot be fully answered if continuity of presentation is to be preserved. That, unfortunately, however, is unavoidable.

We believe that the major points which we attempted to make regarding Jones & Laughlin's testimony as viewed in the context in which they were made should not be misunderstood. Our major argument with respect to the company's rate of return to its common stockholders was that the comparisons which yielded the 1.6 percent rate of return are not the ones normally used in accounting reports or in financial analyses. The rate of return is normally computed as a percentage of stockholder investment; that is, of net assets, or net worth, or as a percentage of total investment including bonded debt. Either of these measures would have shown a much higher rate of return than the 1.6 percent average for the 27-year period shown by Jones & Laughlin's statement. This does not mean that the company's comparisons were not accurate. It merely means that they are not the more commonly used and more commonly understood ones. Since return on net assets, or net worth, or total investment, along with return on sales are the measures most commonly used as measures of corporate profit, even by the financial services, such as Moody's or Standard and Poor's, we felt, and still do, that we were justified in criticizing the company figure of 1.6 percent as misrepresentative of the earnings of the company's stockholders. It might be noted that the company's 1948 annual financial report uses income earned per common share and return per dollar of sales as measures of its annual profit, and not "cash" dividends paid per share of common stock as was used in the statement before the committee.

It should be apparent that "cash" return to common stockholders is not an adequate measure even of the return to the stockholder on his investment—despite the company's statement to the contrary (p. 184). The common shareholder gets his cash dividend plus an accretion in the value of his stock through the earnings which are retained in the business and not paid out in cash. Over a period of years, if a company consistently makes a profit, these earnings are available for increased cash dividends, or will eventually reflect in the higher value of the stock; i. e., an increase in equity which can be realized through the sale of a stock.

We trust that the committee was not confused by the equating of net asset value and investment (p. 184). They are not identical items in common accounting terminology. Both are book figures. Neither, alone, is a measure of the values accruing to the common stockholders, and is therefore inappropriate for use in measuring return to the common stockholders—either cash or accrued return. Use even of the net book value of the assets would be inappropriate in terms of comparing the percentage of "cash" return to all

common stockholders, since many of the stockholders did not pay any such price for the stock which they own. Yet the comparison of this 1.6 percent "cash" return on net asset value, which is equated with stockholder investment, with a yield of 2½ percent on the price paid for Government bonds (p. 184) would suggest that it was this type of mistaken comparison of noncomparable items which was being used. To our mind this was real confusion between return on net assets (Jones & Laughlin) and return on market value or purchase price (Government bonds). Many of the company's stockholders paid, in cash, for their stock only a fraction of the $89 net aset figure per common share which existed at the end of 1948. Most of the company's common stock does not date back to 1923. Thus, the use of an average return since 1923 is confusing and misrepresentative. Of the total outstanding stock, 77 percent has been issued since 1939—mostly in stock-conversion arrangements to retire much of the preferred stock—and even some of the earlier common stock has certainly changed hands at market value since that time. Incidentally, the conversions of preferred to common stock in 1945 and 1946 were on a three-for-one basis in which each share of common represented about $35 of preferred stock. For these common shareholders the rate of return even in terms of "cash" dividends, if it is to have any meaning, must be based on cash stock purchase or "conversion" prices paid in the decade since 1940. On these prices the rate of return ranges from 4 to 8.5 percent plus the further increased equity in the earnings retained in the business. This is in sharp contrast with the 1.6 percent long-term average figure used in the company's statement. Thus, for the vast majority of the common stockholders the 1.6 percent figure is meaningless. Many of these current common stockholders didn't even own common stock during most of the 27-year period covered by this average figure. This 1.6 percent figure, if it has any validity, would be sound only for a stockholder who paid cash for his stock in 1923 at the net asset value of the stock at that time. We are not sure that there were any such stockholders since this stock was issued in 1923 in exchange for stock of the predecessor corporation; it was not sold for cash.

We tried to make, as our major point, that the use of the asset value of stock as a divisor for computing cash return for common shareholders does not tell the whole story. In fact, you may remember that Representative Patman (p. 203) used almost these same words when talking of this concept. That there are other comparisons which yield other conclusions is evident from Mr. Moreell's letter in which he shows that even cash yield to common stockholders was 3.7 percent during the last 14 years, if computed on the average market value of the stock.

Likewise, use of the concept of depreciation as something laid aside, to be used for replacement of existing facilities (p. 185) is contrary to commonly accepted accounting concepts and terminology. Depreciation allowances are set up to permit a company to charge off as an operating expense the original cost of capital facilities. Both the American Institute of Accounting and the SEC have insisted that industry must so treat depreciation in its financial reports. To allow depreciation on replacement value of capital facilities as the company desires (p. 185) would make a shambles of cost accounting as we know it.

We are a little at a loss to understand Mr. Moreell's concern regarding our criticism of his material cost increase figures. We made it very clear in the context in which this criticism occurred that our major concern was with the incompleteness of the picture, both for this company and all others in terms of a listing of items, quantities, prices paid, and so forth, which could be checked and verified. This deficiency still exists so far as we know. We also made it quite clear that we were dependent on prices quoted in the industry press for the figures which we used, and those figures we checked most carefully. It is interesting to note that Moreell's letter says that these price increases for his company included freight costs. Yet his statement to the committee did not so indicate explicity, and, in fact, suggested that the freight increase was in addition—certainly with reference to coal, at least.

We made no specific criticism of the accuracy of the amount of Jones & Laughlin's price increase in our statement before the committee. The increase may well have been precisely what it was stated to be before the committee. Our criticism was simply to the effect that for the industry as a whole—even using the industry's own price index—the increase was more than the $4 per ton generally stated, and was certainly more than a 4 percent increase, since a

$4 per ton increase would exceed 4 percent. We specifically recognized that the amount of increase would vary as amongst companies, depending on product mix. Certainly, there was no challenge of personal integrity involved here.

