INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

HEARINGS

BEFORE THE

TEMPORARY NATIONAL ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES
SEVENTY-SIXTH CONGRESS
SECOND SESSION

PURSUANT TO

Public Resolution No. 113
(Seventy-fifth Congress)

AUTHORIZING AND DIRECTING A SELECT COMMITTEE TO MAKE A FULL AND COMPLETE STUDY AND INVESTIGATION WITH RESPECT TO THE CONCENTRATION OF ECONOMIC POWER IN, AND FINANCIAL CONTROL OVER, PRODUCTION AND DISTRIBUTION OF GOODS AND SERVICES

PART 19-21

IRON AND STEEL INDUSTRY
GENERAL PRICE POLICIES

NOVEMBER 6, 7, 9, AND 10, 1939

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(Created pursuant to Public Res. 113, 75th Cong.)

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INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

MONDAY, NOVEMBER 6, 1939

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:32 a. m., pursuant to adjournment on Friday, November 3, 1939, in the Caucus Room, Senate Office Building, Senator William H. King presiding.

Present: Senator King (acting chairman); Representatives Williams and Reece; Messrs. O'Connell, Henderson, Avildsen, and Brackett.

Present also: Robert McConnell and John V. W. Reynders, representing the Department of Commerce; Frank A. Fetter and Willis Ballinger, representing the Federal Trade Commission; A. H. Feller, special assistant to the Attorney General; M. G. de Chazeau, John W. Porter, Irving B. Glickfeld, Hyman B. Ritchin, Monroe Karasik, and Ward S. Bowman, Department of Justice.

Acting Chairman King. The committee will be in order. Proceed, Mr. Feller.

Mr. Feller. This morning we begin the presentation of testimony and materials having to do with the steel industry proper. For the 3 days preceding we have had testimony and materials which had to do with the iron ore industry.

At the beginning of the hearings I gave a brief outline of what the general course of the hearings comprised. I shall repeat that in just a few words.

The question of general price policy will be among the first of the topics taken up. We will then consider the behavior of prices with respect to certain specific product categories. Finally, we shall conclude with a consideration of the export situation.

Some weeks ago the Department of Justice was requested by the staff of the committee to present at the outset of these hearings on the steel industry itself some discussion of the war situation as affecting the price of steel, and in compliance with that request we present this morning a statement by Professor M. G. de Chazeau on that subject. I now call Professor de Chazeau.

Acting Chairman King. Come forward. Hold up your right hand. Do you solemnly swear the evidence you shall give in this hearing shall be the truth, the whole truth, and nothing but the truth, so help you God?

Dr. de Chazeau. I do.

TESTIMONY OF DR. M. G. DE CHAZEAU, ASSOCIATE PROFESSOR OF ECONOMICS, UNIVERSITY OF VIRGINIA, CHARLOTTESVILLE, VA.

Mr. FELLER. Will you give the reporter your full name, please?

Mr. DE CHAZEAU. Melvin de Chazeau.

Mr. FELLER. What is your present position?

Dr. DE CHAZEAU. Associate professor at the University of Virginia.

Mr. FELLER. You are also connected, are you not, with the Department of Justice in the present study of the iron and steel industry?

Dr. DE CHAZEAU. Yes, sir; as consultant.

Mr. FELLER. You are an economic consultant?

Dr. DE CHAZEAU. Yes, sir.

Mr. FELLER. You are also, are you not, coauthor of a standard treatise on the industry entitled "Economics of the Iron and Steel Industry"?

Dr. DE CHAZEAU. Yes. sir.

Mr. FELLER. In that treatise you are primarily responsible for the section dealing with the price of steel?

Dr. DE CHAZEAU. Yes, sir.

Mr. FELLER. Professor de Chazeau, will you go ahead with your statement, please?

Dr. DE CHAZEAU. I have a prepared statement and will read it to save time. The first section deals with iron and steel prices during the Great War merely as a basis for comparison with present conditions.

IRON AND STEEL PRICES DURING WORLD WAR I

Dr. DE CHAZEAU. The most authoritative study of price changes during the Great War is that made by the War Industries Board.[1] In chart I, on the easel, entitled "Prices of iron and steel products and of all commodities," the Board's index of iron and steel prices is contrasted with its All Commodity Index for the period January 1913 to December 1918.

(The chart referred to was marked "Exhibit No. 1379," and is included in the appendix on p. 10709.)

Dr. DE CHAZEAU. Attention is directed to the following points with reference to this chart.

The iron and steel industry was in a depression at the outbreak of the war. Relative to the All Commodity Index, iron and steel prices had fallen precipitously since January 1913:

A slight fillip was given to prices of iron and steel commodities as well as to commodity prices generally upon the declaration of war in

[1] Data presented herein have been derived from its *History of Prices During the War* unless otherwise indicated. The basic "All Commodity Index" was constructed from 50 classes of products containing in all 1,366 commodities. It is a weighted index of actual monthly prices in which the monthly average of the aggregates during the 12 months July 1913 through June 1914 was used as a base (that is, an index of 100).

The class "Iron and Steel and Their Products" comprised 88 series and was subdivided into two groups. The first, "Raw Materials and Slightly Manufactured Iron and Steel Products," containing 30 series, includes very roughly the raw materials and finished products of the iron and steel industry—that is, ore, coke, scrap and pig iron; billets, bars, shapes, plates, rails, skelp, wire rods, hoops, and sheets together with some further finished products like railroad spikes, structural rivets, wire, tin plate, and cast-iron pipe. The second subgroup of 58 commodities included a wide variety of steel manufactures like hardware, cutlery, etc., of no immediate concern to us. The former subgroup, however, so dominated the class index that they are practically identical. Neglecting slight month to month variations, the weighted annual index for the 30 series was identical with that for the 88 series in each of the years 1913, 1914, and 1915. In 1916 the former exceeded the latter by 2 points (170 to 168), in 1917 by 4 points (283 to 279) and in 1918 by 1 point (219 to 218). In the highest month attained throughout the period, July 1917, the former index stood at 377, the latter at 370—a maximum difference of 7 points. Throughout the remainder of this discussion, therefore, the index of the subgroup, "Raw Materials and Slightly Manufactured Iron and Steel Products" is used as the index for iron and steel commodities.

August 1914. This speculative rise was premised on expected increases in demand from foreign sources, especially neutrals. But lack of ships and derangements of world finances rendered it abortive and iron and steel prices continued to sag throughout the final quarter of 1914 and the first 2 months of 1915 to a low for the entire period.

Although iron and steel prices began to rise in March 1915 it was not until July that they exceeded the average for the depression year 1914, and only in November of 1915 was the annual average index for 1913 eclipsed.

To the demand for steel from belligerents was added a demand from the iron and steel industry itself to provide additional capacity. By 1915, many rail mills had been converted to the production of shrapnel bars. Beginning in the second half of 1915 iron and steel prices began a precipitous rise which, after temporary weakness during the summer of 1916, reached unprecedented heights in 1917.

Acting Chairman KING. Are you attempting to give the prices throughout the world or just the steel prices in the United States?

Dr. DE CHAZEAU. Just steel prices in the United States.

Acting Chairman KING. They would be affected, of course, by the world conditions.

Dr. DE CHAZEAU. That is right.

Acting Chairman KING. By the demands which were made very promptly after the war in 1914, '15, and '16, because France and Great Britain prior to that time, not anticipating war, had not utilized perhaps all of their resources for the purpose of building up a steel industry.

Dr. DE CHAZEAU. That is right.

Acting Chairman KING. Would a picture of the world condition then, the economic conditions and the condition of all prices, throw any light upon conditions now?

Dr. DE CHAZEAU. I believe so, the reason being that since the declaration of war in the present conflict, there has been, as you know, a very great demand for steel. Much of that demand, it seems to me, is promised on a speculation which in part has its roots in our experience during the World War. It is with relation to a comparison of the two situations that one can reach, I think, some judgment as to how well founded such an expectation is, and it is only from that point of view that I am discussing this at all.

Acting Chairman KING. It seems to me that is scarcely relevant. I recall that in 1914 and '15 and '16, wheat prices were down and when the demand for flour and for food supplies in Europe increased by reason of the destruction of the economies of Europe, prices went up so that the farmers got two and a half and three and a half dollars a bushel for their wheat.

Dr. DE CHAZEAU. Quite right.

Acting Chairman KING. And I know that little ponies in the West that you could hardly give away before the war, after the war was in progress and the Allies needed horse power and mule power, we sold them for two and three hundred dollars apiece. You can call it a speculative rise, but the exigencies of the situation and the prices in Europe caused a tremendous increase in the price of all commodities in the United States, not only steel but all food supplies, particularly.

DR. DE CHAZEAU. Quite; but I believe you are referring to the change in prices which took place particularly after 1916 and in 1917 when the war was on. Perhaps the most significant thing in this chart which I hope to bring out is that for over a year after the declaration of war, prices continued to fall in this country. That is of some significance, it seems to me, with relation to the present situation.

Now I should admit, of course, that in any situation in which you have an absolute scarcity, prices will rise at a precipitous rate and you have that situation in the latter years of the war.

For our purposes, the most significant thing in this discussion is what happened to prices during the first year or year and a half following the declaration of war.

Acting Chairman KING. Keep in mind the fact that war has been in progress in China for several years, that the Spanish war was in progress for some time, the Ethiopian war, the war preparations in Europe have been going on for several years, so it would be very difficult, it seems to me, to deduce from conditions in 1914, '15, '16, and '17, and '18, any conclusions that would be entirely warranted by reason of conditions now.

Dr. DE CHAZEAU. If you mean that one can't, by analyzing that situation, reach an authoritative judgment as to what should be the trend of prices in the next few months, I should be in complete agreement with you. But in view of the speculative trend of demand, it would seem of some value to have before us a picture of what did happen in the first war.

Acting Chairman KING. Obviously, the Department of Justice believes this testimony is relevant, so proceed, although some of us may doubt its materiality.

Dr. DE CHAZEAU. All right, sir.

The flotation of allied loans in this country together with uncertainty on the part of producers as to the duration of the war and the period within which they could recoup the cost of expanded facilities contributed to the rise. During 1917 the United States Government was buying steel below the published price but the prospect that Government purchases would create a shortage of steel in turn skyrocketed the published price.

The combined effect of inelastic foreign demands and speculative buying is graphically shown in Chart II, the second chart you have before you.

Acting Chairman KING. Do you want those charts placed in the record?

Dr. DE CHAZEAU. Yes, Senator. The chart is entitled "Iron and Steel Prices and Steel Ingot Production."

Acting Chairman KING. No objection.

(The chart referred to was marked "Exhibit No. 1380," and is included in the appendix on p. 10709.)

Dr. DE CHAZEAU. This chart compares ingot production with the prices for iron and steel, the price index of iron and steel.

Acting Chairman KING. The index of ingot production?

Dr. DE CHAZEAU. Of ingot production.

Acting Chairman KING. That is the one you are referring to now?

Dr. DE CHAZEAU. That is right.

Acting Chairman KING. Proceed.

Dr. DE CHAZEAU. Steel ingot production, a rough indication of steel output, is expressed as an index with the same base period and contrasted with the Iron and Steel Price Index. Through the third quarter of 1916, the movement of the two curves is roughly comparable but after September of that year they diverge at a cumulative rate. Steel output reached its maximum in May 1917, an increase of 84 percent over the monthly average during the base year but prices climbed to their maximum 2 months later, when the index stood at 377—over 3¾ times the average in the base period.

The break in iron and steel prices after July 1917 is attributable to Government pressure and price control. In September 1917 the first of many schedules of maximum prices was released and iron and steel prices were stablized at a level substantially lower than that attained when the United States entered the war. This control was not released until after the armistice in November 1918.

The dramatic rise in iron and steel prices was exceeded by only 2 of the 50 classes of commodities analyzed by the War Industries Board—coal tar crudes, intermediates and dyes which soared to an index of 758, and heavy chemicals which reached 414. Only 3 other classes attained or bettered 3 times their average base prices—natural dyestuffs and tanning chemicals, 346; drugs and pharmaceuticals, 319; and vegetables and truck, a seasonal industry, 314.

As would be expected, some steel products attained much dizzier heights than others during this period. Among the more important tonnage steel products, for example, black steel sheets—No. 28 gage—climbed from a low index of 88 in July 1915 to a high of 404 during each of the 3 months of the third quarter of 1917, that is from an average pre-war value of $44.35 a ton sheets rose to $179.17. Structural steel shapes reached its low—an index of 82—at an earlier date—December 1914—but rose to a maximum of 424 during July and August of 1917, $138.66 per ton as contrasted with an average value of $32.70 per ton during the base period. Steel plates, during the same period, soared from an index of 83 to one of 714. With an average pre-war base value lower than either sheets or shapes—$28.22—it exceeded both of them in July 1917 at $201.49 per ton.

In considering these prices of iron and steel products during the war and especially the level at which they were stabilized by price control, it is well to bear in mind that they probably understate the relative increase that actually took place. The actual prices employed in the construction of the class index as well as the relatives for individual commodities, were published base prices, and the cost of steel to consumers was further enhanced by higher freight rates during the period and by higher extras. Extras were not controlled by the War Industries Board.

Representative WILLIAMS. What do you mean by extras? What does that expression mean?

Dr. DE CHAZEAU. The extras are special charges which are made for specifications of steel other than those specifications for which the base price is quoted. Those specifications have to do with chemical content, with gage, with size, with length, and so forth.

Representative WILLIAMS. There is an increased price on account of those extras that is not reflected in the charge?

Dr. DE CHAZEAU. That is right. During the period there was no control of extras. It is well known, for example, that many companies charged premium prices. It is also well known that some of the larger companies refused to take premium prices, and as a matter of fact sold below the price level as indicated by the index. You have a premium price illustrated in the present situation where some small companies have, without making an official publication, raised the price of plate, for example, $5 a ton and the price of certain other products $3 a ton.

Especially among the smaller producers, premium prices for reasonable delivery dates were known to be common practice, although some of the larger companies are reputed to have resisted the temptation.

It is probably beside our present purpose to attempt any analysis of cost factors in the price rise during the World War. In any case, the data available are inadequate for reliab e conclusions. It will hardly be denied, however, that the impact of intense and inelastic demand on lim ted production facilities caused scarcity prices which bore no relation to costs. Thus p g-iron production attained its annual peak in 1916—output in 1917 was restricted by transportation tie-ups rather than furnace capacity—a net increase of over 8,000,000 gross tons or less than 27 percent of pre-war 1913 output. Indeed, the highest monthly output during the period—October 1916—exceeded the average in the base period by only 57 percent. Pig-iron prices, however, continued to soar in 1917 to a maximum in July of 394 percent above the average in the base period. Steel ingot production was at a peak in 1917—an increase of almost 14,000,000 gross tons or almost 44 percent above output in the calendar year 1913—although 1917 production exceeded that in 1916 by only 5 percent; that is, the increase in 1917 over 1916 was very small. At the same time the total output of finished hot-rolled products reached an aggregate greater than 1913 by over 8,000,000 gross tons, or 33 percent, although only 2 percent above the 1916 levels. Prices, however, reached levels in 1917 almost four times those in the base year and almost twice those in the preceding year; that is, 1916. Capacity was increased rapidly—for example, during the year 1915 alone ingot capacity was raised almost 4½ million tons, and hot-rolled finished capacity 3.8 millions, while in 1916 further additions of 3.8 and 2 millions respectively were installed. Because of increasing capacity the highest annual operating ratios in blast furnaces, steel furnaces, and in rolling mills were reached in 1916 rather than 1917—86.7 percent for pig iron, 93.4 percent for ingots, and 94.8 percent for finished hot-rolled products. Maximum monthly rates of operation, however, were probably attained in 1917. For example, the peak for ingots, 98.2 percent, was achieved in May of that year.

Raw material costs did rise, some conservatively like iron ore which rose 53 percent above its average base value, while others skyrocketed. For example, coke reached an index value of 594 in July 1917 or $12.25 per ton while heavy melting scrap reached 341 or $40.75 in the preceding month. Wages also rose. By 1917 average hourly earnings in selected departments, according to the Bureau of Labor Statistics, had increased from 33 percent over the calendar year 1913 in blooming mills to 78 percent in sheet mills. However, with probable further increases in wages in 1918—the Bureau of Labor Statistics had no figures for 1918 but did show in 1919 a considerable rise—the Federal Trade Commission found that the ratio of direct labor costs to total mill costs was lower in that year than it had been during the period 1902–06. In only 1 out of the 9 departments analyzed was this not true and in that department—large billets—the ratios in the 2 periods were about the same, about 2.9 percent of mill cost in the late period, and 2.8 percent in the early one.

That those increases in expense were more than compensated by economies of fuller utilization of capacity and by price increases, is demonstrated by the net income record of the industry during the war years. The Federal Trade Commission, in its study of War-Time Profits and Costs of the Steel Industry found that net income after depreciation but before interest and dividends and Federal income and excess-profits taxes rose from 7.5 percent of capital investment—that is, stocks, bonds, and surplus—in 1915 to 21.7 percent in 1916, 28.9 percent in 1917 and, under Government price control, fell to 20.1 percent in 1918.

The outstanding feature of the war experience was the failure of foreign demand to materialize for more than a year following the declaration of war. Exports of iron and steel products actually declined in 1914 both in absolute tonnage and relative to decreased American production. Beginning in 1915, however, they rose rapidly until in 1917 they amounted to 19 percent of our total production of finished hot-rolled iron and steel products.

This percentage is an overstatement, because the figures are not strictly comparable, since the exports include iron products as well as steel products.

Net exports—that is, total exports of iron and steel products less imports, all scrap excluded—between 1913 and 1917 increased by 3,776,000 gross tons or almost 46 percent of the net increase in production of finished hot-rolled products during the same period. Although the foreign demand for iron and steel was thus the primary stimulus to increased output, the largest proportion of the increase was produced for domestic consumption although of course the latter may have been dependent directly or indirectly on the war.

Mr. Feller. The statement to this point has shown the experience of the last war. Dr. de Chazeau will now go on to discuss the present situation. If any members of the committee have any questions on the last war, I suggest that this might be a good time to ask them.

Acting Chairman King. Have you any figures there showing the exports in iron in various forms, and steel in its various forms, from 1913 to 1918?

Dr. de Chazeau. You mean the detail of the various types of steel products exported?

Acting Chairman King. Yes.

Dr. de Chazeau. Those were not readily available without a considerable bit of research with original documents, so I do not have them at hand.

Acting Chairman King. Generally speaking, what was the increase in the exports of steel in its various forms, and iron in its various forms—I see you have differentiated between steel and iron—in 1917 and '18 and '16, if you have those available?

Dr. de Chazeau. I do not have those. That is, I could not give you a figure which would completely answer your question. The exports, of course, were for war materials primarily, and therefore one would expect, during the period a great deal of increase in the particular war materials, which would be steel.

Acting Chairman King. There was a great increase in the exportation of iron and steel in their various forms?

Dr. DE CHAZEAU. Yes.

Acting Chairman KING. The freight rates were increased materially, were they not?

Dr. DE CHAZEAU. Yes; that is my understanding.

Acting Chairman KING. And ocean rates, owing to submarines and various other causes?

Dr. DE CHAZEAU. That is right.

Acting Chairman KING. The rates for ocean commerce were quadrupled, and more than that, were they not—went up several hundred percent?

Dr. DE CHAZEAU. Yes; the exact figure I wouldn't be able to give you at this moment, but they certainly went up. It was a situation in which an almost absolutely inelastic demand operated against a limited capacity, and at the same time the flotation of loans within this country attained inflationary proportions. Under such conditions you would expect prices to rise very, very rapidly. That is, the situation as it existed after 1916, for example, is merely what you would expect under those conditions, and has no immediate relevance to the present situation, since that is something which we may or may not experience in the future.

Acting Chairman KING. There was a very great increase in prices of all commodities, was there not?

Dr. DE CHAZEAU. That's right. The all-commodity index, as you will note, rose at a fairly rapid rate, much less so than the rise in the iron and steel prices.

Acting Chairman KING. There was an acute demand for iron and steel, was there not, during the period of the war, in Europe as well as in the United States?

Dr. DE CHAZEAU. As well as in this country? Quite right.

Acting Chairman KING. There was a very large increase in shipbuilding, was there not, in the United States?

Dr. DE CHAZEAU. That is one of the reasons for the rise in prices of plates for example.

Acting Chairman KING. Have you any figures showing the increase in the amount of steel and iron consumed in the United States during those few years?

Dr. DE CHAZEAU. The only figures that it would be possible to give you would be total output less exports, plus imports, and I indicated what that amounted to in terms of a percentage. I don't believe——

Acting Chairman KING (interposing). What was the increase in percentage of domestic consumption of iron and steel during, or from '13 to '18?

Dr. DE CHAZEAU. Well, let's see if I have that here. I am afraid I couldn't give you that figure. It could be calculated from the figures that we do have. We have the increase in output of finished steel and the increased output of pig iron and ingots. We have the exports, and we have the imports. We could compute such a figure for you, but I do not have a figure here which I could read off to you.

Acting Chairman KING. If you will just prepare the figures and give them to Mr. Feller, we will have them in the record, showing the consumption of steel and iron in the United States in '13, '14, '15, '16, '17, and '18, and also the exports during that period.

Dr. DE CHAZEAU. Quite. We have figures, of course, of the actual exports, but we haven't computed the figure in that way.

Representative WILLIAMS. As I understand you, the primary cause of that rapid rise in prices was due to the fact of a rather limited capacity in the face of a very, very strong demand.

Dr. DE CHAZEAU. That is right.

Representative WILLIAMS. During that period, however, there was considerable expansion in the steel industry.

Dr. DE CHAZEAU. Very considerable.

Representative WILLIAMS. At the end of the period which you have just discussed, in 1918, what was the capacity compared with what it is now—the capacity to produce?

Dr. DE CHAZEAU. In 1918?

Representative WILLIAMS. Yes.

Dr. DE CHAZEAU. The capacity figures for pig iron in 1918, this is an estimated figure on pig iron, but I can give you 1921. I have an actual figure there. We had to interpolate within the period from 1913 to 1921, since the figure was not reported by the American Iron and Steel Institute. The figure in 1921 was 51,741,000 gross tons of pig iron. The capacity reported in 1938 was 50,698,000 tons. It is slightly less than that reported in 1921. That is pig iron.

Mr. O'CONNELL. Have you a figure for before the war, 1913 or '14?

Dr. DE CHAZEAU. Yes; the figure in 1913 was 43,257,000. There was an increase from 1913 to 1920 of the order of about 7,000,000 tons.

Acting Chairman KING. That is pig iron?

Dr. DE CHAZEAU. That is pig iron; yes, sir.

Now, for ingots the figure for 1913 was 39,000,000 tons. In 1918 it had increased to 52,541,000 gross tons. Today it stands—that is, in 1938—at 71,594,000 gross tons.