We would like to emphasize that our criticism of Jones & Laughlin's facts and figures was silimar to that which we leveled at most of the industry. Because of brevity of the hearings and of the company's statement, and because many pertinent facts were therefore omitted, the company's statement did not tell the whole story. We believe, and we think we demonstrated from the industry's own figures, that the full story for the industry was essentially as we represented it to be. These conclusions based directly on the industry's own facts and figures can scarcely be called unfounded. Again, we regret any afront to Mr. Moreell's integrity. If such has occurred, we hope we have helped to make amends—though we still may disagree sharply on the facts, or their adequacy, or the proper interpretations to be placed on these facts.

Sincerely yours,

OTIS BRUBAKER.

NATIONAL STEEL CORP.,
Pittsburgh, Pa., January 30, 1950.

Hon. JOSEPH C. O'MAHONEY,
Chairman, Joint Committee on the Economic Report,
Senate Office Building, Washington, D. C.

DEAR SENATOR O'MAHONEY: In your letter of January 17 you indicated that you were interested in the foreign situation in steel as it may affect the domestic industry and market. Although I did not include this subject in my prepared statement, I came prepared to discuss it during the question period. Of course, the interest in other subjects and the lateness of the hour made it impossible to cover the export situation.

I thought, however, you might be interested in having the observations of some of our top people who recently returned to the United States after an extensive trip to Europe, during which they made a thorough investigation of the steel situation there. Following is a quotation from the report:

"We might mention that the Marshall plan in Europe appears to be a WPA on a grand scale, and the United States Government is authorizing large sums of money to various European countries for the construction of capital facilities not only in iron and steel, but in many other lines of industry. Billions of dollars are being spent in Europe for such capital expenditures, as well as for the purchase of raw materials and other commodities. The European economy is such that only a small part of the new steel facilities can be utilized, as the standard of living in these countries is too low at present for mass consumption of mechanical equipment.

"The final result of the Marshall plan expenditures will be severe competition with our present export markets, because of their very low labor rates and efficient American-made machinery. Since these facilities are donated to them, no provisions need to be made in their producing costs amortizing the initial expense of the installations. The sum total of these advantages will make it most difficult, if not impossible for us to compete in foreign markets."

I might point out that continuous strip and sheet mills are now being built in various countries with ECA money, as follows: Two in France; one each in England, which already has two; Czechoslovakia; Holland; and Belgium. In addition, two such mills are being requested for Germany and one for Poland.

These new mills that are being built with American money represent the most modern and expensive equipment in the steel industry, and have a large producing capacity.

By the end of 1950, in my opinion, there will be a large surplus steel capacity in Europe and also in the United States. I believe that the competition for export business will surpass anything we have seen in the past, and the foreign mills will be determined to get the business at any price. I believe also that they fully intend to ship into the United States at very low prices, as they will have the advantage of modern equipment and labor rates that are only about one-third of ours.

I wish to express my appreciation for your courtesy at the hearing.

Sincerely,

E. T. WEIR, *Chairman.*

ADDITIONAL STATEMENT SUBMITTED BY W. H. COLVIN, JR., PRESIDENT OF CRUCIBLE STEEL CO.

The vice president of the Federal Reserve Bank of Boston testified that a New England steel mill would have an adequate local market for its proposed production, raw materials readily available, labor seeking employment, and indicated that the venture could proceed with confidence in its earning power. The Congresswoman from Connecticut stated that in the light of the above testimony the only reason a steel mill was not being erected in New England was the resistance of existing steel interests and the effectiveness of their resistance indicated monopoly. The New Englanders propose to spend $240,000,000 on physical capacity only. On the basis of a wealth of statistics presented by almost every steel company, you know that this $240,000,000 fund will only provide about $80,000,000 worth of steel facilities at the value of similar assets now owned by established companies. Another way of saying the same thing is that $240,000,000 invested in an established company, such as Bethlehem (their nearest large producer), would buy an interest equal to three times as much capacity, at Bethlehem's values, as it would buy if invested in new facilities, at today's costs, in New England. The striking fact, however, is that the book value of a share in Bethlehem is $66 and the market value $33, so that the $240,000,000 of new money invested in Bethlehem would buy, not three times the value, but six times, or a share in capacity worth $1,400,000,000 if compared with the cost of new facilities. I am using this simply as an illustration.

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 he 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.

It is possible to speculate that a substantial part of the difficulty springs from tradition. The steel industry was a basic trade before there were any antitrust laws and it is reasonable to assume that the conduct of the steel men under those open-season conditions contributed to the need for those laws. The dog was given a bad name and maybe the present-day hired managers are still confused with their hairy-chested, proprietory, individualistic predecessors of 60 years ago. On the other hand, the automobile business came to life after long experience with the antitrust laws. Traditionally everyone thinks of this industry as competitive in the extreme and that survival is accompanied by blood and broken bones and frequent funerals. The truth is that $1 invested in a good automobile company's assets will shortly be worth $2, whereas $1 invested in a good steel company's assets will promptly be worth 50 cents. The country grew and prospered in the days of the adventuresome development of the railroads. The country survived the death of that activity—because the automobiles' lusty development took over where the railroads left off. A healthy steel business made both possible, and it prospered also as a result of them. When taxes and regulation tame the automobile business, what is next? When whatever is next shows up, will there be a healthy steel industry to see it through?

I suggest that your committee order a study to be undertaken by some Government agency whose report could be the foundation for a general inquiry later if the report seemed to warrant it. Failure to find a satisfactory answer could be reason enough.

I don't suppose the members of your committee could get any votes by such an inquiry, but they would get some fundamental information and by stating a warning of what portends 20 years hence, perform a service to the uneducated and discharge a duty to the country which should some day be appreciated.

GRANITE CITY STEEL CO.,
Granite City, Ill., February 16, 1950.

JOINT COMMITTEE ON THE ECONOMIC REPORT,
Senate Office Building, Washington, D. C.

GENTLEMEN: This will acknowledge your letter of February 7, enclosing copy of Mr. Brubaker's statement made before the Joint Committee on the Economic Report in connection with steel price increases.