For finished hot-rolled—figures of capacity for finished hot-rolled are not quite as accurate as those for ingots and for pig iron, but in 1913 reported capacity was 29,000,000 gross tons, by 1918 it had increased to 38,129,000, and in 1938 it was 49,100,000 gross tons.

There was, therefore, during the war period, a considerable rise in capacity. As a matter of fact, one of the sources of the increased demand for steel during the early years of the war was from the steel industry itself, in expanding its facilities to take care of the demand.

Representative WILLIAMS. Well, would you say that the capacity, then, on the whole, is greater now than it was at the close of the war?

Dr. DE CHAZEAU. That it is greater today than it was at the close of the war? Yes. That isn't true, of course, of pig iron, but there has been a growing use of scrap, so that it is——

Representative WILLIAMS (interposing). To meet the demand it may be called upon to meet, it would be in a position now to produce more than it was at the close of the war in 1918?

Dr. DE CHAZEAU. You mean relative to the demand that might be made on it?

Representative WILLIAMS. Yes.

Dr. DE CHAZEAU. That, of course, gets us into——

Representative WILLIAMS (interposing). No; I mean the same demand that was made then—it would be in a position to meet that demand now, and more than it was in 1918?

Dr. DE CHAZEAU. I should say so; that is, in terms of the capacity, it is greater.

Representative WILLIAMS. That is what I mean; the capacity, the output, the capacity for production, is greater now than it was then in the steel industry.

Dr. DE CHAZEAU. Yes; but you see, whenever one talks about the industry's ability to meet the demand, the demand may be for special products, while these capacity figures are general capacity figures. There may be bottle necks in the ability to meet an increased demand for a special product.

Representative WILLIAMS. I am talking about the industry as a whole, the general view of it.

Dr. DE CHAZEAU. Generally speaking, I should say that would be true. There are many steel men here who can either correct or add to it. But it would appear from these figures that the steel industry, as a whole, is in a better position to meet foreign demand than it was at the opening of the World War.

Acting Chairman KING. Aside from specialties—and I use that in probably a limited sense—the steel industry could produce today as much pig iron as it did in 1918, and as much ingots?

Dr. DE CHAZEAU. That is certainly true of ingots and of finished hot-rolled. With relation to pig iron it is—yes; it is also true of pig iron. You are quite right.

Acting Chairman KING. Then the steel industry—its capacity for producing the ordinary demands which are made upon steel and its products—is as great now as it was in 1918, or perhaps greater in some respects?

Dr. DE CHAZEAU. That would be correct; yes.

Acting Chairman KING. That is all I have.

Mr. O'CONNELL. May I ask a question?

Dr. DE CHAZEAU. Yes.

Mr. O'CONNELL. Do you intend to refer to the possible connection between the rapid price rise in 1917 and the rapid increase in capacity? In other words, as I take it, the capacity to produce was expanded rapidly, but it was expanded to meet a speculative type of demand. In other words, it was to meet a war situation. Do you intend to refer to that factor as having its influence on price?

Dr. DE CHAZEAU. I have referred to it. The point I made was that during the period of the early part of the war, when foreign demands began to be realized, the expansion of capacity involved considerable investment, and the steel industry was not certain as to the duration of the war. Therefore, there was a natural tendency to raise the price in order to recoup that investment over the shortest possible period. I have no doubt but that that was a factor in the rise of price. It was made possible, of course, by the inelasticity in the demand and the intensity of that demand.

Acting Chairman KING. Generally speaking, there was a very precipitous rise from 1914, during '15, '16, '17, and '18, in nearly all of the output of field and farm and factory and mill in the United States?

Dr. DE CHAZEAU. When you speak of all commodities, Senator, the rise in the index for all commodities did not really begin until about the middle of 1915, and then very slowly until 1916. When you speak of iron and steel, the index did not begin to rise until the middle of 1915, and it became precipitous in 1916 and 1917.

Acting Chairman KING. Was that by reason of domestic demands or foreign demands or both?

Dr. DE CHAZEAU. When the increased demand actually came, according to the study of the War Industries Board, it came from the belligerent powers rather than from the neutrals. It was expected at that time that we would get an immediate increase in demand from neutrals, because neutrals were cut off from their former sources of supply. When it actually came it came from belligerents, and it, of course, became very intense with the floating of loans in this country.

Acting Chairman KING. That is all.

THE PRESENT SITUATION

Dr. DE CHAZEAU. During the first 7 months of 1939, steel production, measured by the ratio of ingot production to capacity, was reasonably stable at slightly more than 50 percent. Actual fluctuations in the monthly operating rate varied from 47 percent in May to 55 percent in March. Beginning in August there was a marked improvement, the weekly rate rising to 63.5 percent by the end of that month to make an average for the month of 62 percent. With the declaration of war, the mills were deluged with orders and with specifications on existing contract business. Almost every consuming industry increased its demand. The principal exception was fabricated steel-construction. The weekly operating rate rose rapidly to 84 percent at the end of September, 91 percent during the final week in October.

Mr. FELLER. Just for the information of the committee, do you happen to know what the estimated operating rate is this week?

Dr. DE CHAZEAU. As I recall, it was estimated at 91.3. Have you checked that?

Mr. FELLER. I believe it is 93 percent this week.

Acting Chairman KING. That is the output.

Dr. DE CHAZEAU. That is the operating rate on ingot capacity.

Prices of steel scrap, coke, and other materials have risen as well as the price of pig iron, but thus far, with the exception of reenforcing bars, published steel prices have not been advanced above the low levels reached last May. In some products, especially cold-finished alloy steel bars, there have been upward revisions in extras, while some of the semi- and non-integrated producers have advanced prices on certain products; that is, plates, nails, reenforcing bars. Apparently the trade expects some increases in the published prices of iron and steel for the first quarter of 1940.

The character of existing demand for steel products cannot be properly evaluated in the absence of a thorough-going analysis of the extent of deferred maintenance, deferred replacements and postponed extensions of equipment and an analysis of inventories in consuming industries. That modernization and replacement of equipment have been long in arrears in certain major fields such as railroads and housing has been widely publicized in recent years. That many industries have been operating on depleted inventories of steel since the 1937 collapse is the common report in the trade journals. For example, the canning industry is said to have allowed its inventories to reach dangerously low levels. In Dun's Review for September 1939, a study is made of the trend of inventories since January 1, 1936, on an annual basis, with semiannual figures added in 1938 and 1939, giving the index for retail and wholesale establishments and manufacturing industries.

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Of outstanding importance for our present purpose are the data presented for the seven industries manufacturing durable and capital goods; that is, agricultural machinery, iron and steel products, electrical apparatus, heavy machinery, automobile accessories, automobiles and hardware. These industries are among the most important consumers of iron and steel products. In the case of every one of these industries, inventories on January 1, 1937, exceeded those on January 1, 1936, and continued to rise precipitously to January 1, 1938.

Acting Chairman KING. You mean inventories.

Dr. DE CHAZEAU. Inventories, yes. At a peak, they exceeded 1936 figures by amounts varying from 40 percent for hardware to 67 percent for iron and steel products, or 60 percent for electrical apparatus.

Acting Chairman KING. Have you any figures to indicate the normal percentage of inventory in the various industries of the United States?

Dr. DE CHAZEAU. No. That was one of the points which was made in this article. By taking January 1, 1936, as a basis of 100, it was not assumed that inventories in 1936 were normal. It would be necessary to make an extended study of inventories over good and bad years in order to establish anything like a norm.

Acting Chairman KING. In normal times, though, there is a rather large inventory maintained, is there not?

Dr. DE CHAZEAU. That is my understanding. But I have no figures on it.

Acting Chairman KING. Of course, in anticipation of material changes in business activities there would be a larger inventory, perhaps.

Dr. DE CHAZEAU. Inventory changes are usually associated with expected price changes.

Acting Chairman KING. Proceed.

Dr. DE CHAZEAU. Since the 1st of January 1938, inventories in each of these industries have fallen both as of January 1, 1939, and as of July 1, 1939, compared either with the previous January or the previous July. The trend has been downward at a rather rapid rate. The range in index numbers—taking January 1, 1936, as 100—on July 1, 1939, was from 80 for automobiles to 147 for iron and steel products—or 128 for hardware.

To the extent that these factors depleted inventories or deferred replacements, are effective, anticipation of marked improvement in business conditions would result in an intense and temporarily exaggerated demand for steel. Expected war prosperity would stimulate but not govern an increase in such demands. Coincident with these expectations of foreign demand for American goods (both steel and other manufactures and staples) there is of course currently an actual increase in demand in conformity with this country's program for rearmaments and for a merchant marine. These conditions would probably have brought an increase in the demand for steel at the present time even though the European conflict had not begun.

But this natural increase in requirements of iron and steel has been exaggerated by speculation, the origin of which is anticipation of war purchases and the permanence of which is determined by the course of the war. Unfortunately, there are no statistical data available which would indicate the present status of inventories in the industry. But investigations by the Department of Commerce indicate that much of present deliveries is going into inventories. That information was derived orally from discussion with the men who have been making the investigation.

Acting Chairman KING. Would those inventories be maintained for the purposes of meeting contracts which have not matured, or just in anticipation of making contracts for future sales?

Dr. DE CHAZEAU. It might be both. Adequatley to analyze this situation, it would be necessary to study inventories with relation to orders now on the books. Such a study as far as I know has not been made.

A possible exception is the automobile industry for which seasonal demand for steel happened to coincide with the speculative war purchases of steel.

Acting Chairman KING. How do you account for the fact, if it is a speculative price or there is speculation, that the automobiles which are offered for sale for the coming year are much less in price? That is my information.

Dr. DE CHAZEAU. That would be a matter of the price policy of the automobile industry. The increased sales possibilities of automobiles are, themselves, associated with returning prosperity engendered by an increased industrial activity associated with both domestic and expected foreign demands.

Acting Chairman KING. You haven't any figures showing the change in the price level of sales of steel to the automobile manufacturers?

Dr. DE CHAZEAU. You mean in the published price? There has been no change in the published price since May, last May.

Mr. FELLER. Senator, I should like to clear this up. As I understand it, the statement with respect to speculative factors deals with the volume of purchases; that is to say, there is speculative purchasing, but there has been no increase in price due to speculation, that is no increase in published price. That is correct, is it not?

Dr. DE CHAZEAU. That is right.

Acting Chairman KING. Have you discovered whether some of the speculators have had their hands burned yet?

Dr. DE CHAZEAU. Not as yet.

In part, the existing sellers market is created by the expectation that iron and steel prices will rise and that actual shortages will develop. To disassociate these two aspects of demand would entail an analysis of inventories with respect to the actual operating rate and the orders booked by each important consuming industry. The scope of such an investigation is clearly beyond the facilities available to the Department of Justice.

That speculation based on expected war business is likely to be disappointed in the near future seems to be indicated by the following considerations.

First, the United States today is relatively less important in world production of iron and steel than it was prior to the World War.

During the 4 years immediately preceding that conflict—1910–13—this country's output of pig iron averaged 39.7 percent of world output and ranged from 37.1 percent to 41.5 percent in individual years. In steel ingots and steel for castings, the United States averaged 42.3 percent of world output—from 39.8 percent to 44 percent. During the last 4 years—1935–38—on the other hand, our proportion of pig iron production has been only 31.1 percent—ranging from 23.7 percent to 36.2 percent—and that for steel ingots 35.1 percent, the range being from 26.8 percent to 39.2 percent. In neither product has the highest ratio attained in recent years been as high as the lowest recorded in the earlier period.

Second, among "neutral" nations today as contrasted with neutrals during the first years of the Great War, the relative importance of the United States in the production of iron and steel has declined substantially.

This result follows in part from the larger number of countries embroiled in the last war from its very beginning; but it is also due to the rapid advance of the industry throughout the world. For example, in 1913, countries not separately classified in Tariff Commission figures produced only 840,000 tons of pig iron and 410,000 tons of steel ingots while in 1938 these figures were 3,370,000 and 3,430,000 tons respectively. Japan produced only 240,000 tons of iron and the same amount of ingots in the earlier year but 3,100,000 tons of pig and 5,860,000 tons of steel ingots in 1938. Russia, a belligerent in the first war but as yet a technical neutral, increased its output of pig iron from 4,550,000 to 14,850,000 long tons, and of steel from 4,750,000 to 18,410,000 of tons during the same period. Of the aggregate output of those countries which were neutral during the first year of the World War, the United States produced roughly 92 to 94 percent of both pig iron and steel ingots during each of the 3 years 1912–14.

Acting Chairman KING. May I retrace for a moment for my own information? I am not clear as to the figures which would reveal the production of steel or pig iron, or any form of steel, in Russia during the past 3 or 4 years.

Dr. DE CHAZEAU. These figures were taken from Tariff Commission reports and they give the production, both world production and by important countries during that period. I have not checked their source further than that, but they give the production of the Soviet Union. We have figures for 1912, '13, and '14, 1937, and 1938.

Acting Chairman KING. And what was the last, the figures for 1938, of the Soviet Union?

Dr. DE CHAZEAU. The production in 1938 of ingots and steel for castings was 18,400,000 for the Soviet Union.

Acting Chairman KING. You have nothing to indicate what part of that production was east of the Ural Mountains in their so-called new steel and iron mills?

Dr. DE CHAZEAU. No; I have no figures other than that total.

In 1937 and 1938, however, our proportion of the aggregate output of countries now neutral had fallen to 56.7 and 42.1 percent in those years for pig iron, 57.9 and 44.8 percent for steel. Thus neutral countries which during the World War were almost forced to seek their requirements from the United States now have other alternatives. Similarly, belligerent purchases may be allocated over a greater number of sources.

Third, as measured by output of steel, the major belligerents are better prepared for the present struggle than they were in 1914. During the last 2 calendar years, aggregate production of steel ingots exceeded that during the 2 calendar years preceding 1914 by 9,350,000 tons or over 28 percent in the case of Germany, 8,920,000 tons or over

61 percent for the United Kingdom and 4,590,000 tons or about 51 percent for France while the excess of output in the United States, absolutely much greater, 16,020,000 tons, was relatively less, about 25½ percent.

During the last 2 years almost 96 percent of all of our exports of iron and steel products to Germany have been pig iron, as have 53 percent and 55 percent respectively of those to the United Kingdom and France. During the same period our exports of scrap to Germany have been almost 10 times the total of iron and steel products shipped to that country while the United Kingdom purchased 1,232,563 tons of scrap, almost 2½ times the tonnage of iron and steel products imported from this country.

Acting Chairman KING. These figures would indicate, if I interpret them correctly, we have been furnishing Germany a large amount of steel and scrap iron.

Dr. DE CHAZEAU. No; the absolute amount is relatively small compared with shipments to the United Kingdom. The exports of scrap to Germany total 319,000 tons. Since that was 10 times the total of iron and steel products shipped to that country, it gives you an idea of the relatively small tonnage of steel products which we exported to Germany.

The important thing, the point which I am calling to your attention, is that these figures suggest that the belligerents were directing their efforts toward the manufacture of steel for war purposes by taking the raw materials rather than taking finished steel products.

Fourth, in addition to a greater amount of preparation for the present conflict, the general conviction on the part of belligerents that the war will last for many years, the strategy which has thus far been employed, the limitations already imposed on credit, and those which are likely to be imposed on shipping facilities all indicate that belligerent purchases in this country, both of steel and of other commodities, are likely to increase but slowly.

Fifth, there is no reason to believe that recent heavy steel imports by neutrals from countries now at war will be shifted en masse to the United States.

The American Iron and Steel Institute recently published in Steel Facts a study of iron and steel trade data released by the British Iron & Steel Federation. This analysis showed that over the period January 1936 through June 1939 annual world iron and steel exports averaged 13,800,000 tons, of which the four belligerents—England, France, Germany, and Poland—accounted for half, or about 7,000,000 tons; the United States 1,900,000; and other neutrals about 5,000,000 tons. The four belligerents are said to have exported about 5 percent of their total to each other; 12 percent to important steel-producing countries; and 83 percent or about 5,800,000 tons, to countries with inadequate producing facilities. Since the belligerent countries exported little pig iron—the primary export of countries like Russia, India, and the Netherlands—the burden of supplying these needs of neutrals with inadequate facilities is expected to fall on the United States, the only other important neutral exporters being Belgium, Luxemburg, Sweden, Hungary, and Canada.

Mr. FELLER. Just a correction; Canada is not a neutral.

Dr. de Chazeau. I know, but Canada for this purpose was included as a neutral since its position was not within the war zone.

Acting Chairman King. Do you believe from your investigations that Belgium, now that one of the belligerents has its troops massed along the Belgian frontier, would be able to, or will, export any considerable amount of iron or steel?

Dr. de Chazeau. I should be surprised if they did.

The implication that our exports to neutrals may be expected to increase by anything like this 5,800,000 tons, which was the amount exported by the belligerents to countries with inadequate facilities, seems to me to be little more than wishful thinking. Forty-five percent of the combined exports of belligerents—or over 3,000,000 tons—was made by Germany. German export policy in recent years has been dominated by the necessity to create foreign exchange. To this end, exports have been subsidized and barter agreements and other exchange control methods employed to create a market for her goods. The United States has shared in world exports in much smaller proportion than her share of world production and capacity would justify primarily because of price considerations. To assume that, at a time when American prices are more likely to rise than to fall, neutrals will shift their sources of supply to this country irrespective of price and despite potential exchange difficulties in making payment, is to assume an inelasticity of demand which is belied by experience and, I think, common sense.

Acting Chairman King. I suppose you have taken into account, have you not, in your conclusions or speculations as to the exports and imports, the fact that Germany is intensifying her assaults upon commerce by neutrals or by belligerents upon the seas.

Dr. de Chazeau. That is right.

Acting Chairman King. Which will, of course, reduce materially exports and imports by and to belligerent countries and neutrals.

Dr. de Chazeau. That is right.

Although an eventual increase in demand may be expected, this country's share in the prior exports of the belligerents to neutrals is likely to be more or less limited.

With none of the foregoing limitations on demand during the World War, it was almost a year after the outbreak of fighting before any substantial foreign demand developed in this country and when it did come it came from belligerents, not from neutrals. In the light of that experience and of present conditions, it does not appear likely that any substantial increase in foreign demand will be forthcoming in the immediate future.

To the extent that present demand is going into speculative inventories against a probable rise in prices or even a shortage of steel occasioned by war business, there is reason to believe that it will prove short-lived and that existing pressure on mill capacity will be relieved. A stable backlog of business from the railroads, the Government defense and merchant shipbuilding program, the automobile industry and possibly the farm implement and canning industries suggests, however, that a major set-back is not necessarily imminent.

Some of the major variables affecting the trend of steel prices in the future may be analyzed under three broad headings: Demand conditions, supply conditions, and expectations of buyers and sellers.

The probable trend in demand for American steel may be considered in two categories: Foreign demand and domestic demand. We have already considered the foreign demand.

FOREIGN AND DOMESTIC DEMANDS

Dr. de Chazeau. Four factors are of immediate concern in gaging expected increases in volume of demand for steel from belligerent countries: (1) The amount of reserves of equipment and ammunition which has been built up in preparation for the conflict; (2) the adequacy of their own and alternative iron and steel capacity to supply war needs; (3) uncertainty as to the length of the war which, in view of limited cash purchasing power, may dictate a more cautious expenditure allocated more carefully among potential sources of supply; (4) the strategy followed in the conflict. A frontal assault on the western front would require enormous amounts of steel for replacement of ammunition and equipment. But thus far, the allied strategy has been to husband both lives and materials. Neutrality legislation on the part of this country, insofar as it curtails the amount of shipping available and blocks any extension of credit, may further limit increases in belligerent demands. The arms embargo, on the other hand, would appear significant mainly for the direction which is given to demand rather than for its total volume. Except in case of extreme emergency, it is probably true that an arms embargo would curtail the total expenditures of belligerent countries in the United States and, therefore, indirectly the demand for steel that might otherwise have gone into capital equipment. Since it has now been repealed, we may expect some increase from that point of view. The airplane industry probably provides a case in point of an industry which may be directly affected.

Increased foreign demand from neutrals formerly supplied by the belligerent nations is conditioned upon the extent to which such neutrals may be supplied from other neutral producers and the elasticity of their demand for steel in the face of an increase in its price and potential difficulties in providing foreign exchange.

In the expectation of increased demand for their products, either directly from foreigners or indirectly from the greater buying power released in the domestic market through greater investment and employment, consuming industries may expend their requirements for steel by increasing output of products for which steel is a raw material and by modernizing or expanding capital equipment. To this demand, the steel companies themselves contribute through the installation of equipment required to take care of specialized products. Acceleration of the Government's shipbuilding or preparedness program likewise contributes to the greater volume expected.

The very expectation of rising prices in steel is calculated to result in a sellers' market as speculative purchases for future use clog the rolling schedules of the steel mills. Its duration, however, is conditioned on the extent to which war demands for materials are realized, especially relative to existing stocks and existing capacities.

SUPPLY CONDITIONS

Dr. de Chazeau. To the extent that price changes reflect variations in cost or, in the short run, inelasticities in output relative to demand, the impact of an increase in the volume of steel required upon its price varies with the particular commodity or group of commodities desired. True, a general increase in demand for iron and steel products of proper magnitude may create bottle necks in the supply of pig iron or of steel ingots although flexibility in the use of scrap renders the former possibility more remote. But an increase in demand for particular kinds of steel products, involving largely a shift in demand, might be taken care of beyond the limits of reported rolling capacities without serious pressure on the ability to produce. This seeming paradox results from the method of computing and reporting rolling capacities. That is, the capacity actually reported for a given product is first estimated in terms of the normal combination of specifications which the mill may be called upon to roll. Then, these capacities are corrected downward to conform to the practicable integrated capacity—the amount of ingot capacity which the company has available to supply raw materials for its rolling facilities as a whole. Thus, actual capacity for any given product or combination of products may exceed published capacity insofar as (*a*) the specifications required are more amenable to mass production than the "normal" assumed, and (*b*), reported capacity for such products has been reduced to allow for the simultaneous production of other products which in fact are not required over the pertinent time period. With these qualifications, demand increases might bring price increases by creating bottle necks of limited capacity at some stage in the productive process, the probabilities varying with the direction of demand.

Increased costs because of rising raw-material prices are also possible causes of higher prices although market prices, for such materials, must be interpreted in the light of the restricted market within which those prices are determined. For example, during the last 3 years from 56 percent to about 60 percent of all iron and steel scrap used by the industry was produced in the companies' own works. Ownership or control of ore mines, coal mines, and limestone quarries, as well as transportation facilities, means that for the largest integrated companies most if not all raw-material costs tend to be internal, in the sense that they are not measured by the established "market" prices for such materials. In interdepartment or intercompany accounts, materials may be charged at such "market" prices merely as an accounting device but such prices are not the true measure of the cost of supplies nor of the expansibility of supplies. Since few, if any, integrated companies are dependent on the market for their raw materials—that is, for these basic materials—changes in published prices for such products tend to overstate the cost of raw materials for the industry as a whole.

Mr. Feller. May I remind the committee at this point in connection with Dr. de Chazeau's statement with respect to the utilization by integrated companies of their own raw material——

Acting Chairman King (interposing). The integrated companies?

Mr. Feller. Yes; the integrated companies—to a portion of the record on the iron-ore industry. I refer in particular to the letter from Mr. Olds, of counsel of the United States Steel Corporation, which pointed out the method by which the Oliver Iron Mining Co., subsidiary of the United States Steel Corporation, billed the operating subsidiaries of United States Steel for the iron ore. As you recall, it billed its subsidiaries on the basis of the market price.[1]

Dr. DE CHAZEAU. As the rate of utilization of capacity increases and the need for increased production persists, less efficient equipment must be brought into operation, with an indeterminate effect on costs, and a tendency for the cost to rise slightly.

EXPECTATIONS OF BUYERS AND SELLERS

Dr. DE CHAZEAU. The price of steel is an administered price.

Representative REECE. What do you mean by that?

Dr. DE CHAZEAU. What I mean by that is something quite innocuous, namely, that the price is fixed by the management and that it reflects a price policy of management rather than being determined in exchange, determined by the competition of supplies in the market at any given time. An administered price may, in fact, be flexible; it may be inflexible.

Representative REECE. But that would certainly indicate that it was not a competitive price.

Dr. DE CHAZEAU. The term "competition" is perhaps the most ambiguous term that is used in economic literature. You can compete under all sorts of conditions. Competition may take the form of price reduction; it may be on a concession-price base; it may be on a published-price base; it may, in steel, take the form of concessions in extras or special freight or credit allowances; it may take the form of quality changes, you may have it expressed in terms of investment—it can cover a wide range of economic activities, and as the ordinary businessman uses the term he includes, I think, all of these. As competition is used in the theory of competitive price, what has sometimes been called pure competition, it is implied that the individual seller is so small a factor in the market that in his pricing, in the sale of his product or in the control of his output, he does not need to and does not in fact take into consideration the effect of his policy on his rivals. He judges his output with relation to his own cost situation and with relation to the market price.

Representative REECE. The term "administered price" would hardly indicate that all of those factors were taken into consideration as distinguished from the same factors being taken into consideration in the setting up of an ordinary, competitive price structure.

Dr. DE CHAZEAU. Within the group of prices which I called purely competitive prices, you would not find many administered prices. You might find some. But you do not get an administered price, for example, for a product sold on an organized exchange.

Representative REECE. The term "administered price" is a new term to me.

Mr. FELLER. Congressman, may I ask the witness a few questions which may bring out just exactly what that term means in economic literature? Would this be a correct statement, Dr de Chazeau? Let us take the situation of the automobile industry: An automobile manufacturer produces cars, but prior to the time when he puts his models on the market he says, "I will charge $756 for my super

[1] See Hearings, Part 18, p. 10329.

de luxe model sedan." That is an administered price, as that term is used in economic literature; is it not?

Dr. DE CHAZEAU. As I understand it; yes.

Mr. FELLER. In other words, the automobile manufacturer does not put his models on the market and say that the conditions of supply and demand, the conditions of purchasing power, and so on, will determine the price, the way a wheat producer, for example, does. A wheat producer produces his wheat, but he doesn't say, "I am going to charge a dollar a bushel." He puts his wheat on the market and then whatever price the conditions of the market determine, is the price that he gets. Does that make it clear?

Acting Chairman KING. But after all, in the long run, prices are leveled out according to competition; are they not?

Dr. DE CHAZEAU. According to the conditions of competition which exist in that market.

Acting Chairman KING. A person says that be is going to sell his sugar, as an illustration, at 5 cents a pound, and that is in excess of the market price. He will lose his vendees, his purchasers, to those who sell at 4 cents.

Dr. DE CHAZEAU. That is right. It would be beyond his power, in most organized markets it would be beyond the power of any individual seller, to have a price policy in that sense.

Acting Chairman KING. After all, one individual may not with respect to a commodity which is in general use or in special use, fix a price that is out of all proportions to the price fixed by others.

Dr. DE CHAZEAU. That is quite right. The problem and the reason for the ambiguity, is that the relations which exist between sellers—and by that I do not imply collusive arrangements—the relations which exist in the market at any given time, determine the extent to which any individual seller must take into account what his rivals are going to do if he acts in a particular way.

Acting Chairman KING. The man who sells his wool or sells his sheep sells them on the market of his competition, the buyers are there from Boston and from other places when they bid for the wool or for the sheep.

Dr. DE CHAZEAU. Quite right.

Acting Chairman KING. The same with beef cattle.

Dr. DE CHAZEAU. Quite right.

Acting Chairman KING. The same with many commodities that are produced. The shoeman may fix an administered price, but after all he is met by competition in the market with perhaps two or three hundred manufacturers who produce shoes, some better and some not so good. There is a competition there as to which produces the best shoe for the lowest price.

Dr. DE CHAZEAU. Quite right, and you are bringing out, I believe, exactly what I had in mind, that an administered price, as I have used it here, is a neutral term and it may be consistent with a highly flexible price or with a highly rigid price, depending on market conditions.

Representative WILLIAMS. Take the example given by Mr. Feller, the automobile manufacturer who fixes the price at $756. What is it that determines that administered price? Why $756 instead of, say, $700?

Mr. FELLER. Mr. Congressman, I would very much like to answer that question in this way. Of course the witness may go on. I just want to make this statement. That precise question that you have put is going to be the focal point of the opening testimony by the officials of the United States Steel Corporation. That is precisely the point to which our testimony is going to be directed: Why are prices changed and why are they put at the level which they have been put by the members of the industry? Dr. de Chazeau, do you care to answer?

Acting Chairman KING. Prices are changed, are they not, by the shoe manufacturers, by the manufacturers of cloth or buttons or any other commodity that enter into the consumptive needs of the people?

Dr. DE CHAZEAU. That is perfectly correct. The problem which various price policies suggest for analysis is not the method by which they are fixed but rather the characteristics of that price as they affect the economy.

Acting Chairman KING. Does not the manufacturer, the producer of commodities which find their market in the open market, determine in advance what their costs are going to be? For instance, on the coat they determine the price they will have to pay for wool, the price they will have to pay for labor, the obsolescence of their machinery, and take those things into account. And then after taking all those factors that are recognized in industry, they fix a price; they may fix it too high or too low; they may fix it so high that they can't sell; they may fix it so low that competition becomes so keen they will lose money.

Dr. DE CHAZEAU. That is right.

Acting Chairman KING. So the question of price fixing or determination of price is so flexible—or inflexible—it is impossible to lay down a rule, is it not?

Dr. DE CHAZEAU. It is almost impossible to answer the question which was asked me, namely, why is the price of an automobile fixed at $775 instead of $700, that is, with the knowledge which I have of the automobile industry.

Acting Chairman KING. Mr. Ford might fix a price different from others because, first, he owns his own mines or he owns his own ore, he owns railroads, and he owns all of those facilities which are essential to the production of the finished product, so that he might by reason of those integrated activities of his be able to sell cheaper than some automobile manufacturers who had a limited number of resources or organizations that went into the finished product.

Dr. DE CHAZEAU. Right.

Mr. BALLINGER. Mr. Feller, in your conception of administered price, in the illustration that you used, I just wanted to ask one question. You used the illustration of the automobile manufacturer in stating his price without reference to other automobile manufacturers, in other words no team work between them; you don't mean to say that administered price is one that precludes teamwork or the existence of a formula for producing an identical price.

Mr. FELLER. No; there may be many factors which enter into the make-up of the final price. The point is that the term "administered price" is a term which in itself has no special relationship to arrangements among producers themselves. The term "administered price" is a term of recent economic literature which is intended to differentiate between the price which is made before the sale and the price which is the resultant of the factors occurring in the market after the sale is made or at the time the sale is made.

Acting Chairman KING. After all, the statement made by Dr. de Chazeau is correct—it is innocuous.

Mr. FELLER. That is perfectly correct.

Dr. DE CHAZEAU. Steel is not produced in advance of sale and thrown on the market at what it may bring but it is sold on contract—for most products quarterly contracts, although many take a longer term.

Mr. FELLER. That sentence in effect is really an explanation of the term "administered price."

Dr. DE CHAZEAU. The selling price, therefore, reflects the judgment and the policy of managers within limits and its acceptability to the trade depends largely on the buyer's expectations as to reasonable prices in the light of business conditions for his own enterprise.

Acting Chairman KING. Would it be unfair to say that economic writers, writers who claim to be economists, sometimes adopt a phrase which sounds very well but which doesn't mean very much?

Dr. DE CHAZEAU. I think so.

Representative REECE. But under this interpretation of the administered price, it would seem that all prices except those arrived at public auction have an element of administered price in them..

Dr. DE CHAZEAU. Yes.

Representative REECE. So the term is meaningless except to distinguish it from a price arrived at public auction.

Dr. DE CHAZEAU. That is right, and within the group of prices which are called administered prices you may have everything from a purely competitive situation to a very monopolistic situation, and it is in the characteristics of that price, the extent to which the reaction of rivals is a factor in fixing your own price, or the extent to which inelasticity of demand enables you to fix that price at a high level and maintain it at that level, that you have particular problems arising.

Given a certain optimism as to business trends, therefore, a firming of the existing price (that is, a refusal to take business below the published base price) together with an early announcement of a price increase for the following quarter and of an intention to restrict existing prices to shipments actually made during the current quarter, may have the effect of inducing a present increase in demand and stimulating immediate release of specifications. Thus, even though existing costs might not require a price advance or even if an upward trend in the rate of utilization of capacity were certain at existing prices to transform losses into profits, management might decide to advance prices as good sales strategy.

In the absence of a cost analysis, it cannot be said authoritatively that an increase in price is not justified. Raw materials have increased in price. Ernest T. Weir, president of the American Iron and Steel Institute, in a recent speech before the American Institute of Steel Construction,[1] cited advances of 25 percent in the price of ferromanganese, 17 percent in tin, 35 percent in zinc, 18 percent in fuel oil and 10 percent in coal. He did not indicate what effect these price increases could be expected to have on the cost of those steel products for which they are raw materials.

Zinc and tin are imported metals which are used primarily for coating steel products such as galvanized sheets and tin plate respec-

[1] Introduced into the record infra as "Exhibit No. 1421"; appears in the appendix on p. 10734 et seq.

tively. Large steel companies, however, probably purchase these metals on long-term contracts at prices which are not reflected in the spot market. Ignoring this factor, the net change in the spot price of zinc from June to October 1939, as reported by the Iron Age was \$2 per 100 pounds at St. Louis. Using the zinc consumed by sheet manufacturers in 1938—as reported in the Minerals Year Book—and the tonnage of galvanized sheets produced in that year—as published in the Annual Statistical Report of the American Iron and Steel Institute—a very rough estimate of the weight of zinc consumed per ton of galvanized sheets is derived, namely 8.8 percent. This would be equivalent to an increase of 17.6 cents per 100 pounds in the base price of galvanized sheets—that is, the use of 8.8 pounds of zinc for every hundred pounds of galvanized sheets—or about \$3.50 per net ton as compared with an existing price of \$70 per ton. Using the same methods, the proportion of tin in the weight of tin plate was found to average 2.7 percent in 1938. With a nominal increase of \$6.25 per 100 pounds of tin since June 1939, this would indicate an increase in cost of 16.9 cents per 100 pounds of tin plate as compared with the present price of \$5 per 100-pound base box.

Acting Chairman KING. In your investigation, your studies of the question, did you ascertain whether the importation of zinc from, Canada under the agreement which was entered into between the United States and Canada affected the price of zinc to the consumer, the purchaser in the United States?

Dr. DE CHAZEAU. No; for purposes of this presentation it seemed only necessary to find out what the change in the price of zinc had been, using public sources, without making any detailed analysis of why it may have risen.

Acting Chairman KING. Did you discover that there was a departure from the normal price of zinc prior to the agreement to which I have referred and then subsequent to it after there were importations of zinc from Canada?

Dr. DE CHAZEAU. No; we made no such analysis. I must emphasize here that my presentation is not the result of a special study made by the Department of Justice of all the factors which enter into prices. It is made in response to a special request that something be said about war and its relation to steel prices. We have therefore used secondary information. We have not made special studies of all phases of this problem.

Acting Chairman KING. I am not making any criticism at all.

Dr. DE CHAZEAU. Advances in the cost of oil, coke, and steel scrap are probably more important for the general run of tonnage steel products. From May to October 19, 1939, according to "Iron Age." the price of pig iron advanced \$2 per gross ton while furnace coke (Connellsville) increased \$1.25 per net ton. Since ore prices have not changed during the current year, it is apparent that the \$2 rise in the price of pig iron can hardly be explained by a \$1.25 increase in coke prices, for coke constitutes less than 30 percent of the raw materials used in the production of pig iron. That is, 0.887 ton of coke out of every 3 tons of material were used in the production of pig iron in 1938. The explanation must be found in preexisting unprofitable levels of price or, more likely, in the rise of steel-scrap prices. Movements in the price of scrap at the three major markets for which reports are given, Pittsburgh, Chicago, and Philadelphia, are independent of one another, varying with the amount of scrap available relative to local demand. Under normal conditions Philadelphia scrap prices are slightly in excess of Pittsburgh prices while Chicago prices are substantially lower. The relation of Philadelphia to Pittsburgh prices, however, has been disturbed by the recent activity in steel. Since the first of July, scrap prices have increased $7.25 per ton in Pittsburgh, which is—No. 1 heavy melting scrap—$6.75 per ton in Philadelphia and $4.87½ per ton in Chicago—about $1.50 per ton less than levels reached during the first week in October. Between May and October 19, 1939 the heavy melting scrap composite advanced $6.83 per gross ton.

Acting Chairman KING. Is that advance in scrap due to the increased demands made by Japan?

Dr. DE CHAZEAU. I think not, because Japanese demands have been characteristic in recent years. It was due undoubtedly to the increased activity in the steel industry following particularly the outbreak of the present conflict.

For any producer of steel whose supplies of scrap and pig iron must be derived from the market, especially if he is dependent on the existing spot market, increases of some 10 percent in coal and pig-iron prices and almost 48 percent in average scrap prices are bound to have substantial effects on his costs despite improved operating rates. Since there is a loss of about 10 percent in pig iron in the steel furnace —a weight loss—at a 100-percent iron charge, the increased price of pig iron would be equivalent to an increase of $2.22 per ton in the cost of steel, if you used 100-percent pig-iron charge. The conversion losses for scrap are substantially less but even if they be assumed to be only 5 percent, an average increase in scrap prices of $6.83 would be equivalent to $7.19 in the cost of steel, at 100-percent scrap. If a 50–50 charge were used the increased cost of steel would amount to $4.70 per ton. Thus, even though actual contract prices for materials were lower than quoted prices, higher prices quoted by semi-integrated manufacturers, especially in the eastern Pennsylvania region, for certain products probably reflect higher costs as well as the opportunity to secure premiums for early delivery while the large mills are booked to capacity. But to assume that these price increases would justify similar advances in the price of finished steel produced by integrated companies is to neglect the fact tht these companies are themselves the producers of ore, coal, coke, and pig iron and that they normally produce substantially more than half of the scrap which they consume.

Prices of these materials then are either reflections of price decisions by managers who themselves are in control of the predominant proportion of the country's steel capacity or are determind by bargaining in a very narrow market. The average differential of some 30 percent between pig-iron and scrap prices is evidence of the dominance of integrated steel companies in the scrap market since the use of scrap as contrasted, say, with the use of pig iron will have the same effect upon production of ingots. In fact the conversion loss is likely to be less when scrap is used than when pig iron is used. In either case their fluctuations, that is the fluctuations in price of these raw materials, cannot measure changes in cost to integrated steel companies except on the circular assumption that the price rise was justified by increasing costs, the very point at issue.

I repeat, then, that in the absence of a detailed cost analysis no definitive answer can be given to the question: Would a rise in steel prices be justified by increased material costs? In lieu of such information, however, the financial results of operations during the third quarter may prove instructive. Two factors must be borne in mind, however, when interpreting such data. First, although no advances have taken place in the published prices of steel products, increases in the operating rate during the third quarter have probably meant an increase in the actual price received for steel because of the reduction in the proportion of sales made below the published price. As preexisting contracts at concession prices are fulfilled, new contracts at published prices may be expected to improve the profit position even without a price advance. On the other hand, beyond a certain rate of operation it becomes necessary to bring less efficient equipment into operation in order to meet demand. This means that profits at any given level of prices may not continue to rise as the rate of utilization of capacity increases. Some producers already maintain that the most profitable operating rate has been exceeded. To the extent that this is true, it is possible that profits in the fourth quarter may not exceed those in the third unless prices or extras are advanced.

At the present time, third-quarter profits are available for the following 10 important steel companies, United States Steel Corporation, Bethlehem Steel Co., Republic Steel Corporation, National Steel Corporation, Jones & Laughlin Steel Co., Youngstown Sheet & Tube Co., American Rolling Mill Co., Wheeling Steel Corporation, Inland Steel Co., and Otis Steel Co. With the exception of Otis and American Rolling Mill, each of these companies reported third quarter net income—after interest, taxes, and depreciation, but before dividends—substantially in excess of that for either of the first two quarters. United States Steel's net—$10,420,445—was over five times its aggregate for the first half of the year. The corporation reported its average rate of operations as 56 percent in the third quarter.

Mr. FELLER. By the way, it distributed 56.4 percent.

Dr. DE CHAZEAU. 56.4. Republic netted $2,815,339, more than two and one-half times its aggregate for the first half of the year, and Bethlehem's $5,377,470 was substantially greater than 3.8 million dollars earned in the second quarter but not as great as the aggregate earnings for the first half year by almost a million dollars. Jones & Laughlin, after losses in each of the first two quarters, reported a net of over a million dollars, an annual rate—that is multiplying the quarter earnings by four—approximating that of 1936 and 1937.

Acting Chairman KING. During what year did they sustain the losses?

Dr. DE CHAZEAU. These were losses in the first and second quarters but there were profits in the third quarter which at an annual rate were equivalent to the total earnings in '36 and '37. Jones & Laughlin, I believe, made losses in '38. No comparisons are made with '38, because most companies did make losses in that year.

Acting Chairman KING. In '38?

Dr. DE CHAZEAU. In '38. The average return, as reported by the American Iron & Steel Institute for the industry in 1936, was about one-half of 1 percent. That is the ratio of net earnings after taxes and depreciation but before interest and dividends to capital investment—bonds, stocks, and surplus. It would be about one-half of 1 percent.

Acting Chairman KING. One-half of 1 percent. And have all of those companies whose names you have just given us sustained losses?

Dr. DE CHAZEAU. During '38?

Acting Chairman KING. During '38, '37, '36.

Dr. DE CHAZEAU. Not through '36 and '37; '38 was the year of losses. United States Steel Corporation had a loss in '38; Republic Steel Corporation and Youngstown Sheet & Tube. Inland did not. Inland has made profits rather consistently. American Rolling Mills had a loss; Bethlehem did not. National did not. Wheeling did not. They made a profit in '38. Jones & Laughlin had a heavy loss in '38. Crucible Steel had a loss in '38, as did Otis Steel.

Representative WILLIAMS. Just in a word now, what do you attribute this profit to during the last quarter?

Dr. DE CHAZEAU. To the increase in the operating rate; that is, the rise in the operating rate from a low of around 50 at the beginning of the quarter to a high at the end of the quarter of over 80.

Representative WILLIAMS. And thereby a decrease in the unit cost of production?

Dr. DE CHAZEAU. A decrease in unit cost. There are in the steel industry, as you know, very high overhead cost, and with an increase in the operating rate there is a reduction in average cost. That increase in the operating rate has more than compensated any increases that might have taken place in raw material costs during that period.

Wheeling Steel, after losses in the first quarter and a net of approximately $315,000 for the first half year, earned over 1.6 million dollars in the third quarter, or almost as much as it reported for the entire year 1937, which was 1.9 million dollars, or even in 1936, which was only 2.29 million dollars. Youngstown earned over $765,000 as contrasted with $546,000 in the first half of the year. National's earnings of $2,903,881 in the third quarter were approximately equal to the earnings in the first half year. Inland's earnings in the third quarter exceed those in the second quarter by more than half a million dollars.

Unlike the others, American Rolling Mill earned less in the third quarter—$600,793—than in the second, when it earned $875,671. Otis reported a loss of $184,517 in the third quarter as contrasted with a much larger loss of $431,766 in the first quarter and a profit of $228,804 in the second.

Without an analysis of investment and of capital structure, depreciation and other charges, it is not possible to explain the differences in these reports or to generalize conclusively from them. It is apparent, however, that to the extent that they are representative, rising prices of raw materials in the third quarter were more than compensated by a more favorable operating rate.

A few generalizations may be ventured in summary: (1) The present demand for steel appears to be highly speculative with much of it going into inventories. As such it is unstable and likely to bring some future recession. (2) Although costs of firms dependent for raw materials on the spot market have undoubtedly increased, with few exceptions there is no evidence that costs for the bulk of steel producion have been raised. Indeed, it seems probable that a more favorable operating rate has more than compensated for rising raw material costs. Third quarter profits available substantiate this conclusion but are not conclusive evidence because of potential depletion of stocks on hand, termination of existing favorable contracts for materials, and resort to less efficient equipment during the fourth quarter. (3) Reaffirmation of fourth quarter prices for the first quarter of the coming year would probably tend to reduce the pressure on the mills from speculative purchasing. There is some reason to believe that this contribution toward its own stability and toward the stability of the economy as a whole might be made by the industry without serious restriction of profits.

Acting Chairman KING. Have you any other questions?

Mr. FELLER. I have none.

Acting Chairman KING. Has the committee any questions?

Mr. BALLINGER. Could I ask one, Senator? Pardon me; I want to go back to this question of administered price one minute. Didn't you state in your book [1] that you meant by an administered price one that was arrived at noncompetitively and collusively?

Dr. DE CHAZEAU. Not to my knowledge.

Mr. BALLINGER. But you said prices in steel were arrived at noncompetitively, didn't you, in your book?

Dr. DE CHAZEAU. I think I made the statement that prices of steel were not purely competitive prices.

Mr. BALLINGER. Meaning that there was price competition or not price competition?

Dr. DE CHAZEAU. Meaning that there was not price competition of the sort that economists assume when they apply the theory of price competition, pure price competition.

Acting Chairman KING. Any other questions?

Thank you very much.

(The witness, Dr. de Chazeau, was excused.)

Acting Chairman KING. We will take a recess to 2:15.