We will endeavor to answer Senator Flanders' question with respect to the rate of return on investment as reported by Mr. Brubaker and as stated by Granite City Steel:

(1) Mr. Brubaker's report shows a rate of return on net worth of 15 percent for the first 9 months of 1949 and 23.4 percent for the full year 1948. According to our figures, we earned 15.1 percent on invested capital in 1948 and an estimated 12.2 percent in 1949.

(2) Mr. Brubaker uses net worth whereas we consider invested capital as the proper base for determining rate of profit on investment. Net worth does not reflect the fact that a company may have no choice but to finance on a debt basis rather than on an equity basis. In other words, we have added to net worth our outstanding debt as well as surplus reserve.

The invested capital figure at the end of 1948 amounted to $21,700,000 as compared with a net worth of $16,700,000. At the end of 1949 the invested capital approximated $23,900,000, as compared with an estimated net worth of $18,700,000. On the basis of invested capital, rather than net worth, Mr. Brubaker's figures for 1948 would have been reduced from 23.4 to 17.8 percent, and for 1949, from 15 to 11.7 percent. (We show 15.1 percent in 1948, and an estimated 12.2 percent in 1949.)

(3) In addition to the difference between net worth and invested capital, Mr. Brubaker's rate of profit for 1948 is before appropriation for contingencies of $650,000. Our figures are after the transfer to contingency reserve. In the face of high-unit inventory costs we feel that it would have been an overstatement of profit not to have set up this contingency. Furthermore, whether the theory of accelerated depreciation is accepted or not, the fact is that our depreciation provision continues to fall considerably short of replacement needs.

I trust that the above explanation will be helpful in understanding the difference between Mr. Brubaker's figures and our own.

Yours truly,

JOHN N. MARSHALL.

FEDERAL TRADE COMMISSION,
Washington, February 13, 1950.

Hon. JOSEPH C. O'MAHONEY,
Chairman, Joint Committee on the Economic Report,
Congress of the United States, Washington, D. C.

DEAR SENATOR O'MAHONEY: This will acknowledge receipt of your letter of January 30, 1950, inviting comment on the criticism by officials of United States Steel Corp. of the rates of return on its investment shown in the tables prepared for your committee by the Federal Trade Commission.

Both Mr. Fairless and Mr. Voorhees of United States Steel challenge the Commission's figures but offer no explanation of their criticism and submitted no figures in rebuttal, except a statement by Mr. Fairless that the corporation earned 6.5 percent on investment in 1948.

According to the computations by the Commission's accountants, the corporation's earnings in 1948 were 10.2 percent on total investment (invested and borrowed capital) after provision for Federal income taxes, as shown on table 12 of the committee's report, "Basic Data Relating to Steel Prices." The basis for this computation is explained in the notes accompanying the table. No explanation is given by Mr. Fairless for the 6.5 percent which he refers to in his statement, but on the basis of available information the percentage was apparently derived by relating the reported income of the corporation to its total investment at the end of the year, including operating reserves. Accordingly,

the difference between this 6.5 percent rate of return and the 10.2 percent, as computed by the Commission, is accounted for as follows:

	Percent
Adjustment by FTC of corporation's income for 1948 to eliminate "Accelerated depreciation"	2.8
Use by FTC of average investment for year as against apparent use by company of year-end investment in computing rates of return	.5
Exclusion by FTC of operating reserves apparently included by the company in the investment base	.4
Differences in rates of return	3.7

The accelerated depreciation referred to above amounted to $55,335,444 for 1948. This amount was eliminated by the Commission's accountants in arriving at the corporation's net income in computing rates of return for that year for the reasons given in the explanatory notes accompanying the tables presented in the committee's report (pp. 23–24). As more fully explained therein, the corporation's inclusion of this amount for accelerated depreciation on postwar facilities, in addition to normal depreciation on all facilities, as a deduction in arriving at net income, is of questionable propriety. This amount for accelerated depreciation is not deductible for income-tax purposes. Also, the application of this amount as a charge against 1948 operations appears to be contrary to sound accounting because 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.

The tabulation shows that the rate of return, as computed by the Commission's accountants, was higher by only five-tenths of 1 percent of investment because of the use of the average investment for the year instead of the year-end investment basis which the company apparently used. The computation of the rate of return on total investment at the end of the year is unsound in principle for the reason that the capital at the end of the year may include a considerable portion of capital invested at different times during the year on which there was no opportunity to earn a full year's profit. The profit, therefore, would not be earned on the capital at the end of the year, but on the capital at the beginning of the year, plus additions to and less withdrawals of capital during the year. However, it was not practicable to compute separately every change in capital during the year for United States Steel Corp. and the other steel companies during the period for which rates of return were computed. Approximately accurate results can ordinarily be obtained by relating the profit for the year to the average of the invested capital at the beginning and end of the year, and this method was generally used by the Commission's accountants in computing rates of return for the steel companies.

As shown above, the return as computed by the Commission's accountants was higher by four-tenths of 1 percent of investment by reason of the exclusion from the investment base of operating reserves which were apparently included by the company in computing its rate of return. Such reserves represent charges against income and are not a part of surplus or invested capital. Therefore, they were not included in the investment base in computing rates of return.

Other adjustments pertaining to the years 1917–47 were made by the Commission's accountants in computing rates of return for the various steel companies included in the study. The nature of these adjustments is explained in the notes accompanying the tables in the committee's report.

With kindest personal regards.

Sincerely,

LOWELL B. MASON, *Acting Chairman.*

THE NO. 1 NEW ENGLAND SITE FOR STEEL

From: Paul A. Dever, Governor of Massachusetts.
William P. Grant, mayor of Fall River.

For your information, here are the salient facts of why the finest site for steel in New England is near Fall River, Mass.

I

The requirements for a steel site in New England are:

A. *Vacant land.*—The Freetown site has more than 12,000 acres of vacant land plus an excellent geologic base to bear the weight of heavy industry.