(Whereupon, at 12:15 p. m., a recess was taken until 2:15 p. m. of the same day.)

AFTERNOON SESSION

The hearing was resumed at 2:15 p. m. upon the expiration of the recess, Senator William King acting chairman.

Acting Chairman KING. The committee will be in order. Call your witness.

Mr. FELLER. I should like to call Mr. Fairless, Mr. Hughes, and Mr. Gregg.

Acting Chairman KING. Hold up your right hands. Do you and each of you solemnly swear that the testimony you shall give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

[1] "Economics of the Iron and Steel Industry."

TESTIMONY OF BENJAMIN F. FAIRLESS, PRESIDENT, UNITED STATES STEEL CORPORATION, NEW YORK, N. Y.; ROBERT GREGG, PRESIDENT, TENNESSEE COAL, IRON & RAILROAD CO., BIRMINGHAM, ALA.; AND H. L. HUGHES, VICE PRESIDENT, UNITED STATES STEEL CORPORATION, NEW YORK, N. Y.

Mr. GREGG. I do.

Mr. HUGHES. I do.

Mr. FAIRLESS. I do.

Acting Chairman KING. State your names for the record.

Mr. GREGG. Robert Gregg.

Acting Chairman KING. President of the Tennessee Coal, Iron & Railroad Co., Birmingham, Ala.?

Mr. GREGG. Yes, sir.

Mr. FAIRLESS. Benjamin F. Fairless, president, United States Steel Corporation.

Mr. HUGHES. H. L. Hughes, vice president, United States Steel Corporation.

Acting Chairman KING. Proceed, Mr. Feller.

Mr. FELLER. I should like first to make a very brief statement as to the purport of the testimony which is to follow. We are now going to explore the question of how and why prices are changed. I think this is one of the matters in which the committee should be particularly interested. Our interest is in the action of businessmen and in the considerations which they take into account at the time their action is taken. In other words, we are looking at this not the way economists look at price changes, not in the way an economic analyst does, on the basis of theory. Our question is, what do businessmen do and what considerations do they act on at the time that they do the act, at the time that they change the price?

The questions, therefore, which will be directed to these gentlemen will deal with their own actions, or the actions of their associates.

STRUCTURE OF UNITED STATES STEEL CORPORATION

Mr. FELLER. Mr. Fairless, for the guidance of the committee it would perhaps be useful if you could give just a very brief outline of the various companies which make up the United States Steel Corporation, and I would suggest that the members of the committee might turn to page 5 of the little booklet which we introduced at the beginning,[1] which gives the structure and organization of the corporation by function.

Now, Mr. Fairless, in order to make the thing rather brief, perhaps if you permit I may guide you a bit. The parent corporation is the United States Steel Corporation, a New Jersey corporation; is that correct?

Mr. FAIRLESS. That's right.

Mr. FELLER. I also understand that in the corporate organization there is the United States Steel Corporation of Delaware. Could you tell the committee very briefly the difference between those two corporations, the New Jersey Corporation and the Delaware Corporation?

[1] Chart I of "Exhibit No. 1349," included in Hearings, Part 18, appendix, facing p. 10393.

Mr. FAIRLESS. The New Jersey Corporation, of course, is the parent company. The Delaware Corporation is strictly an advisory company that coordinates the efforts and policies of certain manufacturing and raw material producing subsidiaries, in respect to manufacturing, sales, engineering, purchasing, research and technology, legal, public relations, and industrial relations.

Mr. FELLER. Who are the officials of the United States Steel Corporation of Delaware?

Mr. FAIRLESS. The officials are the president of that corporation, also the several vice presidents, who comprise his staff, and also a board of directors which includes the presidents of the various steel manufacturing and selling subsidiary companies.

Mr. FELLER. Now, I should like to have you tell us very briefly some of the major operating and selling subsidiaries of the corporation. First with respect to iron ore, which subsidiary engages in the production of iron ore?

Mr. FAIRLESS. Oliver Iron Mining Co.

Mr. FELLER. Which engages in the production of coal and coke?

Mr. FAIRLESS. The H. C. Frick Coke Co., and several coal-mining subsidiaries.

Mr. FELLER. Then with respect to the manufacture of steel.

Mr. FAIRLESS. We have five steel-manufacturing subsidiary companies, the largest of which is the Carnegie-Illinois Steel Corporation, followed by the National Tube Co., Tennessee Coal, Iron & Railroad Co., American Steel & Wire Co., and the Columbia Steel Co.

Mr. FELLER. The Carnegie-Illinois Co. has its main mills at Pittsburgh?

Mr. FAIRLESS. Pittsburgh and Chicago.

Mr. FELLER. And the Tennessee Co. has its main mills at——

Mr. FAIRLESS (interposing). Birmingham, Ala.

Mr. FELLER. The Columbia on the West coast?

Mr. FAIRLESS. On the Pacific coast, Los Angeles and San Francisco.

Mr. FELLER. Does the Columbia Co. also operate the blast furnaces at Provo, Utah?

Mr. FAIRLESS. It does.

Mr. FELLER. Could you also mention the chief selling subsidiaries of the Corporation?

Mr. FAIRLESS. The American Bridge Co. is both a manufacturer and a selling company; the United States Steel Export Co.; and the Scully Steel Products Co.

Mr. FELLER. The American Bridge Co. is engaged in the fabrication of structural steel, is it not?

Mr. FAIRLESS. In the fabrication and selling of structural material and in erection.

Mr. FELLER. And similar functions are also performed by the Virginia Bridge Co.

Mr. FAIRLESS. That is right.

Mr. FELLER. Which operates mainly in the southern area?

Mr. FAIRLESS. That is right.

Mr. FELLER. Just to clarify a bit, two of the subsidiaries which you have mentioned specialize somewhat in the nature of their product. National Tube is engaged mainly in tubular products.

Mr. FAIRLESS. Tubular products.

Mr. FELLER. And the American Steel & Wire is another that specializes.

Mr. FAIRLESS. In wire products.

Mr. FELLER. Whereas Carnegie-Illinois, Tennessee Coal & Iron and Columbia Steel manufacture a wider variety of products.

Mr. FAIRLESS. Right.

Mr. FELLER. Mr. Fairless, I should like to inquire, again very briefly, into the organizational set-up in the Corporation with respect to the making of changes in price. I presume that at some period when it is desired to make a price change up or down, some persons in the Corporation make recommendations, do they not?

Mr. FAIRLESS. Definitely.

Mr. FELLER. And who would those people be?

Mr. FAIRLESS. They would be the officials of the subsidiary company which is concerned or interested in the suggested price change.

Mr. FELLER. And to whom are these recommendations transmitted?

Mr. FAIRLESS. To whom?

Mr. FELLER. Yes.

Mr. FAIRLESS. To the Delaware Corporation.

Mr. FELLER. To the Delaware Corporation. Are these recommendations customarily—I don't mean in every case but customarily—supported with some sort of data, and with reasons as to why the changes recommended should be made?

Mr. FAIRLESS. Oh, very definitely.

Mr. FELLER. And are further studies made in the Delaware Corporation?

Mr. FAIRLESS. Yes.

Mr. FELLER. May I ask this? Have recommendations for changes always been made through the Delaware Corporation?

Mr. FAIRLESS. Only since its inception as such an advisory company, January 1, 1938.

Mr. FELLER. And only since that date, they go through the Delaware Corporation.

Mr. FAIRLESS. That is right.

Mr. FELLER. Previous to that time I take it they went to the officials of the parent corporation.

Mr. FAIRLESS. They went to the president of the United States Steel Corporation (New Jersey).

Mr. FELLER. May I ask whether the subsidiaries ever act independently of the parent corporation or of United States Steel of Delaware in making price changes?

Mr. FAIRLESS. No.

Mr. FELLER. In other words, at all times the parent corporation, or as is the case since January 1, 1938, United States Steel of Delaware, has the final decision as to whether or not a change in published price shall be made.

Mr. FAIRLESS. Well, not exactly that. The parent company, of course, through its board of directors, always considers and recommends policy in respect to price changes, and by that I mean this, that the board, of course, does not assume—by the board I mean the board of the Jersey Corporation—to establish prices as applied to any particular product or group of products, but it does offer suggestions in respect to policy having to do with whether a price change should be made, either upward or downward, giving the subsidiary companies, through the Delaware Corporation, the benefit of its knowledge of general business conditions.

Mr. FELLER. Then I take it that the officials of a subsidiary corporation could, if they so desired, announce a different price on sheets than the price which had been suggested to them by the officials of the Delaware Corporation or the parent corporation.

Mr. FAIRLESS. In practice, not unless approved by the Delaware Corporation or the president of that corporation.

Mr. FELLER. Let me see if I have that quite clear. The actual price announcements are made by the operating subsidiaries, operating or selling subsidiaries.

Mr. FAIRLESS. Correct.

Mr. FELLER. Those announcements prior to the time when they are issued must be approved by you or by the officials——

Mr. FAIRLESS (interposing). By me.

Mr. FELLER. They must be approved by you.

Acting Chairman KING. First you receive, I presume, the recommendations, if recommendations are made, and the data submitted by the subsidiaries to the Delaware Corporation.

Mr. FAIRLESS. The subsidiary companies, Mr. Chairman, naturally make a very exhaustive study of market conditions, competitive conditions, the possibility of business or lack of business during the period covered by the proposed price announcement, and after carefully considering these questions, together with competitive conditions as they exist and are probably likely to continue, they come to conclusions in respect to the recommenaation that they choose to make, and that comes to me as president of the Delaware Corporation, and I in turn discuss these recommendations with my staff, consisting of the various vice presidents of the Delaware Corporation and the presidents of all the subsidiary steel manufacturing companies, and in turn we arrive at a schedule to be announced, and finally the subsidiary company is permitted to proceed with the announcement after receiving my personal approval.

Acting Chairman KING. Your personal approval as president of the Delaware or of the New Jersey Corporation?

Mr. FAIRLESS. The Delaware Corporation, in respect to the companies who comprise, who go to make up the subsidiaries having advisory contracts with the Delaware Corporation, and they are the chief manufacturing and sales subsidiary companies.

Mr. FELLER. Mr. Chairman, I offer now for the record a chart prepared by the Department of Justice, entitled "Index of Ingot Production and Finished Steel Composite Price, 1926–39." This chart was compiled from standard sources.

Acting Chairman KING. I presume you are referring to "Index of Ingot Production and Finished Steel Composite Price."

Mr. FELLER. Yes, sir."

Acting Chairman KING. Is that chart 1 or 2 or 3? How do you identify it for the record?

Mr. FELLER. I think the reporter takes care of that.

Acting Chairman KING. What number will that be?

The CLERK. 1381.

Acting Chairman KING. It may be admitted. Proceed.

(The chart referred to was marked "Exhibit No. 1381" and is included in the appendix on p. 10710.)

Mr. FELLER. I should like to call the committee's attention to the fact that there already is in the record on page 27 of the booklet first introduced a chart entitled "Finished Steel Composite Price Index, by Month's 1926–39." [1] The line on that chart in effect is the same line as the dotted line on the chart which has just been introduced, namely, the Finished Steel Composite Price.

Acting Chairman KING. This does not relate to any company, but to all companies, a composite?

Mr. FELLER. Yes, sir; it is a composite price, and perhaps for the guidance of the committee I may say something about the finished steel composite price index. This is a price which is published in the trade journals. It is an arithmetical average of the prices of a number of steel products, a number of finished steel products. It is the base price, it is an average of base prices; it is the price at Pittsburgh of eight finished steel products.

Acting Chairman KING. Eight?

Mr. FELLER. Eight. It does not include the extras nor does it include freight. In other words, it is not an index of the price which any one particular customer may pay. It is the base price at Pittsburgh, as published in the trade journals.

I may say also that the price index is not a weighted one. By that I mean that it does not take into account the varying volumes of the different products which are in the index. In other words, it may be that at a particular time a great many more sheets are sold than bars. The index will not reflect that. The index is an arithmetical index, a simple arithmetical average of these various prices. As such it cannot be said to be more than, shall we say, a rough index of the actual movement of the price. As we go on later to study some of the particular products you will see how the prices of different products vary, what different price behaviors there are among the many, many products of this extremely complex industry. But this finished steel composite price is, generally speaking, the closest approximation that you can have in the published sources to the movement of the base price of steel.

Is that correct?

Mr. FAIRLESS. It is, so far as the chart is concerned.

Acting Chairman KING. The chart doesn't represent the price of the finished steel price.

Mr. FELLER. Yes, sir; it does.

Mr. FAIRLESS. The theoretical price.

Mr. FELLER. Calling attention to the "Finished Steel Composite Price," Mr. Fairless, the chart indicates that in the year 1936 there were at least two price increases and that in the early part of 1937 there was one price increase, at least one. Is that correct?

Mr. FAIRLESS. There was one in 1937.

Mr. FELLER. One in 1937 and two in 1936.

Mr. FAIRLESS. Two in 1936.

Mr. FELLER. And in 1938 about the middle of the year there was a major price decrease.

Mr. FAIRLESS. That is right.

[1] "Exhibit No. 1349," included in Hearings, Part 18, chart appears on appendix p. 10420.

Mr. FELLER. And there were other price decreases later on in that year.

Mr. FAIRLESS. Price reductions?

Mr. FELLER. Yes.

Mr. FAIRLESS. No.

Mr. FELLER. The chart indicates so, it has a little sort of depression in it in the last month.

Mr. FAIRLESS. There may have been some minor reductions affecting only isolated products.

Mr. FELLER. That is true. There were minor reductions.

Mr. FAIRLESS. There was no general over-all reduction other than that of June 24, 1938.

Mr. FELLER. That is correct. The general over-all price changes, then, are two increases in '36, one in the early part of '37, and one in June of 1938?

Mr. FAIRLESS. Correct.

I would like to correct a statement, Mr. Chairman, in respect to the first price increase in 1936. It was not a general over-all increase. It only applied to certain products, products that we felt were priced too low at that particular time. If you will look up your records you will find that the first increase in '36 was not comparable with the second increase of '36 or with the one increase in '37.

Mr. FELLER. Yes; I think that is correct.

Acting Chairman KING. Just one moment. I think Mr. Feller asked you, and you answered that there was an increase in '38.

Mr. FAIRLESS. A decrease.

Acting Chairman KING. I thought it was an increase.

Mr. FELLER. Oh, no.

Acting Chairman KING. Have you seen the chart which was exhibited to the committee? [1]

Mr. FAIRLESS. Yes; I have it before me.

Acting Chairman KING. May I ask a question? You will notice there the finished steel price, that irregular line from 1926 until 1938. Does that substantially represent the variations in price, of the composite finished steel price?

Mr. FAIRLESS. Well, I must naturally accept this chart as reflecting those composite prices, and I have every reason to think that it does. However, as explained by Mr. Feller, this only, so far as price is concerned, shows the composite price of these products on the basis of base published prices at Pittsburgh. It hasn't anything to do with the basis on which those products were sold in the open market. It has only to do with the prices that were quoted as applying to those products at Pittsburgh. It hasn't anything to do with the extras or deductions that might have been made from the base prices of the particular products. Mr. Feller completely covered it, although I want to emphasize that this chart, from the standpoint of actual price realization to this industry, doesn't mean a thing.

Mr. FELLER. Yes; what this chart is intended to illustrate, Senator, is to bring before the committee graphically the somewhat simple facts that Mr. Fairless has just stated, that in 1936 there were two price increases, that in 1937 there was a price increase, and in 1938 there was a price reduction, and we are going to direct our attention to those price changes.

[1] "Exhibit No. 1381," appendix, p. 10710.

THE 1936 PRICE INCREASES

Mr. FELLER. Mr. Fairless, could you tell us in a general way the reasons why it was decided to increase the prices of steel on these two occasions in 1936?

Mr. FAIRLESS. I can cover the general policy reasons.

Mr. FELLER. Yes; that is precisely what we are directing our attention to.

Mr. FAIRLESS. Not the mechanics of how the increase was arrived at, or how it was put into effect.

Mr. FELLER. Not at the moment, sir.

Mr. FAIRLESS. The first increase in 1936, which covered only certain steel products, was made because the selling prices of these products had got so low and so far out of line in respect to their proper relationship with the prices of other products that we decided to move the prices of these products up to a point where they would at least show some profit, some of them showing losses at the time, and also to bring about a better price relationship between these products and other steel products which we merchandise.

Acting Chairman KING. There was no effort to bring them into relation with products outside of the steel business—for instance, agricultural products or oil products or manufacturing products generally?

Mr. FAIRLESS. Not at that particular time, Senator. I am not prepared to discuss the particular products except in a general way, but I do know, and have full recollection of the reasons for the move that was made. I know, for example, that some of these products, due to the ravages of the depression, had got down to a very low selling price.

Acting Chairman KING. You mean the steel products?

Mr. FAIRLESS. The products that were involved in this particular price increase; and it was the desire on our part to bring the selling prices of these products up in proper relationship to the prices of other products, and it was not with the idea of a general price increase.

Mr. FELLER. At what date was that particular price change?

Mr. FAIRLESS. I haven't the date—May 1936.

Mr. FELLER. May 1936. Then when was the date of the subsequent general price increase?

Mr. FAIRLESS. In December, I think, 1936. It was announced in November, effective December 1st.

Mr. FELLER. Weren't there certain changes which had been made in July?

Mr. FAIRLESS. That was the effective date of the first announcement.

Mr. FELLER. Then you would say this: The increase which was made in the early part of 1936 was not a general price increase but an increase in the price of certain products in order to reestablish a relationship among the various classes of products sold by you, a relationship which had been disrupted in some way previously.

Mr. FAIRLESS. That is right.

Mr. FELLER. I believe you have already stated that that relationship had been disrupted due to the ravages of the depression, to use your own words. Could you expand on that just a bit and tell us what was the proper relationship that the Corporation officials had in mind?

Mr. FAIRLESS. Well, I can't give you the details of it.

Mr. FELLER. I don't mean in detail, but is there a general policy which is applicable?

Mr. FAIRLESS. Well, yes. You saw in the moving picture that we showed here on Wednesday morning of last week how steel is made. Now, the steel industry, of course, begins with pig iron, and from pig iron we move to ingots, and from ingots we move to semifinished steels. We have available photographs of all these different products, which we would be very happy to display or pass among members of the committee. And from the semifinished products then we move on into our various lines of finished products, and there are many of them—bars, plates, shapes, wire and wire products, and so on, into the highly finished lines.

Now, when it comes to merchandising these various products, obviously we must have a proper price relationship between the different products which we merchandise. Otherwise, for example, if we did not have the proper relationship between the prices of plates and strip steel—the strip steel is only a narrow-gage plate—and sheet steel, we would have these several products in competition with each other. So obviously, first beginning with a proper price structure, then we must have a proper relationship between the prices of these products. That is what I am attempting to describe as having been the reason for the first price increase in 1936.

Mr. HENDERSON. May I ask a question there? Mr. Fairless, how did plates and strip happen to get out of relationship in the depression?

Mr. FAIRLESS. For various reasons, largely competition, I would say, Mr. Henderson—largely competition.

Mr. HENDERSON. And when you reestablished the relationship in May, what happened to competition?

Mr. FAIRLESS. By "competition" I mean competition so far as the application of strip to plates and vice versa.

Mr. HENDERSON. You just couldn't get it, is that it?

Mr. FAIRLESS. Couldn't get what?

Mr. HENDERSON. You couldn't get the relationship of prices between plate and strip during the depression on account of competition.

Mr. FAIRLESS. I would say we lost it on account of competition.

Mr. HENDERSON. Well, that is good enough language.

Mr. FAIRLESS. All right.

Mr. HENDERSON. Now in May of 1936, had the unbalanced competitive relationship disappeared?

Mr. FAIRLESS. I don't believe, Mr. Henderson, that the products you refer to—I am sure they were not affected by this first increase.

Mr. HENDERSON. I was just using your illustration, you see.

Mr. FAIRLESS. Yes; let us consider the products which did change in price. I think what we should do is to have before us exactly the products that were affected. Semifinished steel was the major item, also plates, shapes, bars, and strip.

Acting Chairman KING. Distortions arose from the price level by reason of increased demands for some particular commodity which you produce, and of course a diminishing demand for others, and therefore that would produce a distortion or an unbalancing, to use the expression of Mr. Henderson, and you tried to being them into a proper relationship.

Mr. FAIRLESS. As best we could. I don't make the statement, because it isn't true, that we succeeded in bringing them into a proper relationship, but that was the objective of the price announcement which covered advances in these products.

Acting Chairman KING. I can understand that you couldn't bring them into complete relationship, because there might be increased wages in the production of one commodity and not in all the commodities, and that would bring about a distortion or an unbalancing; or there might be an increased demand for one and a lessened demand for the other, and that would produce a distortion.

Mr. FAIRLESS. That is right. In this highly competitive industry, of which we are a part, competition, of course, exists at all times, but many times it is more prominent in one product than it is in another product, and that might be caused by a number of circumstances, as you well related, Senator. We have had periods during the depression when, on some particular product, business was fairly good, at least real lively in that product, but the over-all steel business was very bad, so therefore we are constantly faced with keener competition in respect to one product or a group of products than we are in the over-all.

Acting Chairman KING. If a great demand were made for steel rails for a new railroad, or you have the obsolescence of a railroad having been recognized and they wanted to rehabilitate it and there was a great demand for steel rails, in order to gratify that demand it would produce more or less of a distortion between the prices of the steel rails with relation to the other commodities.

Mr. FAIRLESS. It could, very well.

Mr. FELLER. To clarify the matter just a bit, would this be correct, Mr. Fairless, that during the period of the depression the steel industry found that light steels, the demand for light steels, was relatively greater than the demand for heavy steels?

Mr. FAIRLESS. That is correct—there was a greater demand for these consumer goods.

Mr. FELLER. Is it correct to say that the price for heavy products fell more rapidly during the depression than the price for light products? Is that the unbalance or distortion in a very general way that you refer to?

Mr. FAIRLESS. No, I wouldn't say that. I would not say that. One of the items that fell possibly further out of line than any other was semifinished steel. The reasons for that I believe to be as follows:

In anything approaching normal times in the steel industry, very few producers of steel are sellers of semifinished—very few companies are sellers of semifinished steel. In poor times in the steel industry, every producer of steel is either actually or potentially a seller of semifinished steel. Now, one of the big demands for semifinished steel comes from the so-called nonintegrated units using sheet and tin bars. Therefore there was keen, exceptionally keen, competition to secure participation in that business, even by companies which normally did not participate in the selling of semifinished steel, hence we had that very bad price situation. Semifinished steel was sold at less than cost.

Mr. FELLER. Now, Mr. Fairless, passing on from the partial price increase, shall I say, the price increase in the early part of 1936 which was designed to reestablish preexisting relationships, to the price increase in the latter part of 1936, could you tell us in a general way the reason for the general price increase at that time?

Acting Chairman KING. That would be the December increase, I assume.

Mr. FAIRLESS. On November 16, 1936, the common hourly wage rate in the steel industry was increased 5½ cents, from 47 to 52.5 cents per hour in the Pittsburgh and Chicago districts, 4½ cents, from 33.5 to 38 cents, in the Birmingham district, and varying increases were made in other positions, classifications, resulting in an average general wage increase of 10 percent.

Also, at that time this industry was confronted with vacations with pay, which was an added cost, and contrary to the opinion of some people, at least, outside of the industry, it is a sizable cost, although I am not at all critical of the fact that we do have vacations with pay. I am very proud of it. But nevertheless it does create an additional cost.

In addition to the increase in cost due to advances in wages, as I have outlined, and these are those that apply to our own company, we also had materially increased costs in the materials which we purchased, and while we are many times referred to as an integrated company, integration, of course, is only a comparative word. We are not integrated to the extent that we are not large purchasers of raw materials of various kinds, as well as highly finished products. So the underlying causes, the direct causes, for the price increase to which you refer, I believe, I have covered.

Mr. FELLER. Mr. Fairless, would you mind identifying this letter? It is written by you to Mr. Gregg and dated November 20, 1936. It was taken from your files.

Acting Chairman KING. While he is doing that, Mr. Feller, you have called attention to one or two charts. Do you desire those incorporated in the record?

Mr. FELLER. Yes.

Acting Chairman KING. Identify them for the record. One of them is called 1381.

Mr. FELLER. I believe that was already admitted previously.[1]

Acting Chairman KING. Which have not been identified?

Mr. FELLER. The chart entitled "Finished steel composite price index" and the chart entitled "Index of semimanufactured articles and finished steel composite."

(The charts referred to were marked "Exhibits Nos. 1382 and 1383" respectively, and are included in the appendix on pp. 10710 and 10711.)

Mr. FAIRLESS. I, of course, will reply to any questions with respect to this letter. This is my letter.[2] But, as I understood, you were questioning me on the over-all policy with respect to these price changes, and in respect to the specific price changes here——

Mr. FELLER (interposing). No, sir; I do not intend to deal with the two paragraphs in this letter which deal with specific price changes. There are a number of general considerations, however, as you will notice.

Mr. FAIRLESS. I only wish to call attention to the fact that I was not president of the United States Steel Corporation in November 1936, or in 1937. Mr. Gregg was then vice president of the Cor-

[1] Exhibit No. 1381.
[2] Introduced *infra* as Exhibit No. 1384; appendix, p. 10711.

poration, having to do with commercial matters, and he is best qualified to answer your questions with respect to the price changes of '36 and '37 insofar as detail is concerned.

Mr. FELLER. Yes; I intend to address questions to both of you, due to the fact that the letter was written by you in your capacity as president of the principal operating subsidiary, Carnegie-Illinois.

Mr. FAIRLESS. This was my letter.

Mr. FELLER. And Mr. Gregg was then vice president of the United States Steel Corporation.

I offer this for the record.

Acting Chairman KING. It may be received.

(The letter referred to was received, marked "Exhibit No. 1384" and is included in the appendix on p. 10711.)

Mr. FELLER. I should like to read a few of the paragraphs. The letter is dated November 20, 1936. It is written by Mr. Fairless to Mr. Gregg, who is also present here. [Reading:]

> The price situation for the First Quarter of 1937 has been studied very carefully, because of the increased costs which face us, and it is very strongly recommended that we announce immediately, effective as of December 1st, prices as represented by the attached memorandum on business taken for shipment during the First Quarter of 1937, which memorandum also shows the present prices for comparison. The factors that make it imperative to take immediate action are briefly as follows:
>
> (1) Labor costs under the program which became effective November 16th will add very materially to our manufacturing costs of all commodities. Exact information concerning this increase in costs due to the new labor program has been compiled by Mr. Vogt, and you no doubt have received a report from him.
>
> (2) The materials we use in our manufacturing processes, and for plant and equipment maintenance, will show a decided increase in cost as evidenced by preliminary reports which have already been received from sources normally supplying these materials.

I now skip two paragraphs which refer to special products, and go on to paragraph 5. [Reading:]

> There has been no time in the history of the Steel Industry where the Trade has been so outspoken in regard to possible price changes, and we can say with confidence that they are expecting at least the advances we propose. It is imperative that this question be settled quickly in order that the Trade may know what their raw materials cost will be, and permit them to adjust their price programs accordingly.
>
> (6) December 1st is recommended as the effective date for First Quarter business, and an immediate announcement would, we believe, have a very beneficial phychological effect on the consuming trade at this time. In fact, inquiries from the trade as to our price position for the First Quarter are becoming very numerous and our trade is pointing out to us that it is imperative we make an immediate decision in order that they may prepare their own business programs.

I think it is unnecessary to read the rest of the letter.

Mr. Fairless, paragraphs 1 and 2 are in essence what you have just stated, are they not, that is, the labor costs have advanced, labor costs all along the line, I presume in the various subsidiaries of the corporation.

Mr. FAIRLESS. Why not read paragraph 3? Any objection to paragraph 3?

Mr. FELLER. No. I thought you wanted me to omit reference to specific products.

Mr. FAIRLESS. It is all part of this letter and all tied together, and I think the committee might well hear the entire letter.

Mr. FELLER. I will read that. I omitted it because I didn't want to question you about specific prices. [Reading]:

(3) *Tin Plate.*—No change in the selling price is proposed and it is estimated our manufacturing costs will be increased by about $5.00 per ton. Therefore, shipments during the year 1937 will show a $5.00 per ton reduction in profit to us.

(4) *Sheet Mill Products.*—A review of this product shows very clearly an increased cost of about $4.00 per ton. At present selling prices, under favorable operating conditions, the large tonnage items show the following losses.

And then you list blue annealed, hot-rolled annealed, single-pickled, and tack plate.

Acting Chairman KING. Those are commodities which you state have shown losses?

Mr. FAIRLESS. Yes; losses or practically no profit—and that is actual, that is taken actually from our past performance, not projected.

Mr. FELLER. Now, I should like to have you explain to the committee a little more fully the matters contained in paragraph 5; that is, the expectation of the trade. This morning Dr. de Chazeau spoke about the expectation of buyers in the steel industry, and I think everyone will agree that the question of expectation of buyers is a major question that must be taken into account, and I wonder, Mr. Fairless, if you could tell us rather generally and briefly what that problem is as it appears to the executives of a steel corporation.

Mr. FAIRLESS. Why, it is simply this, that we are in constant touch with our trade, and by our trade we mean the people who buy our steel, our products. We are in touch with them daily. Naturally, whenever there is a question of price change up for consideration, we consult with them in respect to it. Our corporation wouldn't think of announcing advances in prices of any of our products without a very careful and thorough discussion with the principal consumers of those products, and all I am telling Mr. Gregg in this letter is that after this had been done, and very thoroughly, we were confident that the trade, and the temper of the trade as we found it, was that the steel industry was entitled to an advance, and they were ready and willing to pay it.

Mr. FELLER. Now, you go on in paragraph 6 to say that—

An immediate announcement would, we believe, have a very beneficial psychological effect on the consuming trade at this time.

Could you explain to the committee just what that means?

Mr. FAIRLESS. It means just this: There isn't any mystery at all about the buying public in respect to steel. I think it is just the same as it is in the case of any other product. If our customers and the industries which buy our goods know or feel that a change in price is going to take place, whether that change be upward or downward, they are very anxious to get the information at the earliest possible date, and not to have that information means that they just simply will delay buying, and all I was conveying or attempting to convey to Mr. Gregg, in this particular paragraph, was that in my opinion, an immediate announcement of our actual prices for the first quarter of 1937 would permit our customers to release their requirements and place their orders.

Acting Chairman KING. Even though your price were lowered some, or increased?

Mr. FAIRLESS. Whatever the change.

Acting Chairman KING. The psychology would be the same.

Mr. FAIRLESS. Definitely.

Acting Chairman KING. There is a dam in the stream of purchases by reason of the uncertainty. By announcing the policy, whether you increased or decreased, it would remove that dam and people would begin to purchase steel, and the stream would begin to flow.

Mr. FAIRLESS. That is right.

Mr. O'CONNELL. Your explanation seems to go to the advisability of making an announcement of what the price would be for the first quarter, rather than the psychological advantage in having a price increase.

Mr. FAIRLESS. Of course, you see, I first make my recommendations in respect to what the prices should be, as the first step, and the second step is when those prices should be announced.

Mr. O'CONNELL. So the psychological factor was of importance in having known what it was.

Mr. FAIRLESS. I don't think it is psychological, I think it is factual. The man who buys steel wants to know how much it is going to cost him.

Mr. O'CONNELL. You thought of it as psychological when you wrote the letter. I was only using your word.

Mr. FAIRLESS. That is right.

Acting Chairman KING. May I ask a question? You spoke about ascertaining from your customers the demands and condition of the market before you reached conclusions. Would that information which you desired originate down with the retailer, and from them reach the wholesalers, the large buyers, so you would have not only the view of the retailers, the wholesalers, but the entire market?

Mr. FAIRLESS. Yes; indirectly. Of course, as you know, Senator, our business is largely furnishing raw materials for further fabrication. We make practically no finished products, and therefore we have no, or very little, control over the finished markets into which our products flow. But naturally when we talk to the can companies with respect to the price of tin plate for the coming canning season, we in turn get from them the benefit of the knowledge that they have of the packers' condition, and the stocks of canned goods and inventories, and so forth, so we do get the benefit as you have just put it. We haven't access directly to that information ourselves.

Acting Chairman KING. Was the increase in wages just the result of demands by labor or a voluntary increase, or what?

Mr. FAIRLESS. As we look back to '36 and '37, I think we can all realize that it was in the air for higher wages. I assumed my new position as president of the Carnegie-Illinois Steel Corporation on October 1, 1935, and one of the first jobs that I had to do was to discuss with our employee representatives at the Gary works a demand for an increase in wages which was under discussion at that time. So certainly at least as far back as October 1, 1935, the request—it hadn't reached the point of demand, I wouldn't want to say that, but the request—for higher wages was in the air, it was under discussion and continued from then until it was actually put in effect, and with that went vacations with pay, at about the same time or a little previously.

Acting Chairman KING. That was after discussions with the representatives of the unions of the men who are employed by you?

Mr. FAIRLESS. Discussions at that time with the representatives of our employees' representation plan, which is commonly referred to as a company union, although that is controversial.

Mr. FELLER. Mr. Gregg, the letter was addressed to you and at that time, and today, also, you are one of the officials of the Corporation who had to do with the matter of price policy, were you not?

Mr. GREGG. At that time I was vice president of the United States Steel Corporation in charge of coordination of sales. Since January 1, 1938, I have been president of the Tennessee Coal, Iron & Railroad Co., and not an official of the United States Steel Corporation.

Mr. FELLER. That is right. That was my error.

I should like to ask you with respect to the letter which has just been introduced, the letter refers to very careful studies, in the first paragraph, of the price situation, and in the second paragraph it refers to exact information concerning the increase in costs due to the new labor program. Were those studies transmitted to you?

Mr. GREGG. Certain of them were. Certain studies to which that letter refers, in which he names Mr. Vogt, who was at that time and is now the comptroller of the United States Steel Corporation—those studies were referred to me and I consulted with Mr. Vogt as to the probable effect upon our costs of these variously increased commodity and labor costs.

Mr. FELLER. Were there any independent studies undertaken then by you or someone under your direction, subsequent to the receipt of information from your subsidiaries or from Mr. Vogt?

Mr. GREGG. No; they were coordinated at that time, and the full effect of those increased costs was measured by actual figures, as a result of which certain price increases were proposed, and may I say that those price increases did not fully compensate for the increased cost as shown by the figures submitted.

Mr. FELLER. Your endeavor, then, was to make your price increases as nearly as possible commensurate with increased costs?

Mr. GREGG. No.

Mr. FELLER. But you didn't succeed in every case.

Mr. GREGG. No; on the contrary we very carefully considered the effect any change in price, any upward change in price, would have on the then rising volume of business. We knew that we were confronted with increased costs, labor-wise and in purchased commodities that Mr. Fairless has mentioned, plus social-security taxes. We felt it would be unwise as a matter of general over-all policy, economic policy, to attempt to recover all of those increased costs in the new prices, and I think the actual figures showed something quite less in our increased prices as measured against the increased costs.

Mr. FELLER. Mr. Gregg, may I ask you to identify these two telegrams. One is signed W. A. Ross, addressed to you, dated February 19, 1937, and the other is signed Robert Gregg, addressed to W. A. Ross, dated February 20 1937. They were taken from the files of the United States Steel Corporation.

Mr. GREGG. Yes; I remember these.

Mr. FELLER. I offer these for the record, sir.

Acting Chairman KING. They may be admitted.

(The telegrams referred to were marked "Exhibits Nos. 1385 and 1386", respectively, and are included in the appendix on p. 10713.)

Mr. FELLER. I may point out that these telegrams deal with a price change somewhat after this particular price change.

Acting Chairman KING. What is the date?

Mr. FELLER. February 19, 1937, is the date of the first telegram. It reads as follows:

ROBT GREGG
USS NYK

Our price for foundry pig iron now effective is $18.50 base furnace Ironton, Utah Stop We have made careful survey and have concluded this price should be advanced one dollar per ton and unless you instruct to contrary will make this advance effective for 2nd quarter pls advise.

W A ROSS
COL.

COL refers to Columbia Steel.

Mr. GREGG. Columbia Steel Company.

Mr. FELLER. Subsidiary of the Corporation which operates the furnaces in Utah.

Now the next telegram is dated the succeeding day, February 20, 1937 [reading from "Exhibit No. 1387"]:

W A Ross Columbia Steel Co

Your wire Pig iron price Why not make advance two dollars instead of one Advise

ROBERT GREGG.

Mr. Gregg, on the basis of these telegrams I take it that Mr. Ross, the president of the Columbia Steel Co.——

Mr. GREGG (interposing). He was then vice president in charge of sales.

Mr. FELLER. Vice president in charge of sales—had, or some official of the Columbia Steel Co., out on the west coast had, had a careful survey made of the situation with respect to pig iron in Utah, and had recommended an advance of $1. May I ask on what basis you suggested that the advance be $2 instead of $1?

Mr. GREGG. I was in possession of information he was not in possession of at the moment. At that particular time, negotiations were under way which were finally consummated 10 days later, whereby a contract or a series of contracts were signed by our subsidiary companies, and representatives of union organizations, which carried with them an increase in labor rates something more than these gentlemen knew about at the time this first message was sent, and it was on the ground of a further increase in costs, which he didn't anticipate, but which I knew about, that I proposed that he raise that price $2 instead of $1.

Mr. FELLER. Did you inform him of these facts which he didn't know about when he sent the telegram? On the face of the telegram there is no such information.

Mr. GREGG. On the face of it there is no indication of it.

Mr. FELLER. Did you inform him?

Mr. GREGG. I don't recall what I did at that particular moment. It doesn't appear in the record. Unoubtedly his president knew about it and in conferences between his president and vice president they knew themselves the reason for it.

Mr. FELLER. Do you know what was actually done with the pig iron price at Ironton, Utah?

Mr. GREGG. I do not, my recollection though is that it went up $2. I haven't the prices in front of me.

Acting Chairman KING. Do you have sufficient information to justify you in believing that an additional $1, that is above the $1 was required in order to meet the increased costs?

Mr. GREGG. Yes, sir.

Acting Chairman KING. And did subsequent developments confirm the validity of that view?

Mr. GREGG. Yes, sir; as a matter of fact, in view of the wage increase that took place in March 1937, just 10 days after that message was received, our wage advance amounted to over 16, between 16 and 17 percent.

Mr. FAIRLESS. 16.6 is the actual figure.

Mr. HENDERSON. I believe you said, Mr. Gregg, that after you had received from Mr. Fairless the letter which has been placed in the record, and after you had considered various studies which were made, you also gave consideration as to what would be the effect of the proposed increases on the rising volume. Was that correct?

Mr. GREGG. That is correct.

Mr. HENDERSON. Could you elaborate a little more on what those considerations were?

Mr. GREGG. Merely that we simply did not want to increase prices at that time in such a substantial way that it might prove a shock to the gradually increasing volume of business.

Mr. HENDERSON. That therefore might shut it off, is that it?

Mr. GREGG. There was a possibility of that.

Mr. HENDERSON. That is, there was in your consideration, then, some idea that too sharp an advance might destroy the rising tide of activity.

Mr. GREGG. It would bring about a reaction from our customers unquestionably, an unfavorable reaction.

Mr. HENDERSON. That means it would lead to a lowered amount of buying?

Mr. GREGG. It might perhaps do that too.

Mr. HENDERSON. Then you undertook in the prices you fixed to get a price which would not dampen that activity, which you felt the trade would stand at that time.

Mr. GREGG. And that they would accept happily rather than resentfully.

Mr. HENDERSON. Is "happily" the happiest word in that connection? Does the customer accept "happily" an increase?

Mr. GREGG. I think Mr. Fairless' letter would indicate that that was the proper expression.

Mr. HENDERSON. You mean that your customers generally accept happily an increase in their price of the material you sell them?

Mr. GREGG. When they know it is justified, as it was under those conditions, they do.

Acting Chairman KING. Better to have a satisfied customer than a dissatisfied one.

Mr. GREGG. Yes, sir; always.

Acting Chairman KING. That increases your sales, both current sales and future sales, to have a satisfied customer.

Mr. GREGG. Well, it helps us to maintain those friendly relationships with our customers, Senator, which we have found to be very essential.

Mr. FELLER. Mr. Gregg, I should like to call your attention to the chart entitled "Index of Ingot Production and Finished Steel Composite Price."[1] This chart indicates that the index of ingot production reached a high point at the beginning of 1937 and then with a number of vicissitudes began to go down, went up once or twice, but at any rate in the latter part of 1937 it went down so sharply that you might almost say the drop was catastrophic. Is that correct?

Mr. GREGG. Yes; it was certainly precipitous.

Mr. FELLER. At that time did the officials of the Steel Corporation consider the possibility that a reduction in the price of steel might in some way arrest this decline?

Mr. GREGG. In answer to that I would say that for a period of a few weeks during which this decline took place most rapidly, most of the officers of the Corporation and of the subsidiary companies, thought that the decline was purely of a temporary nature and that no steps were indicated under those circumstances to necessitate a reduction in price. I can't say that they did feel a reduction in price might tend to stop that decline, for those reasons.

Acting Chairman KING. Who sustained a loss by reason of that precipitous decline?

Mr. GREGG. The steel manufacturers.

Mr. HENDERSON. They didn't sustain it on the sales in the quarter the price was announced.

Mr. GREGG. I was referring to the losses incurred by that very sharp drop in the volume of business.

Mr. HENDERSON. But I am referring to the first few weeks in which you said no change in price was necessary to recreate demand.

Mr. GREGG. No, at that time——

Mr. HENDERSON (interposing). Let me put it this way. The volume of steel you were selling at that time would be at the contract price for that quarter, would it not?

Mr. GREGG. Let's go back and review just what that whole program meant. Refer to your chart and you will find that the volume of ingot production or the index of ingot production had turned up during the year 1936. When we made our price announcement in November of 1936 there was a very sharp upturn in volume of business offered to us. In other words, the customers were trying to get their business on our books at the then existing prices and lower than the prices which would be in effect on December 1. As a consequence, our mills took on a very substantial tonnage of business. In fact, I think we reached almost a peak in our unfilled orders within a short time thereafter. Now you can't produce that amount of steel overnight, and as a consequence although business began to drop off very sharply near June, as I recall it now, of '37—It may have been earlier, I am not entirely clear on that point—the fact remains that the tremendous backlog which had been built up just preceding carried the volume of our production and shipments on into the face of this very rapidly declining order book, so that you don't begin to feel the loss in your earning reports immediately a drop in orders takes place. I have gone a little bit far afield, perhaps, but I was trying to answer the Commissioner's question specifically.

Mr. FELLER. The published price then remained at a constant level for a period of some six or eight months, did it not, until June 1938?

[1] "Exhibit No. 1381," appendix, p. 10710.

Mr. GREGG. The published price level remained unchanged. That of course does not indicate the mill return price, however.

Mr. FELLER. I understand that. I would like to have you explain that later. I am going to revert to this period a little later, but I should like now to interpolate a few questions with respect to a number of specific products and I shall ask you some questions with respect to that, if I may.

We have been inquiring, up to this point, with respect to your price policy on the general level of prices. I should like to look just very briefly at some of the details of that general policy. I have here a memorandum dated March 10, 1937, which has on top, at the outset, two names, J. H. McKown and A. H. Warren, Jr. The memorandum does not indicate who wrote it. I presume Mr. Warren, the latter name. Would you look at that, Mr. Gregg?

Mr. GREGG. I am not a member of the Carnegie-Illinois Corporation family and frankly I don't know the form they use; it may be from McKown to Warren or it may be the reverse.

Mr. FELLER. Do you know, Mr. Fairless?

Mr. FAIRLESS. It is the reverse.

Mr. GREGG. Mr. Fairless indicates it is from Mr. Warren to Mr. McKown.

Mr. FELLER. Will you identify that, Mr. Fairless, as being taken from your files? I don't assume that you yourself have seen this, Mr. Fairless, when you were with the Carnegie-Illinois. Will you identify it?

Mr. FAIRLESS. Yes.

(The memorandum referred to was marked "Exhibit No. 1387," and is included in the appendix on p. 10713.)

Mr. GREGG. May I have that?

(A copy was handed to Mr. Gregg.)

Mr. FELLER. I should like to read this one paragraph. It relates to Cor-Ten. Cor-Ten is one of your special alloy products?

Mr. FAIRLESS. That is right.

Mr. FELLER. The paragraph reads as follows:

> It is evident that our cost of production of plates is $4 to $5 per ton over the price of standard shapes. Unquestionably when the new 100" semi-continuous mill at Homestead gets on a more regular basis, the cost of plates will be brought down, possibly a differential of $2 per ton. If no revision is made in the price of COR-TEN and the prices on other commodities advance, it will in a sense be an admission on our part that the price of COR-TEN is already too high and does not warrant an advance. We think that we should offset any possible criticisms of this character and, therefore recommend modest advances to the bases as above indicated.

I hasten to say at this point that our understanding is that the prices were not in fact advanced. My question to you, Mr. Fairless, is this——

Mr. FAIRLESS. As a matter of fact they were reduced, if not at that time, very shortly afterward.

Mr. FELLER. Reduced subsequently. My question to you is this: Do you consider that the basis of the recommendation made here is a proper basis for an increased price and the basis as stated here is that if no revision is made in the price of this particular product and the prices on other commodities advance, "It will in a sense be an admission on our part that the price of Cor-Ten is already too high," and, therefore, we think that criticism should be offset by making some advance?