B. *Raw materials by sea.*—The Massachusetts site has deep-water approaches that are ice free the year round through the broad and sheltered anchorage of Narragansett Bay, the finest natural harbor on the eastern coast.

C. *Distribution by rail and road.*—Tracks of the New York, New Haven & Hartford Railroad, a class I carrier, run right through the Freetown site, and of course the site is tied in with the great truck highways of the Northeast.

D. *Airport.*—Practically fog free class 3 airport, practically adjacent to the site. This airport is capable of early expansion to class 4.

E. *Water—both process and potable.*—The Massachusetts site has available more than 80,000,000 gallons daily of fine process water (see chemical formula below) in the Taunton River, plus more than 10,000,000 gallons a day of prime potable water from Assawompsett Pond, part of the supply which now serves both the cities of Fall River and New Bedford.

F. *Assurance of stable taxation.*—The Commonwealth of Massachusetts is ready, willing and anxious to do everything within its power to help finance the construction of a steel plant at the Freetown site, and to assist its profitable operation, as a matter of basic policy.

G. *Availability of labor.*—Fall River's 100 years of industrial growth have produced a large body of trained workers. It has an excellent record of amicable labor-management relations. Surrounding communities also provide a large reservoir of trained manpower.

II. Raw Material Supply

A. Ore will be brought from the newly discovered and immensely rich ore fields now being developed on the water between Labrador and Quebec in the Dominion of Canada. Transportation will be by oceangoing ships.

B. Coal probably will come from West Virginia. Transportation will be by oceangoing colliers up the coast to Narragansett Bay and the site at Freetown.

C. *Limestone.*—Large deposits of limestone are available for transportation by oceangoing ships from Maine through the port of Rockland. Other supplies of limestone are available within the State of Massachusetts.

D. *Water.*—Approximately 17,000 gallons of water are required to process 1 ton of steel. There is abundant water available at the site for the manufacture of a million or more tons of steel a year.

III

The steel market in area is estimated to be around 7,000,000 tons annually: This is the biggest steel market in the country which is not now served by its own producing plant within the market area. The market for steel will be increased considerably by the construction of a plant at Freetown, owing to the advantage of short-haul shipments.

IV

Financing: The cost of the steel plant is estimated to be $230,000,000. The Commonwealth of Massachusetts is prepared to cooperate in this financial program by creating a steel authority with power to take land and to issue bonds which would be part of the financial structure. Major financial interests in this area have indicated their willingness and desire to participate in financing a steel mill at Freetown.

V

The site of the plant itself comprises 1,850 acres of land about 3 miles north of the city of Fall River: The site is located on the banks of the Taunton River and the present 35-foot-deep Federal channel would be extended to a large turning basin in front of a 2,000-foot quay where oceangoing ships will come alongside the site itself.

VI

Immediately above the quay a small dam will be built across the Taunton River to store process water: This storage reservoir will not cover any land which is dry at present. The purpose of the dam and reservoir will be to exclude the tidewater which will float the oceangoing vessels alongside the plant, which will be below the dam. This reservoir is fed by a 500-square-mile watershed, which is ample assurance of an abundant supply all year round.

VII

Potable water will be brought by a pipe line approximately 4 miles from Assawompsett Pond to a 20,000,000-gallon reservoir near the site.

VIII

There is plenty fill on the site to take care of the construction of the dam, the quay, and for grading.

IX

The geologic base of the site is composed of sand, gravel, and glacial till (hardpan): This is prime foundation structure for heavy weights.

X

Analysis of the available water supply is as follows:

A. Domestic and boiler supply, city of Taunton, Lakeville Ponds, Assawompsett Pond: Present excess yield 18,000,000 gallons per day. Excellent water for boilers and domestic purposes:
   Color: 18 parts per million.
   Hardness: 7 parts per million.
   pH: 6.3.
   Chlorides: 6.5 parts per million.
   Estimated cost pipe line, pumping station, and reservoir about $2,500,000.

B. Industrial supply—impounded water of Taunton River above Freetown-Berkley boundary. Watershed above this point consists of 500 square miles with estimated safe yield of about 85,000,000 gallons per day. This water should be wholly satisfactory for industrial purposes except boilers as shown by the following analyses:
   Color: 45 parts per million.
   Hardness: 30 parts per million.
   Chlorides (with dam less than 100 parts per million) (present—1,769 parts per million).
   pH: 6.6.

A steel mill on the northeastern seaboard will bring business to your community. Lower freight rates on steel processed in our regional area will mean more profitable business for your metal-using concerns.

A steel mill always attracts new industry to the area. This means new business for your community.

UNITED STATES STEEL CORP. OF DELAWARE,
Pittsburgh, Pa., February 22, 1950.

Hon. JOSEPH C. O'MAHONEY,
Chairman, Joint Committee on the Economic Report,
United States Congress, Washington, D. C.

MY DEAR SENATOR O'MAHONEY: In accordance with your letter of February 14, 1950, and as discussed with Mr. Lehman today, we are supplying herewith the following additional items of information relating to the steel hearings of January 24:

(1) Tabulations showing changes in the base prices of carbon-steel plates, structural shapes, bars, and hot-rolled sheets published by Carnegie-Illinois Steel Corp. during the period from 1925 through 1949. Records for the period prior to 1935 are incomplete and we cannot be sure of the accuracy of the prices shown for that period.

(2) Extra lists of Carnegie-Illinois Steel Corp. covering carbon-steel plates, structural shapes, bars, and hot-rolled sheets, both before and after the December 16 price increase.[1]

(3) A copy of United States Steel Corp.'s press release of February 15, 1950, which contains the information requested in paragraph (3) (a) of your letter.

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[1] These publications are available for inspection in the files of the committee.

(4) A tabulation showing the distribution of ownership of stock of United States Steel Corp. by size of holdings. The tabulation does not show the fact that most of the larger registered stockholders are charitable and educational institutions, insurance companies, brokers, nominees, and others who hold the registered ownership for a very large number of beneficial owners. In order to show this fact in some detail, we have included a further tabulation showing distribution by individuals, institutions, and others acting generally in what may be termed a fiduciary capacity.