Mr. FAIRLESS. After all, that is just an opinion in a recommendation of one of our product managers, not an official of this subsidiary. The fact that the recommendation was not considered to any great extent is shown by the fact that it was not followed. Now the facts are, so that you will get the background and the committee will get the background, that Cor-Ten is a special alloy steel, it is a patented product, and we are a licensee, we pay a royalty for the use of this particular process to manufacture this product. It is high-tensile steel. It permits the building of railroad equipment, and likewise other equipment, with much lighter sections. It is a step in the right direction for lighter-weight rolling stock, railroad rolling equipment. Naturally we had a lot of difficulty, as anyone does who pioneers a new product. It is difficult to overcome the prejudices of the railroad engineers, metallurgists, and so forth. In order to get this material absolutely accepted and on the market, we arrived at prices which we felt would no more than break even; that is all we were attempting to do.

Acting Chairman KING. Sort of break down the resistance.

Mr. FAIRLESS. Certainly. At the same time, however, we were building at Homestead, the largest Pittsburgh plant of the Carnegie-Illinois Steel Corporation, a new continuous plate mill. One of the difficulties of this new product is getting these light gages in the old-fashioned mills. Therefore, as referred to in this letter, when this mill came into production, we felt that we would be able to decrease substantially the cost of this particular product and at the same time we had at that time built up some business, some markets, for the product. So this simply, as far as I am concerned, doesn't reflect the thinking of the officials of the Carnegie-Illinois Steel Corporation at all and certainly not the United States Steel Corporation.

Mr. FELLER. I take it you would disagree that that would be a proper basis for making a price change.

Mr. FAIRLESS. Not only would but did.

Acting Chairman KING. What was the name of that product?

Mr. FAIRLESS. Cor-Ten. It is a special alloy and it is used largely for the manufacture of cars and rolling stock where lightness with a high tensile product is required.

Acting Chairman KING. What is the basis outside of steel?

Mr. FAIRLESS. It has chrome and silicon; it is an alloy steel. I haven't the formula.

Mr. FELLER. Mr. Hughes, still looking at another specific recommendation with respect to price change, I hand you a letter on the letter head of the American Steel & Wire Co., one of the subsidiaries of the Corporation, dated November 12, 1936, addressed to you, and signed by Mr. Blackmer, president of the American Steel & Wire Co. Will you identify it, please?

Mr. HUGHES. Yes, sir.

Mr. FELLER. I offer this as an exhibit.

(The letter referred to was marked "Exhibit No. 1388" and is included in the appendix on p. 10714).

Mr. FELLER. I should like to read just one paragraph from this letter, toward the bottom, Mr. Hughes [reading]:

I have only recommended $2.00—

That would be an increase of $2—

for Basic and Bessemer Wires because of the desire to lessen, as much as possible, the spread between Rods and Drawn Wire. There is a tendency for Wire users to install machinery and draw their own wire. I think a lessening of the spread between Rods and Wire will discourage them to some extent from putting in their own drawing equipment.

As I understand it, Mr. Hughes, wire is manufactured from a product known as wire rods.

Mr. HUGHES. That is correct.

Mr. FELLER. And the Corporation sells both wire rods, a semifinished material, and also wire, which is drawn wire.

Mr. HUGHES. That is correct.

Mr. FELLER. Am I correct in understanding that the recommendation made by Mr. Blackmer was that the price for wire rods be increased more than the price for wire in order to narrow the spread between wire rods and the product made from wire rods?

Mr. HUGHES. That was his recommendation.

Mr. FELLER. And the basis for his recommendation was the desire to discourage the users of wire rods from making their own wire?

Mr. HUGHES. It was to discourage, I should assume, having other people buy our semifinished material and compete with us in the finished product.

Mr. FELLER. Correct. Was this recommendation accepted?

Mr. HUGHES. I do not—this letter was addressed to me because Mr. Gregg was absent for a day or two then. I think he is better qualified than I to answer that particular question.

Mr. FELLER. Do you remember, Mr. Gregg?

Mr. GREGG. I do not recall, Mr. Feller; $3 per ton is the advance that took place on wire rods.

Mr. FELLER. $2 on bright basic and Bessemer wire?

Mr. GREGG. On bright basic drawn wire, $2 per ton at that time; yes.

Mr. FELLER. In other words the recommendation was accepted.

Mr. GREGG. To that extent; yes.

Mr. FELLER. The spread was narrowed.

Mr. GREGG. Yes.

Mr. FELLER. Why was that done? Was it on the basis of this recommendation?

Mr. GREGG. The reason Mr. Hughes has indicated, that we did not care to encourage the further development of our then wire customers going into the business and buying wire rods and drawing their own wire. It was a protection of a business that we had built up over a period of many years.

Mr. FELLER. Would this not also seriously affect the profit margin of independent wire producers who drew wire from wire rods which they purchased from you?

Mr. GREGG. To the extent it would affect us; yes.

Mr. FELLER. To the extent that it would affect you?

Mr. GREGG. Yes; because it affected us likewise. Our costs had gone up and we did not increase the price of bright wire sufficiently to cover those costs.

Mr. FELLER. Yes; but you did not sufficiently increase that cost, not primarily because of a cost situation but because you desired to discourage the production of wire by your own customers.

Mr. GREGG. Because we were trying to discourage our customers of bright wire from going into the business of buying wire rods and drawing their own wire.

Mr. FELLER. My question was whether the effect on those small concerns—well, I will strike out the word "small," the effect on those concerns—which made wire from purchased wire rods for sale in the market, their spread was also cut down.

Mr. GREGG. Their spread was decreased $1 per ton if they were paying the market price for rods and got the market price for bright wire; yes, sir.

Mr. FELLER. Now may I ask you whether, in making price changes, it is customary for your corporation to consider whether or not it is advisable to increase or decrease the spread on particular products?

Mr. FAIRLESS. It seems to me that comes under the heading of price policy of the Corporation, doesn't it, Mr. Feller?

Mr. FELLER. Yes.

Mr. FAIRLESS. That is my question, then, isn't it?

Mr. FELLER. Yes, sir.

Mr. FAIRLESS. Price policy with reference to the sale of semifinished steels in any form by the United States Steel Corporation, since its existence, has always been to provide a satisfactory margin between the selling price of those semifinished steels and the selling prices of the finished products resulting from them, insofar as we could exercise control. Now, just because at some particular interval in your pricing of steel products, some particular period, you might, as indicated by Mr Feller, narrow the spread as between the semifinished and the finished product, that doesn't mean exactly what it says, because you assume, when you make that statement, that the spread is a satisfactory one to begin with, and therefore you are taking something away. There is a possibility that that spread is too great, and it oftentimes becomes too great because of severe competition to sell rods, if you please, to the purchasers of rods. So we occasionally will permit, and apparently the Wire Company decided that this was the proper time to move in that direction, that it was advisable and so recommended, to narrow that spread as it then existed—as it then existed—but not necessarily to take profits away from the user of semifinished steel. And I might add here, and wish to have it as a part of the record, that semifinished steel users generally, and they are served more largely and to a greater extent by the United States Steel Corporation than by any other steel company, and have been since its inception, will testify to this Committee that they have always been fairly dealt with in respect to prices of their raw materials, and I believe from a policy standpoint that covers what I have to say.

Mr. HENDERSON. May I have a question there, Mr. Feller? Your statement, Mr. Fairless, on the policy of the Corporation I think did not cover, however, the Corporation's general policy, of which this might be an instance, of what you do in relation to semifinished and finished if it looks as if you might lose the sale of the finished commodity by reason of the differences in cost. Do you want to comment on that?

Mr. FAIRLESS. Yes. It has no influence at all. Of course we cannot, Mr. Henderson—the United States Steel Corporation cannot—assume all of the burdens of technological developments in this steel industry, and if the advance and development of equipment is such that some purchaser or purchasers of semifinished steel can no longer compete, of course we cannot assume the complete burden of keeping him in business.

Mr. HENDERSON. How about your burden of keeping him out of business?

Mr. FAIRLESS. Just a moment, please.

But assuming that his finishing equipment is as good or reasonably as good as any in the industry, and assuming that his product, which he produces, quality-wise is the equal or reasonably the equal of any, it is always our policy, has been and still is, to keep that man in business, and sell him semifinished steel at a proper price, at a price that will enable him, under the existing conditions, to make a reasonable profit.

Mr. HENDERSON. Then it means that since, as you stated, you are such large sellers, it really lays within your power, whether you exercise it or not, to determine whether or not one of these finished-steel producers stays in business.

Mr. FAIRLESS. Oh, no; I would not permit that statement to get into the record at all.

Mr. HENDERSON. Isn't that true on the answer you gave me?

Mr. FAIRLESS. Not at all. I said we happen to be and we are the largest seller of semifinished steel in normal times in the steel business; but you also recall earlier in my testimony I made the statement that in poor times in the steel business every producer of steel was a seller, actually or potentially, of semifinished steel.

Mr. HENDERSON. Particularly for the automobile trade; wasn't that it?

Mr. FAIRLESS. I am not talking about automobiles; I am talking about semifinished steel. That is our subject, isn't it? It doesn't make any difference whether it is for the automobile trade or wire or sheets for any purpose, or strip steel; there are many forms of semifinished steel, all of which we make.

Mr. HENDERSON. Now assume that you have a certain percentage of the market.

Acting Chairman KING. Semifinished?

Mr. HENDERSON. For the finished product.

Mr. FAIRLESS. Do you mean capacity now, or actual business?

Mr. HENDERSON. Actual business; and you see the prospect that other equipment might be built and you might lose the market for your finished steel. Do you not take steps to maintain that business, and would they not include some squeezing of the relationship between the semifinished product and the finished?

Mr. FAIRLESS. I don't understand the way you put that. You say "losing the market of our finished steel." How would we lose the market of our finished steel?

Mr. HENDERSON. Well, couldn't you lose a market for finished steel?

Mr. FAIRLESS. There are many ways you can lose a market, but I am trying to connect it up with this particular route, the semifinished route. How can we lose it?

Mr. HENDERSON. Let me put it this way: If you are confronted with the prospect of losing a market, or a certain percentage of the market sales, and the like, don't you take steps so far as prices are concerned to try to retain that percentage of the market?

Mr. FAIRLESS. You mean losing a customer, for example, because of price, or losing a participation in an industry because of price, do we take steps to protect ourselves? Certainly. Certainly we do. But where does that connect up with sales of semifinished steel? I am trying to connect the two together.

Acting Chairman KING. If the person is furnishing oranges from Florida, and grapefruit for the market in New York, and competition threatens from oranges in California, I assume that the orange producer in Florida tries to protect himself.

Mr. FAIRLESS. Certainly.

Acting Chairman KING. That is true in any business. Any person, whether he has a big business or a little business, has developed a market for his product. He is jealous to guard it and if people threaten it by underselling, he adjusts his price in order to keep the market.

Mr. FAIRLESS. Certainly.

Acting Chairman KING. To keep his customers.

Mr. FELLER. May I say that this matter of the relationship between semifinished sales and the sale of finished steel products is one that we intend to go into in some more detail later on. I think it important to remind the committee, however, at this point, that the brief indication which has been brought out here of the problem was one which was not in any way related to the question of fairness or propriety, but it indicates an important economic problem based on the fact that certain producers of steel are sellers of a raw material to other producers of steel, and that these two groups compete in the market against each other. In other words, the United States Steel Corporation produces wire rods and it produces wire. It sells wire rods to some other people who make wire which they sell in the market in competition with the United States Steel Corporation, and that is an economic question which the committee should have placed before it, and tomorrow we intend to go into that question in somewhat more detail.

Mr. FAIRLESS. Except, if I may, Mr. Chairman——

Mr. FELLER (interposing). Please.

Mr. FAIRLESS. That that isn't all that is involved in that letter, in that recommendation. You haven't told the entire story. We are also, this industry is, confronted with not only people who buy rods and draw wire and sell it in the open market, but also people who use wire, who use wire in large quantities, or in quantities sufficient that they feel that they can put in equipment to draw wire. Now, wouldn't it be very inconsistent for a wire company, a steel company that manufactures wire, that has its big investment in raw materials, blast furnaces, open hearths, blooming mills, rod mills, and wire-drawing equipment, to sell those rods to its own wire customers at a price which would permit the destruction of its own finished wire business to the same customer?

Mr. HENDERSON. That is the answer I was trying to elicit, Mr. Fairless.

Mr. FAIRLESS. Assuming, which is certainly correct, that we are selling the finished product at a fair price.

Mr. FELLER. That, in effect, is a statement of the problem, and it is that problem we intend to go into. I am very glad to have you add the fact that there are two facets to the problem, the customer who is also a seller, and the customer who is only a user.

Mr. FAIRLESS. That's right.

STEEL PRICES IN 1937 AND FIRST HALF OF 1938

Mr. FELLER. May I revert again, now, to the development of the course of events in 1937 and 1938? If I may recall the attention of the committee to the point which we were discussing a few moments ago, it will be recalled that the price of steel, the published base price of steel, remained more or less stationary from the early part of 1937 through the first half of 1938, and I had asked Mr. Gregg the question as to whether the officials of the Corporation had considered reducing the price in order to arrest the declining demand which he had characterized as precipitous.

I should like at this point to read two letters which were taken from the files of the Carnegie Illinois Steel Corporation. There are three letters here; they are dated respectively November 29, 1937, December 3, 1937, and December 3, 1937. I do not know whether these letters came to the attention of any of these gentlemen. I think they will interest the committee very much. May I ask if any of you gentlemen saw these letters? The letter of November 29 is written by the general purchasing agent of the Willys-Overland Motors, Inc., to the Carnegie Illinois Steel Corporation. There is then a letter of December 3, 1937, written by the manager of sales of the Carnegie Illinois Corporation to Mr. McKaig, vice president and general manager of sales, and finally another letter of December 3, signed by the manager of sales of Carnegie Illinois and written to the Willys-Overland Motors, Inc. I don't know if you have ever seen them.

Mr. FAIRLESS. I have seen them.

Mr. HUGHES. I haven't.

Mr. FULLER. I offer these, Mr. Chairman, and I should like to read them.

Acting Chairman KING. The first referred to is written by someone not a member of the company?

Mr. FELLER. They were taken from the files of the company.

Mr. FAIRLESS. They were written to a member of the company.

Mr. HENDERSON. Mr. Fairless says he has seen them.

Mr. FAIRLESS. Written by a purchasing agent of Willys-Overland Motors.

Acting Chairman KING. Not your agents? Then they would not be binding upon you?

Mr. FELLER. It is not a question of binding anybody at all. It is one of these matters that I think should be brought before the committee, and it is only for the information of the committee.

Acting Chairman KING. Read it, and we will ascertain whether it is relevant or so remote as to not go into the record.

Mr. FELLER. The question which has been addressed is, Did the officials of the Corporation consider at the beginning or during the course of this precipitant decline in steel demand—did they consider—the lowering of the price, the reduction of the steel price, in order to arrest this demand, and the answer was made, I believe, that some consideration was given to it, but it was decided not to reduce the price.

Mr. FAIRLESS. I can't let that go into the record that way.

Mr. FELLER. Mr. Gregg, I believe, so testified.

Mr. FAIRLESS. Now you are talking about two things here, as we usually do when we talk about steel prices, and in order to get this picture before this Committee I think we should have our chart showing realized prices versus published prices.

Mr. FELLER. We are talking only about published prices.

Mr. FAIRLESS. But we can't talk only about published prices. We have to run our business on the basis of the amount of cash we get for our goods. We don't get that through the newspapers.

Mr. FELLER. Are you objecting to my repetition of Mr. Gregg's answer to my question?

Mr. FAIRLESS. I am objecting to this only, that the United States Steel Corporation subsidiary companies did not just stand adamant when business was going bad, as it did in the latter half of 1937, and say, "This is our price; take it or leave it. We are not going to do anything about it."

I want this Committee to have the benefit of my knowledge of just what did happen in the last half of 1937.

Mr. FELLER. I take it that the point you want to bring out is this, that in that period there were very substantial concessions——

Mr. FAIRLESS (interposing). Reductions in price.

Mr. FELLER. That is to say, concessions which do not appear in the published price, but were given to individual users on the basis of the market.

Mr. FAIRLESS. Certainly. And also I want to call attention to this letter, which I don't see any point—that is my opinion, of course—in making a matter of record. This is the case of a purchasing agent writing a letter to our district office in Detroit asking us to reduce the price of material which had already been placed on our books by him. Now, the decision not to do that was not because of the amount of money involved, but was because of the principle involved. As a matter of fact, the amount of business on our books that caused the exchange of this correspondence was a ridiculously few hundred tons, but it would have involved the principle of going back over all of our business and writing down our orders, so this can't be confused with the principle of not reducing prices in the latter half of 1937. Prices were, as you have admitted, materially reduced.

Mr. FELLER. Oh, yes, sir.

Mr. FAIRLESS. Isn't it more effective—at least I think it is—actually to reduce prices of steel to those who buy it, than it is to put it in the newspaper?

Mr. FELLER. May I point out, Mr. Fairless, that the questioning is being done from this side of the table? We are developing this in an orderly fashion. We are first dealing with the base price, the published base price, and then going on to the situation, the actual business situation, which occurred there, and there is certainly no intention whatever of omitting that fact which, as I say, I have admitted and I admit very readily. There is no question whatever. This letter, which I desire to read, is inserted here in order to express the view of a customer of steel products during that period, during that very critical period for the industry. Now, if I may go ahead.

Acting Chairman KING. As I understand you, this customer—you had had dealings with this customer, and the order was upon your books, and he was writing now asking you to reduce the price at which the order, prior to that time, had been placed upon the books.

Mr. FAIRLESS. He is writing on November 29, and the business was placed with us on August 25.

Acting Chairman KING. And he wanted you to go back and revise your rates.

Mr. FAIRLESS. That is right.

Acting Chairman KING. You declined to do that.

Mr. FAIRLESS. And the material had been rolled to his specifications and was in stock ready to be shipped to him.

Acting Chairman KING. Proceed, Mr. Feller.

Mr. FELLER. I offer this now as a view taken by one of the customers of the Steel Corporation, and also the consideration which was given to it in the Corporation to make clear what the problem was.

Acting Chairman KING. Do you contend there was an obligation resting on the company after the contract was made?

Mr. FELLER. No, sir; I make no contention whatever. I want to make it clear that I make no contention at any point with respect to any matters that go in, and I certainly make no contention specifically with respect to these matters.

Acting Chairman KING. Proceed.

Mr. FELLER (reading):

Since we placed with you our orders on or about August 25th for sheet steel, a radical change in business has taken place. We are in an entirely changed economic situation.

In the interest of reducing, as far as possible, the period of readjustment now taking place which if not checked now may have a more far reaching and drastic effect, we ask that you consider with us the problem and the proper corrective measures, as it pertains to the relationship of your company with ours.

Generally higher priced inventories and commitments moving into the trade at a reduced rate places a restriction on the resumption of normal business. We feel there should be joint mutual action on the part of those in the industry to work out of the present situation as soon as possible. Unless prompt action is taken, there may be later greater loss in operations and inventories than might now be necessary.

We ask that you immediately have your representative call on us in connection with the above orders with the view of discussing the problem of taking planned measures of a precautionary nature which are to be advanced and which will undoubtedly compel you, from a broad and liberal viewpoint, to re-examine your entire price structure. We will attempt to further review why you and others in your class of manufacturing should acquiesce and consider the thought of accepting lower price, lower profits, increased volume and quicker turnover at this time which would obviously prove less costly than to continue slow and interrupted operations over the necessary time to adjust inventories and commitments at present rates of production.

The next letter, which is dated December 3, 1937, is addressed by the manager of sales of Carnegie-Illinois Steel Corporation in Detroit, to Mr. McKaig, the vice president and general manager of sales of the same corporation. [Reading:]

Attached is copy of a letter dated November 29 from Mr. G. H. Bancroft, General Purchasing Agent of Willys-Overland Motors, Inc., together with copy of our acknowledgment of today.

Acting Chairman KING. Whom was the first letter from?

Mr. FELLER. The first letter is from the general purchasing agent of Willys-Overland.

Acting Chairman KING. And the second is from the same.

Mr. FELLER. No, sir; the second letter is from the manager of sales in Detroit, of the recipient company, the Carnegie-Illinois Steel Corporation, to another official of the Carnegie-Illinois Steel Corporation.

I shall read just part of this. [Reading:]

Mr. Bancroft—

the writer of the original letter, connected with Willys-Overland Motors—

States that they have reached the very definite conclusion that they will have to reduce the price of their cars to stimulate the market. They believe that other manufacturers will have to do likewise. Accordingly, he feels that it will be necessary for their suppliers to grant them reduced prices and went so far as to say that he was convinced that it would not be long before labor would be accepting reduced rates.

Mr. Bancroft also brought out the point that in previous instances of drastically reduced demand steel prices had become demoralized. He believes that this situation can be avoided in the present instance if steel makers will voluntarily reduce their prices.

Our representatives made very clear to Mr. Bancroft that we were glad to have a statement from him as to his views on the present situation. They told him that the steel market had shown an excellent account of itself at the present time and that we had experienced no appreciable pressure for lower prices. Mention was made of the fact that many concerns are saddled with very heavy inventories which had been built up earlier this year when mill deliveries were quite extended. The point was made that the reduction in prices would work a hardship on such concerns.

The letter goes on to say:

We do not expect to be called upon for a direct answer to Mr. Bancroft's question with respect to the price on the two open orders which he has with us. We would be very interested, however, in any comments you care to make on his letter.

The reply, which was sent to Mr. Bancroft, reads——

Acting Chairman King (interposing). By whom?

Mr. Feller. By manager of sales, Carnegie-Illinois Steel Corporation, in Detroit.

Mr. Fairless. That is the district sales manager in Detroit, who handled that particular territory.

Mr. Feller. I don't know whether it is really necessary to read it. It says that the letter will have very careful consideration.

Now, what I am concerned with here, Mr. Fairless, is this: Irrespective of the particular ranking of the people who handled this transaction in your corporation or the Willys-Overland Corporation, you do recognize at that time that the ideas which Mr. Bancroft was setting forward here presented a real problem. The problem which Mr. Bancroft put forward is this: The general economic condition of the country was declining very rapidly. He suggests that there should be a general lowering of prices in the industry, and he makes that point, I take it, for two reasons. He says, first, that you should consider the thought of accepting lower prices, lower profits, increased volume, and quicker turn-over at this time, which he thinks in the end will prove less costly. And he also makes the suggestions, apparently orally, as it appears from their covering memorandum, that a decrease at this time would avoid demoralization, such as had in the past resulted when business became bad.

Now, may I ask, were these considerations discussed by the officials of your corporation, and what decision was made with respect to such considerations? That is the problem to which I have addressed myself.

Mr. Fairless. Of course, it was discussed. That is why the letter is so familiar to me.

Mr. FELLER. Yes, sir. Now, won't you tell us what the considerations at that time were as far as the officials of the Corporation were concerned, and what they decided to do? I don't mean about these two particular orders, but about the general problem.

Mr. FAIRLESS. I have tried to make it clear just what happened in 1937. We had a tremendous order book in the latter part of 1936 and for the first quarter of 1937. I believe the peak was reached sometime in March or April in respect to incoming business. All shipments and production did not fall off immediately, but just as soon as incoming business began dropping off, why very severe competition—not that competition didn't exist before—but very severe competition began immediately in this industry of which we are a part and had Mr. Bancroft, this particular day that he was writing this letter, had any steel to buy, he would have been able to have proven to himself that what be was actually advancing as something that should be done by the industry was already under way.

Mr. FELLER. In other words, the price was actually being cut. Steel was actually being offered at lower prices.

Mr. FAIRLESS. That is right.

Mr. FELLER. I should like to ask you this, and I think this is a very important question for this committee to have before it: Why was the published price not reduced?

Mr. FAIRLESS. There are many reasons why the published price is not reduced to meet day-by-day sales. You take in a period such as happened in the latter half of 1937, and, generally speaking, throughout 1938, you come to periods there where there really isn't any market, and it would be impossible to reflect through the route of trade-paper quotations actual prices. The actual price—what would it be? Would it be the lowest price that you made a sale at? Would it be the highest price that you made a sale, or would it be some intermediate price?

And what we did—that is, our company— we followed our competition, met our competition as best we could, attempted to keep our position in this industry, and, finally, when we felt that this price level had reached somewhere near a so-called bottom—which later events proved had not been reached, but at that time we thought it had—then we announced officially lower prices, and announced those prices on June 24, 1938.

Mr. FELLER. I am coming to that, of course.

Mr. FAIRLESS. But it is all a part of this picture.

Mr. FELLER. Oh, yes.

Mr. FAIRLESS. It is all definitely tied into what happed in '36 and '37, the latter half of '37 and on through '38. It is all part of the same picture.

Mr. FELLER. I think that is true, and what we are considering here now were the matters that went on during that 6- or 8-months period when the base prices stayed the same before you finally reached the decision to reduce them in June 1938.

As I take it, your statement was that you felt you couldn't reduce the base price because you wouldn't know where to put it, because of the fluctuations in the market.

Mr. FAIRLESS. I said there were many reasons. I offered that as one.

Mr. FELLER. Would you mind telling us some of the others, some which you ranked as of equal importance or near equal importance?

Acting Chairman KING. Do you assume that he could fix the base price?

Mr. FELLER. Yes, sir; they have done that so far.

Mr. FAIRLESS. We set our own base prices.

Acting Chairman KING. The base price for the whole industry?

Mr. FELLER. I am talking now about their own base prices.

Mr. FAIRLESS. Another reason why reduced prices aren't announced immediately is because of the uncertainty of the continuance of the decline. We have gone through periods, experience has taught us—in my 25 years, almost 26 years, in the steel business—we have had dips that were of very short duration, and then we start back up again, and certainly with the big backlog of tonnage that we had on our books and the high inventories which our customers had at higher prices than the then going prices, although not the actual published prices, we were really faced with a real problem so far as decision is concerned. Many times we are confronted with very strong requests on the part of our customers not to reduce prices precipitously because of their inventory problems.

Acting Chairman KING. If you had made precipitous or material reductions in your prices, your customers who had loaded themselves up with your commodities would have suffered, would they not? You would have broken some of them.

Mr. FAIRLESS. That is right. Some of them had borrowed money, of course, to buy the inventory that they had, and of course with us, the steel industry, we are in the raw material end of the business, and it seems to me if business is to be stopped in a decline by reduced prices, that that reduction—and I am not an economist, I apologize—but it seems to me as just a layman that the beginning should be in reducing the price of the finished articles that come from the steel, because that inventory could be replaced then or next week or next month, at certainly reduced prices, and we can't deal with an inventory already delivered to the customer.

Mr. FELLER. May I ask you this, Mr. Fairless: As regards this inventory problem, what difference does it make to the customer whether there is an announcement of a reduction in the base price when, as a matter of fact, you have told us the prices which everyone was getting were less than the base price? Doesn't that depreciate the value of the inventory?

Mr. FAIRLESS. I can answer that very easily. Just because the going prices are reduced doesn't mean that all customers are in the market or in a position to buy. People don't buy steel because it is cheaper. You don't go out and sell a customer an order of steel today that he doesn't need because you offer it for $5 a ton or X dollars a ton below the price. People only buy steel when they can use steel.

Mr. FELLER. Perhaps I haven't made myself clear. As I understand your answer previously, it was this: Many customers would have on hand large inventories of steel which they had bought at a certain price. If the published base price were reduced, the value of those inventories would be depreciated by the amount of the reduction in the published base price. That is correct, is it not? Now you have told us previously that as a matter of fact the price for steel was below the published base price. Why did that not depreciate the value of the inventories?

Mr. FAIRLESS. I can't answer that.

Mr. FELLER. Didn't it in fact, on the basis of your answer?

Mr. FAIRLESS. It did in fact. The only thing that I am attempting to bring out before this committee is this—that in periods of decline in steel prices which may be considered temporary or otherwise, we, our corporation and its subsidiary companies, get requests from many customers: "Please don't reduce the price of steel."

Mr. FELLER. I understand that.

Mr. FAIRLESS. Why that is, I can't go into that. There may be many reasons why.

Acting Chairman KING. Would this be a fair illustration of the situation? Suppose there is a very large manufacturer of clothing in New York who furnishes a very large percent of the clothes which are sold in Washington, Chicago, and various other parts of the United States, and his customers have loaded up with millions of dollars worth of clothing, suits, and so on, and the manufacturer still has a considerable part on hand, and there is a decline in business. Would it be fair to assume that he then should immediately reduce the price of his commodity when, if he did so, it would break perhaps hundreds of persons who had purchased his commodities and hadn't sold them?

Mr. FAIRLESS. It might very well.

Acting Chairman KING. If he should immediately announce a reduction of 10 or 15 or 20 percent in the price of his suits and the commodities when he had sold millions, and tens of millions, of dollars worth of goods, and the vendees had not disposed of them, would it not immediately precipitate a serious situation with his customers?

Mr. FAIRLESS. Yes; I think I can answer Mr. Feller's question possibly more clearly by the simple statement that the time involved in this business of ours, this industry, with its many ramifications and its multiplicity of products, between when orders are placed and deliveries are made, is a very much involved business, and I think it probably accounts for the confusion in your mind, if you have confusion, I don't know, as to why just as soon as market conditions begin to appear other than those surrounding the published price, it doesn't immediately go down. There are many ramifications of it.

Mr. FELLER. The question to which I am addressing myself now is this: What is the significance of keeping the base price at the same level? In other words, what is the significance of the base price at all in a situation of this kind? You have told us that a reduction in the base price, the announced published price, would have seriously affected people who were holding inventories. At the same time you have told us that the actual price was below the base price, perhaps well below; I don't know whether you have said that. Now, I am trying to find out just what the published base price means in a situation of this kind, and in other words what difference does it make where it is or whether you reduce it to meet some level of the going price as it appears in the market.

Mr. FAIRLESS. Well, our published base prices do not mean one thing today and something else tomorrow. They mean one thing at all times. They are the prices that we feel are fair for the products that they represent for the period which the announcement covers and they are the prices that we want to get, just those prices, and the prices that we feel we are entitled to. When we don't succeed in getting those prices for sales made in that period, it is because competition won't permit it, so therefore we take orders, if you please, at prices below. Now, I wouldn't know how to run this business on the basis of daily, if you please, it could easily be daily in times of stress, announcing new base prices of steel products. I wouldn't know how you could operate our business on that basis. This is a big industry, as you know.

Mr. FELLER. I think that is a very important point that you have made, that the characteristic of the industry is such that daily fluctuations in your opinion would make it impossible to run the business. I want to call your attention to this fact, that the price remained at the same level from about March of 1937 to June of 1938, your published price. Could you tell us why in this period of stress it was not thought advisable to reduce the base price to something like the level of the going price during the third and fourth quarters of 1937 or during the first quarter of 1938?

Mr. FAIRLESS. I have been attempting to answer that right along. All my answers have been directed to just that question.

Mr. FELLER. I am sorry, then, I haven't fully understood that.

Mr. FAIRLESS. Have I made myself clear to the committee?

Mr. O'CONNELL. Not to me.

Representative WILLIAMS. Not to me.

Mr. FAIRLESS. Well, we will start over again.

What is the question?

Mr. FELLER. Let me restate the elements of the question. The published base price remained at the same level from March 1937 to June 1938. You have told us that during that period the actual price received by your corporation was not at that level, it was below that level, due to concessions which were being given by the steel producers, including yourself. The question is, why was the published base price not reduced during the third quarter of 1937, the fourth quarter of 1937, and the first quarter of 1938, to meet the actual realization which your corporation was getting?

Mr. FAIRLESS. Well, one of the reasons, I repeat, is that we didn't have any basis for an announcement of a new base price in some products. Another reason——

Mr. HENDERSON (interposing). May I have a little elaboration on that? Do you mean your volume was keeping up?

Mr. FAIRLESS. No; I mean only that prices were all over the map, to use the common expression. They weren't consistent at all.

Mr. HENDERSON. And you felt you might as well keep the base price as change?

Mr. FAIRLESS. That price was about as good as any in an unknown market. Also, another important point was the fact that on many products we didn't have the wild fluctuations of prices, even during the third and fourth quarters of '37 and the first quarter of '38, as we had in the products that are commonly referred to as flat rolled products. Therefore, to have made an announcement of a reduction in price in those products during a period when uncertainty existed, we in our studies weren't convinced that we were headed into another depression—certainly we didn't come to that conclusion, although we studied the problems and had been advised by our own economists and so forth.

Mr. HENDERSON. You were advised by your own economists that you weren't headed for another depression.

Mr. FAIRLESS. That is right.

Mr. HENDERSON. When was that advice given, do you recall?

Mr. FAIRLESS. The latter half of '37.

Mr. HENDERSON. The latter half of '37.

Mr. FAIRLESS. Yes. So we didn't feel that it was good business. We came to the conclusion that it wasn't good business officially to reduce our prices until we did reduce them, and that was on June 24, 1938, and we reduced them very substantially, as you know.

Mr. FELLER. I want to come to that right now.

Acting Chairman KING. If purchasers should desire to purchase steel, they weren't bound or you weren't bound by what was called the base price. You would make your negotiations.

Mr. FAIRLESS. That is right. You sell steel across the desk with the man who buys it.

Mr. HENDERSON. Maybe there are some of these business reasons that have escaped us. It is well known as far as almost any product is concerned, and also certainly as to steel, that there are difficulties in getting a raise in price. Was it one of your considerations that if this was a short-term decline you would have a great deal of difficulty in getting what you thought was the proper price for your product at some later time? It was better as a matter of good business to keep that nominal base price in the hope that the demand would come back for it.

Mr. FAIRLESS. Yes, I think that is stated as a reason, yes, as I put it we didn't think we were headed for another depression, we thought it was temporary and business was coming back.

Mr. HENDERSON. The reason I stated, which I don't believe you mentioned, was the difficulty of getting the price back to what you would consider a satisfactory price. Take the course of steel prices after the decline of 1929. Recovery set in sometime in '33. A part of the way back on price was regained in '34 and it wasn't until sometime late in 1936 that you could get an additional price, and then of course you went beyond the 1929 level. What I am suggesting is that perhaps the length of time it takes to reestablish the basis of price was one of the considerations that kept you posting the same price at each price posting period.

Mr. FAIRLESS. Well, we know from long experience that it is very easy to put prices down and very difficult to put them back, to bring them back. We know that a price reduction is effective the day it is announced. We also know through our years of experience in this business that a price increase is not effective to any great extent until about 6 months after it is announced, if you take the full line of steel products of this industry.

Mr. HENDERSON. After you had announced your '36 and '37 price increases, when do you estimate you were getting realization of those, just generally?

Mr. FAIRLESS. We didn't get them at all. We never did realize the 1937 price schedule. We were just coming into the period when it probably would have happened or come very near it when business slid off and the published price schedules of 1937 were never realized by the United States Steel Corporation subsidiaries. We have a chart that shows that which we will be very glad to submit.

Mr. HENDERSON. We are going to get to realization, I think, sometime later, but I think we want to examine into the considerations in the minds of the policy makers as to this price during this period, not the realization, but of this base price, because it does exercise a certain importance in the industry. One other factor you didn't mention that you might want to discuss is what its effect on stabilization is, what the industry or what you people think is the effect of a stable base price. Do you regard that as having any high value?

Mr. FAIRLESS. I don't understand your question. Do you mean in the particular period?

Mr. HENDERSON. Yes.

Mr. FAIRLESS. Why, no; of course not. The maintenance of the base prices of steel products in the latter half of '37 and throughout '38 ertainly had no stabilizing influence on the price of steel.

Mr. HENDERSON. In the past would that have been the feeling, that there was some purpose to be served in stability by not being too quick to alter the base price?

Mr. FAIRLESS. Well, I think it is only the part of good business, isn't it? We are running a business here that is owned by our stockholders, and I think that we should very carefully consider any move that destroys the return on our goods.

Mr. HENDERSON. I would like you to get the chip off your shoulder, Mr. Fairless.

Mr. FAIRLESS. I don't have any chip.

Mr. HENDERSON. And not think there is a Senegambian hidden in the woodpile with every question. What we are interested in is what are the considerations that move you most strongly. You have a choice if you do or if you don't. In this case you didn't and you were wrong, as far as what the prospect of business was. I am just trying to get what the weight was and where it fell.

Mr. FAIRLESS. I don't admit we were wrong, that is just a statement. I don't admit that we were wrong in not reducing our base prices before we did.

Mr. HENDERSON. No; I said as to the forecast.

Mr. FAIRLESS. Oh, yes.

Mr. HENDERSON. You did guess wrong.

Mr. FAIRLESS. That is right.

Mr. HENDERSON. Whether business would come back quickly, and that is part of your explanation as to why you continued posting this high price for so many periods.

Mr. FAIRLESS. That is right.

Mr. HENDERSON. In that one set of questions Mr. Feller addressed to you, I didn't get a complete answer. Did you in that period, along the lines of the Willys letter, consider whether or not you could get a larger volume of future business by modifying the base price?

Mr. FAIRLESS. That is always a part of our studies and those studies are going on constantly in our corporation.

Mr. HENDERSON. What were the things pro and what were the things con in that connection? What are the things that favor that kind of a change?

Mr. FAIRLESS. I am not an economist and I am not going to attempt——

Mr. HENDERSON. You have made the only sincere flattery to an economist I have heard before this committee—you apologize for not being one. That is one of the reasons I have gone in and pitched on your side a little bit.

Mr. FAIRLESS. I didn't apologize for not being one.

Mr. HENDERSON. I think the record shows that you did.

Mr. FAIRLESS. I apologized for getting over in their field and answering questions. I am not an economist and I am not competent and don't care to get into that phase.

Mr. HENDERSON. I would like not to leave it with the statement that Mr. Fairless is not an economist, because he certainly has been stating economic reasons why they did not do it. What I asked was, what are some of the reasons pro for making that change.

Mr. FAIRLESS. I have given all the reasons that I can give.

Mr. HENDERSON. You haven't given any on the side of making the change, whereas there was an adjustment going on in other prices, beginning in the early part of 1937. A number of other industries faced with the same choice you had chose to make a change in the price at which they were publicly quoting, and you did not.

Mr. FAIRLESS. May I ask——

Acting Chairman KING (interposing). What do you refer to?

Mr. HENDERSON. I refer now to the "Index of Semi-Manufactured Articles and Finished Steel Comparison."

Mr. FELLER. May I say that did not get in the record. May I offer it? "Index of Semi-Manufactured Articles and Finished Steel Composite, 1926–1939," prepared by the Department of Justice.

(The clerk indicated that the exhibit referred to had been received as "Exhibit No. 1383.")

Mr. HENDERSON. I am glad as an economist that he is interested in putting in a long list of commodities that did adjust their posted prices in that period at the time when the steel composite price was standing above the 1929 level. I am interested in whether or not you did consider whether or not you could stimulate demand. Did you consider whether or not the amount of demand you could stimulate would compensate for the reduction in price?

Mr. FAIRLESS. Oh, I answered you at least three or four times. I will repeat it.

Mr. HENDERSON. I have made a suggestion of what has been offered many times as the reason for not readjusting. Then it has something to do with the kind of demand that you people have?

Mr. FAIRLESS. We don't believe that the price of steel, beginning now with a reasonable price of steel—of course if we begin with an unreasonable price of steel that carries an exorbitant profit a reduction in the price of steel would stimulate business because it would open up fields that have been taken over by competitive products, aluminum, copper, et cetera, but if we begin with a fair price for steel in any given period and all the basis factors that contribute to that cost of our steel, that particular product, remain unchanged, we do not believe—and we have an article which has been prepared by our people and which is ready for submission to this committee—that a reduction in the price of steel will have any material effect on stimulating business in such periods as you refer to in the latter part of

1937. Now that is our candid opinion, not just pulled out of the air, but based on a very exhaustive study in which we have not only employed our own ability, our own organization, but have brought in outside help, Dr. Yntema from the University of Chicago.[1]

Mr. HENDERSON. I understand you to say this was another reason, that I suggested to you might be in your minds—that you considered whether or not a reduction in posted price would bring about a demand.

Mr. FAIRLESS. Certainly.

Mr. HENDERSON. And you take it from your experience that that demand would not be sufficient to compensate for the difference in price?

Mr. FAIRLESS. We don't believe it would affect the demand at all at that time.

Mr. HENDERSON. You don't believe it would affect it at all?

Mr. FELLER. At that time.

Mr. FAIRLESS. At that time. There might be periods, and we came to such a period in June, when we felt that our prices were so far below the published prices that we didn't want to be in the position of telling the public that our price of steel was one thing when we knew our realized price was dollars per ton under that. That was the reason.

Mr. HENDERSON. But you didn't come to that until a year or more later.

Mr. FAIRLESS. Oh, no; not a year. We had a pick-up here in September 1937, as shown by your own chart that you have submitted.

Mr. FELLER. It was really the period between September and June.

Mr. FAIRLESS. That would more accurately cover it; it wasn't 1 year.

THE JUNE 1938 PRICE REDUCTION

Mr. FELLER. I should like to come now to the point of the reduction which took place, and for the record may I ask you to identify this cablegram which gives in effect your reduction, Mr. Fairless. It is addressed to Mr. Myron Taylor at the Morgan Bank in Paris, signed "Steelstet." I take it that is Mr. Stettinius, is it not? It is dated June 24, 1938. May I ask Mr. Fairless to identify that?

Mr. FAIRLESS. I assume that is correct.

Mr. FELLER. I offer this in evidence.

(The cablegram referred to was marked "Exhibit No. 1389" and is included in the appendix on p. 10715.)

Mr. FELLER. "Steelstet," is that Mr. Stettinius?[2]

Mr. FAIRLESS. That is right.

Mr. FELLER. It is signed by Mr. Stettinius.

Acting Chairman KING. That was released in 1938?

Mr. FELLER. Yes, sir; June 24, 1938. The telegram reads:

> The following releases made this afternoon "Carnegie Illinois Steel Corporation announces reduced prices effective immediately delivered FOB cars Pittsburgh and Chicago in carload lots as follows:"—

[1] Dr. Yntema's testimony before the committee appears in Hearings, Part 26.
[2] Edward R. Stettinius, chairman of the board, U. S. Steel Corp.

And then it gives a list of the prices.

"Prices on other products will be announced later Stop The new prices are approximately on the same level as those in effect prior to 1928 Stop The price reductions are made to meet competitive conditions and with the hope that such reductions will stimulate a demand for steel products Stop Mill prices of these products are identical at the mills in both Pittsburgh and Chicago a revision which has been made because of increased production facilities and greater diversification of products in the Chicago district" Stop "Tennessee Coal Iron and Railroad Company announces reduced prices effective immediately delivered FOB cars Birmingham in carload lots as follows:"—

And then there is a list of prices.

"Prices on other products will be announced later Stop The new prices are lower than those in effect prior to 1928 Stop The price reductions are made to meet competitive conditions and with the hope that such reductions will stimulate a demand for steel products Stop Prices of these products at the Birmingham mills are now identical with mill prices of Carnegie Illinois Steel Corporation for like products at Pittsburgh and Chicago."

There are a number of matters in this price announcement, Mr. Fairless, which you have already elucidated and tomorrow after we have taken a recess there are other matters which we should like to have you elucidate further. I take it the chief points which are made in the price announcements after the all-important point that prices have been reduced and that they have been reduced to the same level as those in effect prior to 1928, are these: First, that the price reductions are made to meet competitive conditions, and, second, that they are made with the hope that such reductions will stimulate a demand for steel products. Now I think perhaps you have already told us sufficiently about the competitive conditions. Do you care to elaborate at all, or do you think you have already covered that?

Mr. FAIRLESS. The only elaboration would be that the price reductions made on June 24, 1938, reflected, as nearly as we could ascertain, actual selling prices of most of those products involved in the price announcement, but in order to keep our schedule of prices properly related some products were reduced pricewise beyond the actual conditions within the industry at that time.

Mr. FELLER. May I ask this. This is a very important point. Was the total level of realization on the basis of the new lowered prices less than the realization just immediately preceding?

Mr. FAIRLESS. Yes; I have just explained that. In other words, we got down as near as we could to the bottom in the case of the products where price concessions had been most severe and most numerous, pegged it there, attempted to make a price there, then we brought down in proper relation to those products other products where price concessions had not been that severe.

Mr. FELLER. You stated here, your company stated in its price announcement, that the reduction was made with the hope that the reduction would stimulate a demand for steel products. Do you feel that that hope became a reality? Did the hope really come about?

Mr. FAIRLESS. Well, if it did it was a long time coming. I don't know. Again I am not an economist.

Mr. FELLER. Immediately after the cut did the demand for steel actually go up?

Mr. FAIRLESS. Oh, slightly; nothing to speak of.

Mr. FELLER. Did it go up during the next month?

Mr. FAIRLESS. I can't answer. You have the chart showing it. I don't know.

Mr. HENDERSON. The chart seems to show that ingot production went up from a level of between 40 and 45 to above 90 for the end of the year.

Mr. FAIRLESS. Ninety in '38?

Mr. FELLER. No, sir; this is an index basis; oh, no.

Mr. FAIRLESS. I wish it had.

Mr. FELLER. But did not the utilization of ingot capacity increase materially?

Mr. FAIRLESS. I am not going to argue that point at all. Let the records speak for themselves. If the ingot operations went up that month, they did, and the records so show.