We trust this is the information you require.

Very truly yours,

ROGER BLOUGH, *General Solicitor.*

Published prices with effective dates, Carnegie-Illinois Steel Corp.

PLATES

Date effective:	*Per hundred pounds*
Jan. 1, 1925	$2.00
Jan. 20, 1925	1.90
Aug. 31, 1925	1.80
Nov. 5, 1925	1.90
Sept. 15, 1927	1.75
Nov. 10, 1927	1.80
Jan. 19, 1928	1.85
Feb. 21, 1928	1.90
Sept. 11, 1928	1.90
Feb. 18, 1929	1.95
Sept. 12, 1929	1.95
Nov. 14, 1929	1.90
Jan. 2, 1930	1.90
Jan. 23, 1930	1.85
Feb. 6, 1930	1.85
Mar. 20, 1930	1.80
May 15, 1930	1.70
July 10, 1930	1.65
July 24, 1930	1.65
Aug. 21, 1930	1.60

Date effective—Con.	*Per hundred pounds*
Apr. 1, 1931	$1.70
Aug. 1, 1933	1.60
Sept. 30, 1933	1.70
Apr. 17, 1934	1.85
July 10, 1934	1.80
Dec. 31, 1934	1.80
Jan. 1, 1935	1.80
May 26, 1936	1.90
Dec. 1, 1936	2.05
Mar. 5, 1937	2.25
June 24, 1938	2.10
May 23, 1945	2.25
Feb. 15, 1946	2.50
Jan. 3, 1947	2.65
Aug. 1, 1947	2.95
May 1, 1948	2.90
July 13, 1948	2.90
July 21, 1948	3.40
Dec. 16, 1949	3.50

STANDARD STRUCTURAL SHAPES

Date effective:	*Per hundred pounds*
Jan. 1, 1925	$2.10
Jan. 20, 1925	1.90
Aug. 31, 1925	1.90
June 15, 1926	2.00
Jan. 13, 1927	1.90
Sept. 15, 1927	1.75
Nov. 10, 1927	1.80
Jan. 19, 1928	1.85
Feb. 21, 1928	1.90
Sept. 11, 1928	1.90
Feb. 18, 1929	1.95
Sept. 12, 1929	1.95
Nov. 14, 1929	1.90
Jan. 2, 1930	1.90
Jan. 23, 1930	1.85
Feb. 6, 1930	1.85
Mar. 20, 1930	1.80
May 15, 1930	1.70
July 10, 1930	1.65
July 24, 1930	1.65

Date effective—Con.	*Per hundred pounds*
Aug. 21, 1930	$1.60
Apr. 1, 1931	1.70
Aug. 1, 1933	1.60
Sept. 30, 1933	1.70
Apr. 17, 1934	1.85
July 10, 1934	1.80
Dec. 31, 1934	1.80
Jan. 1, 1935	1.80
May 26, 1936	1.90
Dec. 1, 1936	2.05
Mar. 5, 1937	2.25
June 24, 1938	2.10
Feb. 15, 1946	2.35
Jan. 3, 1947	2.50
Aug. 1, 1947	2.80
May 1, 1948	2.75
July 13, 1948	2.75
July 21, 1948	3.25
Dec. 16, 1949	3.40

CARBON BARS

Date effective:	
Jan. 1, 1925	$2.10
Apr. 28, 1925	2.10
Aug. 31, 1925	2.00
Nov. 5, 1925	1.90
Feb. 23, 1926	2.00
May 10, 1926	1.85
May 26, 1926	2.00
Jan. 13, 1927	1.90
Feb. 23, 1927	2.00
Sept. 15, 1927	1.75
Nov. 10, 1927	1.80
Jan. 19, 1928	1.85
Apr. 20, 1928	1.90
Nov. 19, 1928	1.80
Feb. 18, 1929	1.95
June 6, 1929	1.95
May 12, 1930	1.75
Dec. 3, 1930	1.65
Apr. 1, 1931	1.70
June 10, 1931	1.60
July 6, 1931	1.60

Date effective—Continued	
July 1, 1932	$1.50
June 30, 1933	1.60
Nov. 1, 1933	1.75
July 7, 1934	1.80
Dec. 31, 1934	1.80
Jan. 1, 1935	1.80
Oct. 1, 1935	1.85
May 26, 1936	1.95
Sept. 5, 1936	2.05
Dec. 1, 1936	2.20
Mar. 5, 1937	2.45
June 24, 1938	2.25
May 15, 1939	2.15
May 23, 1945	2.25
Feb. 15, 1946	2.50
Dec. 16, 1946	2.60
Aug. 1, 1947	2.90
May 1, 1948	2.85
July 13, 1948	2.85
July 21, 1948	3.35
Dec. 16, 1949	3.45

HOT-ROLLED SHEETS

Date effective:	
Jan. 1, 1925 (28 gage)	$3.60
Jan. 29, 1925 (10 gage)	2.80
Apr. 17, 1925	2.60
Oct. 9, 1925	2.30
Nov. 2, 1925	2.40
Nov. 19, 1925	2.50
May 24, 1926	2.40
June 8, 1926	2.30
Sept. 23, 1926	2.40
May 3, 1927	2.25
Oct. 1, 1927	2.15
Dec. 2, 1927	2.10
Aug. 15, 1928	2.00
Nov. 15, 1928	2.10
Feb. 25, 1929	2.20
Mar. 10, 1930	2.10
May 12, 1930	2.00
Oct. 21, 1930	1.90
July 1, 1931	1.85
Dec. 31, 1931	1.70
Feb. 6, 1932	1.60
Feb. 13, 1932	1.55
Mar. 1, 1933	1.40

Date effective—Continued	
May 3, 1933	$1.50
June 6, 1933	1.65
Sept. 24, 1933	1.75
Apr. 24, 1934	2.00
July 7, 1934	1.85
Dec. 31, 1934	1.85
Jan. 1, 1935	1.85
May 26, 1936	1.95
Sept. 5, 1936	1.95
Dec. 1, 1936	2.15
Mar. 5, 1937	2.40
May 18, 1938	2.30
June 24, 1938	2.15
May 15, 1939	2.00
Nov. 28, 1939	2.10
May 23, 1945	2.20
Feb. 15, 1946	2.425
Dec. 10, 1946	2.50
Aug. 1, 1947	2.80
May 1, 1948	2.75
July 13, 1948	2.75
July 21, 1948	3.25
Dec. 16, 1949	3.35

[From United States Steel Corp., office of assistant to chairman, New York]

(For release in morning papers, Wednesday, February 15, 1950)

NEW YORK, February 15.—Holdings of common stock of United States Steel Corp. in 10 Eastern States on December 31, 1949, totaled 11,569,747 shares, exclusive of shares held in New York brokers' names, comparing with 11,629,749 shares 6 months before, the corporation announced today. Holdings of preferred stock by others than brokers in 10 Eastern States totaled 2,419,389 shares, against 2,424,659 shares on June 30, 1949.

Common stock held in brokers' names in New York State numbered 2,311,258 shares on December 31, 1949, comparing with 2,314,278 shares 6 months before. Preferred stock in brokers' names in New York State totaled 48,440 shares against 46,322 shares 6 months before.

Holdings of common stock in States, other than 10 Eastern States, and including the District of Columbia and the Territories, totaled 11,220,333 shares on December 31, 1949, comparing with 11,139,898 shares 6 months before. Preferred holdings in the same areas on December 31, 1949, totaled 1,109,157 shares against 1,105,201 shares on June 30, 1949.

A total of 1,008,418 shares of common stock owned by residents of foreign countries on December 31, 1949, comparing with 1,025,831 shares 6 months before, while foreign holdings of preferred stock on that date totaled 25,825 shares, against 26,629 shares on June 30, 1949.

Geographical ownership is based upon stockholders' addresses appearing on the records of the corporation.

United States Steel Corp.—Comparative holdings of common and preferred stock

	Dec. 31, 1949, common	June 30, 1949, common	Dec. 31, 1949, preferred	June 30, 1949, preferred
Connecticut	355,409	352,719	136,019	137,365
Delaware	275,478	276,423	27,313	27,317
Maine	122,351	122,698	19,748	20,666
Massachusetts	940,709	1,023,481	243,718	246,143
New Hampshire	80,260	82,322	19,617	19,488
New Jersey	916,859	897,558	248,605	247,356
New York [1]	5,996,862	5,996,146	1,288,129	1,288,112
Pennsylvania	2,702,707	2,689,595	362,525	363,927
Rhode Island	124,711	130,562	52,243	52,657
Vermont	54,401	58,245	21,472	21,628
Eastern States	11,569,747	11,629,749	2,419,389	2,424,659
Ratio—percent	44.312	44.542	67.153	67.299
Brokers' names, New York State [2]	2,311,258	2,314,278	48,440	46,322
Ratio—percent	8.852	8.864	1.345	1.286
District of Columbia	203,085	212,520	40,209	41,367
Florida	377,458	374,079	46,407	45,635
Georgia	220,123	216,769	19,097	19,165
Maryland	175,492	170,528	42,845	42,812
North Carolina	193,720	191,737	12,685	12,842
South Carolina	68,286	68,909	4,374	4,283
Virginia	252,593	251,470	30,650	31,179
West Virginia	220,691	217,354	52,462	52,257
South Atlantic States	1,711,488	1,703,366	248,729	249,540
Ratio—percent	6.555	6.524	6.904	6.926
Alabama	187,673	189,481	12,066	12,015
Arkansas	41,598	40,223	1,982	1,757
Kentucky	216,863	219,537	35,644	35,901
Louisiana	165,483	164,061	9,490	9,007
Mississippi	60,533	55,561	4,328	4,379
Oklahoma	94,999	94,898	6,477	6,033
Tennessee	200,177	198,686	15,096	14,591
Texas	414,084	402,749	21,619	21,793
South Central States	1,381,410	1,365,196	106,702	105,476
Ratio—percent	5.291	5.229	2.962	2.928
Illinois	2,088,306	2,084,169	174,864	176,102
Indiana	357,462	350,529	20,304	20,140
Iowa	167,495	166,816	14,062	13,799
Kansas	101,596	107,377	6,263	6,113
Michigan	587,564	574,324	50,609	49,999
Minnesota	486,284	479,850	64,456	63,259
Missouri	561,027	556,608	54,089	53,912
Nebraska	82,103	84,948	6,852	6,664
North Dakota	13,480	14,069	1,179	1,184
Ohio	1,154,243	1,127,316	127,095	127,084
South Dakota	25,010	24,047	1,284	1,329
Wisconsin	331,629	368,559	26,511	26,155
North Central States	5,956,199	5,938,612	547,568	545,740
Ratio—percent	22.812	22.745	15.198	15.147
Arizona	54,356	50,222	5,548	5,153
California	1,496,068	1,465,618	147,470	146,407
Colorado	246,866	250,467	22,626	22,859
Idaho	23,314	24,314	1,482	1,449
Montana	30,093	29,013	4,004	3,859
Nevada	14,301	14,013	1,029	1,039
New Mexico	27,155	23,895	2,287	2,176
Oregon	77,025	77,447	6,235	6,150
Utah	32,632	33,039	2,826	2,918
Washington	136,317	135,058	8,912	8,707
Wyoming	14,734	13,743	2,065	2,080
Western States	2,152,861	2,116,829	204,484	202,797
Ratio—percent	8.245	8.107	5.676	5.629
Alaska	1,869	1,584	92	92
Canal Zone	329	545	36	26
Hawaii	14,933	12,713	1,354	1,355

[1] Excluding shares held in brokers' names.
[2] Beneficial owners reside in many States.

United States Steel Corp.—Comparative holdings of common and preferred stock—Continued

	Dec. 31, 1949, common	June 30, 1949, common	Dec. 31, 1949, preferred	June 30, 1949, preferred
Puerto Rico	465	468	113	96
Virgin Islands	339	39	25	25
No address	480	546	54	54
Miscellaneous	18,415	15,895	1,674	1,648
Ratio—percent	.071	.061	.046	.046
Africa	1,222	1,086	23	23
Arabia	120	60		
Argentina	942	1,002	155	135
Australia	387	87	35	10
Austria	1,026	1,035	130	130
Belgium	5,552	4,881	213	238
Bermuda	6,693	6,993	179	272
Bolivia		3		
Brazil	606	618	295	295
British Guiana	27	27		
Canada	238,581	235,466	14,456	14,855
Central America	1,149	2,019	43	43
Chile	1,662	1,659		
China	3,006	3,651	45	45
Columbia	60		14	14
Czechoslovakia	762	1,989	311	311
Denmark	540	525	22	22
Ecuador	18	18		
England	49,772	51,531	1,310	969
Finland	87	87	2	2
France	7,579	8,174	1,105	1,128
Germany	552	663	26	26
Greece	423	423	251	101
Holland	619,715	652,515	1,956	2,186
Hungary	1,041	966	115	115
India	90	120	151	161
Ireland	2,778	1,628	221	231
Italy	2,020	2,568	561	188
Japan	618	33		
Java	675	693	214	214
Luxemburg	561	561	213	213
Malay States	330	330		
Mexico	1,993	3,024	367	372
Norway	727	796	4	4
Palestine	150	150		
Peru	378	478		
Philippines	1,473	1,467	78	78
Poland	93	93		50
Portugal	303	303	130	130
Rumania	36	36		
Russia	453	453	8	8
Scotland	375	336	939	939
Spain	1,534	2,190	261	310
Sweden	7,293	7,940	74	414
Switzerland	33,220	15,753	777	777
Turkey	216	66	10	10
Venezuela	351	303		
West Indies	9,246	9,148	1,382	1,361
Yugoslavia	276	276	7	7
Nationality unknown	1,464	1,545	138	242
Alien Property Custodian	243	63		
Foreign holdings	1,008,418	1,025,831	25,825	26,629
Ratio—percent	3.862	3.929	.717	.739
Total shares	26,109,756	26,109,756	3,602,811	3,602,811

United States Steel Corp.—Classification of holders of preferred and common stock as of Dec. 30, 1949

Class	Preferred				Common			
	Holders	Percent	Shares	Percent	Holders	Percent	Shares	Percent
1 to 9	20,080	26.39	86,100	2.39	21,037	11.67	117,853	0.45
10 to 24	29,023	38.15	403,120	11.19	29,721	16.48	485,686	1.86
25 to 49	11,650	15.31	365,587	10.15	43,844	24.32	1,479,805	5.67
50 to 99	7,999	10.51	462,323	12.83	34,527	19.15	2,387,211	9.14
100 to 500	6,858	9.01	1,059,411	29.40	45,119	25.03	9,185,330	35.19
501 to 1,000	259	.34	196,579	5.46	4,069	2.26	2,789,990	10.68
1,001 to 2,500	131	.17	200,027	5.55	1,322	.73	1,968,169	7.54
Over 2,500	85	.12	829,664	23.03	635	.36	7,695,712	29.47
Total	76,085	100.0	3,602,811	100.0	180,274	100.0	26,109,756	100.0

	Preferred		Common		Total	
	Holders	Shares	Holders	Shares	Holders (net)[1]	Shares
Individuals:						
Women	38,903	1,170,123	76,183	7,312,573	107,480	8,482,696
Men	20,448	678,660	77,504	9,090,856	92,790	9,769,516
Joint accounts	5,303	109,851	18,827	1,654,091	23,080	1,763,942
Total	64,654	1,958,634	172,514	18,057,520	223,350	20,016,154
Charitable and educational [2]	1,345	127,160	500	171,889	1,736	299,049
Insurance companies	139	356,666	88	144,583	200	501,249
Industrial and other companies	535	78,969	1,293	754,552	1,697	833,521
Trustees, guardians, and estates	8,569	448,856	4,778	1,044,550	12,653	1,493,406
Brokers, nominees, and others	843	632,526	1,101	5,936,662	1,480	6,569,188
Total	76,085	3,602,811	180,274	26,109,756	241,116	29,712,567

[1] 15,243 are holders of both preferred and common shares.
[2] Includes medical and religious organizations, foundations, hospitals, libraries, cemeteries, and fraternal organizations.

UNITED STEELWORKERS OF AMERICA,
Pittsburgh, Pa., February 27, 1950.

Senator RALPH E. FLANDERS,
Senate Office Building,
Washington, D. C.

DEAR SENATOR FLANDERS: I regret that I missed the presentation on the steel price increase made by Granite City Steel Co. before the joint committee on January 27, 1950. I was there most of the day, but was called out of the room during this statement. Only yesterday did I have a chance to read the transcript on this part of the testimony. I note that on pages 878–883 of the transcript you were somewhat concerned with certain apparent discrepancies between the figures which I had given you on behalf of the union, and those which the company cited with reference to its own operations. You asked the company spokesman if he would check the figures and see if he could explain the source of the difference. I do not know whether he has done so as yet. I should like, however, to offer an explanation of the source of our figures, and an explanation of the apparent discrepancies where possible.

I am confident that our sources were the same as those used by the company; that our method corresponded to that usually accepted by accountants and financial analysts; and that our computations were accurate. I invite your attention to the following analysis of our figures regarding Granite City Steel Co.

Source

Our 1948 figures for this company came from the 1948 annual report sent out by the company to its stockholders, and furnished to us on our request by the company. These figures can hardly be questioned by anyone, including the company.

No 1949 report is yet available. We therefore used the figures on sales and profits from Moody's Industrials, and the figures on dividends from Moody's Dividend Record. These figures are taken by Moody's from data supplied by the company to the Securities and Exchange Commission, and are, therefore, scarcely open to question.

Our method and calculations

(*a*) *Return on net worth.*—We stated to the committee that return on net worth (stockholders investment) for this company was 23.4 percent in 1948, and 15 percent at an annual rate for the first 9 months of 1949. Mr. Marshall, for the company, said that the return on "invested capital" in 1948 was 15.06 percent, and in 1949 was 12.16 percent. Obviously, these figures are not comparable since "net worth" or "stockholder's investment" is not the same as total "invested capital." In addition, the return for the first 9 months of 1949 might well be expected to differ slightly from the return for the whole year.

Our figures for 1948 came from the company's annual report. They were derived by dividing the item labeled "net income," $3,917,707, by the item labeled "net ownership of stockholders" (net worth) of $16,713,608. This computation yields a return on net worth of 23.44 percent which we rounded as 23.4 percent.

For 1949, using Moody's stated net profit of $2,223,514 for the first 9 months of the year, we simply projected this profit figure to an annual rate. This figure we divided by the closing net worth figure for 1949 which we had estimated as follows: To the beginning net worth for 1949 which was taken from the 1948 annual report as $16,713,608, we added the estimated net profit for 1949 based on a projection of the stated profit for the first 9 months of the year, less the dividends of $2 per share paid in 1949. This computation yielded a figure of slightly more than 15 percent, which we listed as 15 percent for purposes of our statement.

The company's figures are not comparable. Its 1948 figure, however, is incorrect even if we use the basis which it states it used, namely, total "invested capital." Its annual report for 1948 shows only two figures which are normally and properly classified as investment. They are as follows:

Stockholders' investment	$16, 713, 608
Long-term debt	2, 882, 525
Total investment	19, 596, 133

Using this method, it is necessary to adjust the stated wet profit of $3,917,707 as taken from the annual report by the interest paid on the debt, which is shown as $126,826. This gives a profit figure of $4,045,111. If we divide this profit figure by the total investment figure shown above, we get a return on invested capital of 20.64 percent—not 15.06 percent, as stated by the company.

We have tried to reconstruct the 15.06-percent figure shown by the company. This is not entirely possible. Apparently, what the company did was to reduce its net profit by a set-aside for future contingencies of $650,000, bringing the net profit down to $3,267,707. It also apparently ignored the interest paid on debt during the year. This must be included in a calculation of return on total investment. Clearly, it is not proper to deduct the contingency reserve from profit, since even in its own annual report the company does not show this figure as a deduction before the listing of net profit. In addition to decreasing the profit, apparently the company also increased the investment by adding to the investment figure we have shown above three additional items, which are: A reserve for maintenance and repairs, $300,000; a reserve for workmen's compensation, $43,000; a reserve for inventory price declines and other contingencies, $800,000. This would bring the total investment to $20,739,133. It is highly questionable whether these last three items should be included in investment. They are not normally included in financial computations. Even, however, with these manipulations, if we divide this "adjusted" net profit of $3,267,707 by this inflated investment figure of $20,739,133. the return on invested capital is still 15.77 percent—not 15.06 percent, as stated by the company before the committee. In our opinion, the above "adjustments" made by the company are not appropriate.

The company figures for 1949 cannot be checked. The 1949 report has not yet been made public. In fact, you may remember that the company spokesman so stated before the committee. The difference between our estimate for 1949 and the company's estimate is not as great as in 1948. In 1949 we showed 15 percent and the company showed 12.16 percent. The difference may easily be accounted for by our use of net worth and the company's use of total invested capital. In fact, the difference between our figures and the company's figures

for 1949 are about the same as the difference between our 1948 figure of 23.4 percent on net worth, and the 20.6 percent return on total investment which we have indicated above as being appropriate if the usual methods of determining net profit and investment for this computation are used.

(*b*) *Return on sales.*—We stated before the committee that the company's return on sales was 9.5 percent for 1948 and 6.5 percent for the first 9 months of 1949. There should be no dispute about these figures since they involve no projection or estimate as was the case in the 1949 figures for return on net worth.

Our figures for 1948 again came from the 1948 annual report of the company. We divided the net profit $3,917,707, by the sales $41,425,506. This yielded a percentage return on sales of 9.45 percent, which we rounded as 9.5 percent.

Our figure for the first 9 months of 1949 came from Moody's. There we divided the stated net profit for the first 9 months—$2,223,514, by the 9 months sales of $34,360,823. This yielded a return of 6.47 percent, which we rounded as 6.5 percent.

The company figure for 1948 of 7.95 percent is apparently derived, as was the case of its return on invested capital, by disregarding the net profit as that figure was set forth in the company's annual report, and instead reducing this profit by the $650,000 contingency reserve. This adjusted net-profit figure of $3,267,707 was then divided by sales of $41,425,506, to yield a return of 7.89 percent, which is quite close to the 7.95 percent figure stated by the company. This method is not a proper one for several reasons. It ignores the company's net income as that figure is set forth in its own annual report. It ignores the fact that the $650,000 contingency reserve is not deductable for income-tax purposes; and is, in fact, therefore net profit, and it was treated as net profit in the company's annual report. We cannot understand why it has now been deducted from net-profit figures for purposes of reducing the company's profit ratios for statement before the committee.

The company figure for 1949 differs only slightly from ours; its figure being 6.2 percent, and ours 6.5 percent. The difference is not significant, and may arise because the figures are not exactly comparable. Our figure was for the first 9 months of 1949. The company stated its figure simply as "for the year 1949." We cannot check this apparent discrepancy because 1949 sales figures are not yet available for periods beyond the first 9 months of the year which we used in our computations.

We regret any confusion with respect to our figures. We hope we have cleared up any such confusion by this letter. We ask that it be made a part of the record. We shall, of course, be happy to explore this matter further if it is of interest to the committee in its efforts to ascertain the facts with reference to this situation.

Sincerely yours,

OTIS BRUBAKER.

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