Mr. AVILDSEN. I understand this was not a real reduction in the price, that it was really publicly stating what they were actually selling steel at except for a few isolated cases. Mr. Fairless said they didn't make an adjustment, so it was not really a reduction in the price of steel.

Mr. FAIRLESS. That is right.

Mr. FELLER. How do you anticipate that a reduction that is not really a reduction would stimulate the demand for steel?

Mr. FAIRLESS. We didn't anticipate that at all. There had been so much talk in the newspapers and various other places as to the effect of a reduction that a price of steel might have, we thought we would be perfectly willing to go along with the idea of trying it out too.

Mr. FELLER. Trying what out, merely the words or the reduction?

Mr. FAIRLESS. We were actually making a reduction, and we said we had hopes that it would stimulate the use of steel. We did. Whether they were realized or not is a matter of record. I can say it was very slow and certainly not important.

Mr. AVILDSEN. Here is another thing, Mr. Feller. They could express a hope that a change in the published price would stimulate demand but they knew there was no real change in the actual price.

Mr. FELLER. They weren't making a reduction? I am not quite clear now. I am not clear whether he means a reduction in the base price or also a reduction in the actual price.

Mr. FAIRLESS. What is the question?

Mr. FELLER. The question, I take it, is this, then, Mr. Fairless. Did you hope a reduction in the published price would stimulate demand, or an actual reduction?

Mr. FAIRLESS. We hoped exactly what we said; we meant exactly what we said. I don't think there is any mystery about that announcement. We came out, the Carnegie Illinois Steel Corporation came out, with a new schedule of prices. They reduced base prices materially; they brought the prices of some products down to the level then going in the industry and they brought other prices down lower in order to maintain a related position, and with that announcement they said they were taking this action to meet competitive conditions and also in the hope that they might create a greater demand for steel. It seems to me that speaks for itself.

Mr. HENDERSON. I understood you also to say you didn't have much faith in that ability to stimulate demand.

Mr. FAIRLESS. Only to this extent. I am not opposed to price reductions. I think that price reductions in some industries and some products definitely are a stimulus for business, but I do say that our business because of its peculiar nature is not affected to the same extent by the price reduction route that other businesses are affected, and I cite you any number of examples. Could we sell the railroads rails or car material or anything that they buy at any price if they didn't have any use for the material? People don't buy rails and put them into inventory. Our business is peculiar in that respect. You take the automotive industry.

Mr. HENDERSON. Pardon me. You say they don't buy rails and put them in inventory.

Mr. FAIRLESS. Not for inventory purposes.

Mr. HENDERSON. Some rails were bought, were they not, in the fall of 1932 that are still on flat cars outside of Pittsburgh?

Mr. FAIRLESS. That is right.

Mr. HENDERSON. Are they inventory?

Mr. FAIRLESS. Certainly.

Mr. HENDERSON. And they did put them into inventory then. As I understood it, they were bought in the hope of accelerating some prosperity about that time.

Mr. FAIRLESS. But it didn't, though, did it?

Mr. HENDERSON. I didn't see it. I was speaking to the question of whether or not they bought them and put them into inventory.

Mr. FAIRLESS. You will admit, I think, that it isn't customary for railroads to buy rails and put them into inventory. That was a peculiar circumstance, and that was done in the hope——

Mr. HENDERSON (interposing). That was the Presidential year. That was the peculiar circumstance.

Mr. FELLER. May I attempt to narrow the issue which was presented at this point? The issue is really this: Did your company hope at that time that a reduction in the price of steel would stimulate demand? And the answer is, "The telegram, the announcement, speaks for itself on that."

Now the second question is this: Did the demand, in fact, increase during the 4 or 5 months following the announcement of these reduced prices? And I take it that Mr. Fairless said that the record speaks for itself there. Isn't that correct?

Mr. FAIRLESS. Certainly. There isn't any mystery about how many tons of ingots are produced by the steel industry in any given month of a year, or any given year. There is nothing for us to argue about it. Whatever it is, that is what it is.

Mr. FELLER. In fact, the demand for steel did go up, to your knowledge.

Mr. FAIRLESS. I am looking at the figures now. It isn't anything I am trying to evade.

Mr. FELLER. I wasn't suggesting that you were.

Mr. FAIRLESS. We produced in June 587,000 tons of ingots; 612,000 in July; 764,000 in August; 838,000 in September; 1,047,000 in October; 1,224,000 in November; and 1,092,000 in December. Those are the actual figures.

Mr. FELLER. Now, Mr. Fairless, I am going to ask you this question. Do you think, as a steel executive, that your price reduction was a factor in the increase in the demand that you have just indicated?

Now bear in mind the limitations of my question. I am not asking you was it the total factor; I am not asking you was it the major factor. I am only asking you, was it a factor?

Mr. FAIRLESS. I should like to answer that question two ways. First, as just an ordinary steel man.

Mr. FELLER. Yes, sir.

Mr. FAIRLESS. That is all I am.

Mr. FELLER. Yes, sir. I am asking you that question, as I stated, as a steel man.

Mr. FAIRLESS. I am not an economist.

Mr. HENDERSON. Not just an "ordinary" steel man, Mr. Fairless.

Mr. FAIRLESS. Thank you.

I don't believe that that price reduction was a factor to any great extent. That is my candid opinion.

Mr. FELLER. Do you think it was a factor to some extent?

Mr. FAIRLESS. I said "to any great extent." To some extent, possibly, but my second answer I think will clear it up. There again the United States Steel Corporation has spent a lot of money and a lot of time in making a very complete study with our answer to that very question, and at the proper time, if this is the proper time, we would like to submit our findings.

Mr. HENDERSON. I believe, Mr. Fairless, that already has been submitted and will get before the committee very quickly. Isn't that right, Mr. Olds?

Mr. OLDS.[1] It has been sent to the chairman, Mr. Henderson.

Mr. FAIRLESS. That takes it out of my realm, because this is a study that has been made and is under the supervision of Dr. Yntema, at the University of Chicago, as well as our own people, and represents our opinion in respect to this particular question.

Acting Chairman KING. Has it been submitted to the chairman? Do you desire that it shall be adverted to now and put into the record?

Mr. FELLER. We have not had adequate opportunity to study it. Following precedent, I should like adequate opportunity for our economist to study it.

Mr. Fairless, I revert again to this point. May I summarize now—and the hour is getting very late—just what it is that I have in mind. We have two facts now before us, or let me say three facts. In June 1938 the prices for steel were reduced; the published base prices for steel were reduced by the United States Steel Corporation.

Fact No. 2. The United States Steel Corporation stated that it hoped that this reduction would stimulate the demand.

Fact No. 3. Almost immediately following that reduction the demand for steel did, in fact, go up.

Now, I take it that your answer as a steel man to my question as to whether there was any causal connection between the reduction in price and an increase in demand which followed it was that there was some connection, but not a very significant one. Is that correct?

Mr. FAIRLESS. If any, very small, in my opinion. To what extent I can't tell.

Mr. AVILDSEN. Is it a fact that the large buyers of steel following that announcement paid the same price for steel that they had been paying immediately prior thereto for it?

Mr. FAIRLESS. In many cases, yes; in most cases.

[1] Irving S. Olds, counsel.

Mr. AVILDSEN. Substantially in all cases. It was not a real reduction in the cost of steel to the users of steel.

Mr. FAIRLESS. As a matter of fact, almost immediately following that prices continued to recede to even a lower level in some products.

Acting Chairman KING. I would like to ask one question, and then the Commissioner will ask one and we will take a recess until tomorrow morning. As I understood you, you gave the reasons for price increases in 1936, but I wasn't quite clear as to the reasons you assigned for the raising of prices in 1937.

Mr. FAIRLESS. We gave that, Senator. We had a wage increase in '37 that was even more substantial than the one of '36. In other words, here is actually what happened. On March 16, 1937, the common labor hourly wage rate was increased 10 cents from 52½ to 62½ cents. That was one of the factors, and also the increased cost of the materials that we buy.

Acting Chairman KING. You stated as I recall it, 16 percent plus.

Mr. FAIRLESS. 16.6 percent increase in labor costs.

Mr. HENDERSON. Mr. Fairless, I think you testified that you had been in the steel business something like a quarter of a century, 25 or 26 years.

Mr. FAIRLESS. That is right.

Mr. HENDERSON. In how many of those years have you been in a position of helping to determine policy about the making of prices?

Mr. FAIRLESS. Since 1924, however many years that is.

Mr. HENDERSON. I would like to ask you, as a steel man, whether or not this point of view that you present in the first part of your answer—that you didn't feel it had increased demand—has been the prevailing opinion of steel men for quite a long time?

Mr. FAIRLESS. I think so. Of course, beginning with a fair price. You can't cut this loss at one end. I admit that if we have a fictitious and abnormally high price for steel in any line, a reduction is very apt to show immediate new business, but if we have a fair price, it is my contention, and I believe the contention of practical steel men, that a reduction in price does not stimulate business.

Mr. HENDERSON. In other words, what you are confronted with as makers of price policy is a set of conditions which are quite different from what is expected to govern the price of steel. Isn't that it—you have an unusual condition in steel due to a lot of factors which aren't present in other industries?

Mr. FAIRLESS. Yes. I say this—if we had a price for tin plate that permitted inroads by other forms of containers—glass, or paper and so forth, obviously to reduce the price of tin plate to meet or get below that competition would create business. But I begin with a fair price, and by fair price I mean with all those factors taken into consideration. Now, this steel industry isn't ever going to sit, and never has, as far as I know, and permit inroads of competing products to take its business away from it because of holding fast to some rigid price, either in the form of an announced price or an actual selling price.

Mr. HENDERSON. You turn a lot of your managerial attention to that kind of competition.

Mr. FAIRLESS. Certainly, we are thinking about that every day, and we have our laboratories and our technologists working on those problems.

Mr. HENDERSON. The reason I asked it is to bring out——

Mr. FAIRLESS (interposing). I just cite you an example, and there are many, but to reduce tin plate $5 a ton means a reduction of one mill in the cost of tin plate for a No. 2 can, which is the popular size can that we see in our kitchens and so forth. Now, I cite that as an example of what a terrific reduction in price of tin plate you would have to make to have it become a factor in selling cans.

Mr. AVILDSEN. How much profit do you make on tin plate? Is that a fair question?

What is the average profit of the industry? Is that known on tin plate?

Mr. FAIRLESS. It is a fluctuating profit. Normally it is a fair profit, but we have run into bad years.

Mr. AVILDSEN. I just wonder how $5 a ton compared with the profit.

Mr. FAIRLESS. It would take a nice part of our profit away from us, based on today's costs.

Acting Chairman KING. If there is no objection, the committee will stand adjourned until 10:30 tomorrow morning.

(Whereupon, at 5 p. m., a recess was taken until the following day, Tuesday, November 7, 1939, at 10:30 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

TUESDAY, NOVEMBER 7, 1939

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Monday, November 6, 1939, in the Caucus Room, Senate Office Building, Senator William H. King presiding.

Present: Senator King (acting chairman); Representatives Reece and Williams; Messrs. Henderson, O'Connell, Avildsen, and Brackett.

Present also: Frank A. Fetter and Hugh White, representing the Federal Trade Commission; John V. W. Reynders, representing the Department of Commerce; A. H. Feller, special assistant to the Attorney General; John W. Porter, Irving B. Glickfeld, Hyman B. Ritchin, Monroe Karasik, and Ward S. Bowman, Department of Justice.

Acting Chairman King. The committee will be in order.

Mr. Feller. I should like to recall Messrs. Fairless, Hughes, and Gregg.

Acting Chairman King. Gentlemen, come forward, please.

Proceed.

TESTIMONY OF BENJAMIN F. FAIRLESS, PRESIDENT, UNITED STATES STEEL CORPORATION, NEW YORK, N. Y.; ROBERT GREGG, PRESIDENT, TENNESSEE COAL, IRON & RAILROAD CO., BIRMINGHAM, ALA.; AND H. L. HUGHES, VICE PRESIDENT, UNITED STATES STEEL CORPORATION, NEW YORK, N. Y.—Resumed

Mr. Feller. Mr. Fairless, I should like at the outset to clear up, or rather elaborate a bit on one small point. Yesterday you stated as follows [reading]:

> We know that a price reduction is effective the day it is announced. We also know through our years of experience in this business that a price increase is not effective to any great extent until about six months after it is announced, if you take the full line of steel products of this industry.

Could you tell us the reason why that lag occurs after a price increase?

Mr. Fairless. Because of forward buying at the old prices, and extended deliveries.

Mr. Feller. You mean that at the old price, various consumers have purchased large stocks to be delivered later on, and those deliveries are then made on the basis of the old price.

Mr. FAIRLESS. That coupled with the phase of our business known as "identified structures." For example, if the American Bridge Co. quotes on a bridge today, it quotes on the basis of current prices, although the structural steel for that bridge may actually be delivered 6 months or a year from now, and then erected. Therefore, if it affects the price——

Mr. FELLER (interposing). On structural steel?

Mr. FAIRLESS. And fabricated structures. Take for example car material. You have been reading that considerable car material has been purchased in the last several weeks. That material has been purchased at the current prices in effect, I assume, certainly not higher. That material will be delivered through possibly the first half of next year, so to that extent——

Mr. FELLER (interposing). Yes; I understand that.

Acting Chairman KING. The date-of-delivery prices might be quite different from current prices?

Mr. FAIRLESS. Also on ship material. Obviously when a ship-builder quotes the Maritime Commission or the Navy, he must know the price of his steel at the time he makes his quotation, and his bid can't be subject to any fluctuations in the price of steel during the time in which the steel may be delivered. He made a purchase of his steel.

Acting Chairman KING. If the prices went up in the meantime, before delivery, the Government, for instance, on the ship steel which it purchases, would be relieved from those higher prices.

Mr. FAIRLESS. Oh, certainly, and so would any other buyer. Now, buyers under current purchases not covered by contracts or not in the category of identified structures, may pay the new prices or may pay less, depending on conditions.

Acting Chairman KING. So on the date of delivery it might be lower or higher, but the price at which it was negotiated would prevail.

Mr. FAIRLESS. Well, it would prevail, Senator——

Acting Chairman KING (interposing). In respect of that transaction.

Mr. FAIRLESS. Unless in the meantime we should have a general decline in prices, and many times our company will adjust existing contracts and existing commitments to meet the new lower level of prices. That has occurred many times. That isn't so prominent in identified structures such as buildings and so forth. Those contracts usually remain because there are factors in structures of that kind that are greater than the price of steel.

Mr. FELLER. Mr. Fairless, yesterday you also stated as follows [reading]:

> I admit that if we have a fictitious and abnormally high price for steel in any line, a reduction is very apt to show immediate new business, but if we have a fair price, it is my contention, and I believe the contention of practical steel men, that a reduction in price does not stimulate business.

Would you say, Mr. Fairless, that the base price which existed between March of 1937 and June of 1939 was a fair price?

Mr. FAIRLESS. At that time, yes.

Mr. FELLER. You also told us that as a matter of fact that price was not being observed, that the customers were paying below that price, that you were not able to make sales at that price.

Mr. FAIRLESS. I didn't make that statement in just that way. I have made the statement that advances in prices are not realized for as much as 6 months after announcement.

Mr. FELLER. I am not talking about that.

Mr. FAIRLESS. I am trying, if I may, to answer the question that you have asked. Now, the prices that were announced effective in early '37 were, as we made our studies, and by "we" I mean the subsidiary companies of the United States Steel Corporation, perfectly fair, normal prices. The fact that they were not realized completely, although they were to some extent, is because of the reasons that I have already given—prior sales, identified structures, customers buying for future deliveries. And at about the time when we were reaching the period that those prices would be to a greater extent realized, why then business began falling off, and therefore they were not thereafter realized to any appreciable degree.

Mr. FELLER. I understood you to say yesterday that concessions were being regularly granted from the base price during that period.

Mr. FAIRLESS. During the last half of '37, yes. It became progressively greater.

Mr. FELLER. Do you think that a price which your customers are not willing to pay is a fair price?

Mr. FAIRLESS. Not willing to pay? I don't think that that is the point at issue. It isn't a question of the customer's being willing to pay or his considering it as a fair price. It is competitive conditions that bring us that actual price.

Mr. FELLER. Just what do you mean by that?

Mr. FAIRLESS. I mean exactly this: Competition is very keen in the steel industry, and it is terrifically keen in times of falling off of orders. Now people in the steel industry do not cut prices or reduce prices in a competitive situation because the price is unfair. Prices are reduced to secure business by the individual company which makes the reduction. It isn't because the steel company has analyzed all the factors of its cost and the return to the company and has come to the conclusion that the price is too high That isn't the theory at all. It is to get a specific order or contract. That is why prices are reduced.

Mr. FELLER. That's right, and you couldn't get those specific contracts or orders at the published price. You could only get them at a price which was lower than the published price.

Mr. FAIRLESS. The only reason we couldn't get them at the published price was because others were willing to sell at less than that price.

Mr. REYNDERS. Is it possible that those prices which you did quote below the published price may have been unreasonably low?

Mr. FAIRLESS. That is definitely so. That is proven by the fact that our corporation lost between seven and eight million dollars in 1938 at a rate of operation that should have at least reflected a break-even point.

Mr. REYNDERS. In that event that was not a reasonable price, was it?

Mr. FAIRLESS. No; and in meeting some of these prices our various companies don't meet those prices because they are sound prices, because they are in our opinion fair prices; but after all, we are in this industry and we must maintain our position and we must be competitive at all times, even though meeting competition many times results in our selling our goods at less than cost.

Mr. Feller. Well, I think perhaps you can see just what it is that I am inquiring into, and that is the question as to how you determine whether a price is reasonable. Now, as I see it, there are two different prices we are talking about here. One is the published base price which your company sets after consideration of the various factors relating to its own business. The other is the price actually secured on specific orders, which was a price determined by competitive conditions. Now, do you consider that the fact that trade conditions determine a price, or competitive conditions determine a price, is a factor in considering whether or not it is a reasonable price?

Mr. Fairless. It may be a factor, but not the entire factor.

"REASONABLE" PRICES

Mr. Feller. How, then, do you know whether a price is reasonable?

Mr. Fairless. We know that a price is reasonable if it nets a reasonable return to our company; if it permits us to pay good wages to our employees, to keep our facilities in excellent condition, to keep our equipment abreast of the developments within this industry, and also if possible to pay a fair return to the owners of this business, our stockholders. That is a fair price.

Mr. Feller. And what would an unfair price be?

Mr. Fairless. An unfair price would be a price that doesn't permit those things that I have just enumerated to happen.

Mr. Feller. No, pardon me; strike out the word "unfair." What would an unreasonable price be? You told us if the price were unreasonably high, it would have certain consequences.

Mr. Fairless. An unreasonably high price would be a price that would net too great a return to our companies, or a price that was so high that it permitted competitive products with steel to take business away from steel, that is, to take the business away from us.

Mr. Feller. Then you think the limits of unreasonableness of price are determined by two factors, possibly by two factors; one, the size of the returns to your company, or to a seller of steel; and secondly, the limit of substitutability between steel and other products?

Mr. Fairless. I will let my statement stand in the record.

Mr. Henderson. I have some questions. As I understand it, you take the position that the prices which you established in early 1937 were prices that were necessary for you to discharge your obligation to your stockholders?

Mr. Fairless. They were. You appreciate, of course, that we had to develop the price based on many changed conditions in our industry, such as our wage rate. We had quite an increase in labor costs, 16.6 percent, and then we had our overtime factors for work more than 40 hours a week, or more than 8 hours a day; those were new experiences in the steel industry and we had to project our costs rather than deal with actualities, and to the best of our judgment, as our studies showed, and as they were presented by the various subsidiary companies, we were of the opinion that the price schedule of 1937 was only a fair schedule of prices to do the things that I have enumerated that are necessary and should be necessary properly to run our business.

Mr. HENDERSON. In other words, you felt that the changed conditions were such that you had to get, or you ought to get, a price considerably higher than that of 1929?

Mr. FAIRLESS. Oh, my, yes. For example, in 1929 the basic labor rate in the steel industry was 44 cents per hour and in 1937 it was 62½ cents per hour.

Mr. HENDERSON. Well, in the intervening period, what had been the advance in technology?

Mr. FAIRLESS. Of course that was all considered; that was all considered.

Mr. HENDERSON. Had there been a substantial advance in the technology?

Mr. FAIRLESS. Oh, yes; definitely, and particularly so in some products.

Mr. HENDERSON. Did you have any studies which would show whether or not it would compensate for the additional labor rates?

Mr. FAIRLESS. Well, you have to take—really to answer that question intelligently—you must analyze the steel industry by products. For example, there was no particular development in the science, technological development, of the manufacture of rails or plates, to any great extent, or of structural material, but on the other hand there had been tremendous developments in respect to the so-called flat rolled products, light materials, specifically sheets, strip, and tinplate. As to bars, other than the perfectly natural developments of better quality and better control, scientific control for heat treating purposes, and so forth, I don't believe there has been any great development technologically in the manufacture of bars. We did have the continuous bar mills in 1929, but we didn't have the continuous strip mills, at least to any great extent, so you really would, I believe, have to analyze each product properly to answer your question.

And I might add, as I recall, the price of full-finished automobile sheets back in 1929 a little less than $5, about $4.80 or thereabouts. I don't want this to be definite in the record, because it must be checked, while today and in 1937 our announced price of such automobile sheets was considerably less than $4.

Mr. HENDERSON. Here is the designation which the Bureau of Labor Statistics uses: Steel plates, tank, quarter-inch thick, 6 to 100 inches, Pittsburgh; that was 16.6 percent above the 1929 price.

Mr. FAIRLESS. Is that a base price?

Mr. HENDERSON. Yes. Structural shapes, 3-inch and larger, base price 100 mill Pittsburgh, 17 percent above. Cold rolled steel strips, Pittsburgh, 14.3 percent above 1929. Do you feel it was necessary on account of changed conditions to get so high a price, that that was a reasonable price?

Mr. FAIRLESS. We felt so; yes. Our studies so indicated. We would be very glad—I don't have that comparison of 1929 available, but there is no reason why we shouldn't submit to this committee a detail of cost comparisons, wages, and materials of 1929 to 1937, if you so desire. We would be very glad to present it.

Mr. HENDERSON. Well, I have examined steel prices in the Bureau of Labor Statistics' record pretty completely and I find that they run anywhere from 5 percent above 1929 to 28 and 29 percent above 1929, and that at a time when the price level was about 15 percent below

1929. In other words, we had gotten back in 1937 as far as the prices of all other materials are concerned to within 15 percent of 1929 and many of these steel products, some of which are affected by the increase in technology, were anywhere from 5 to 29 or 30 percent above that. Do you want the committee to understand that these labor changes and the various costs you had in connection with labor required you to get that additional amount in order to obtain a reasonable price?

Mr. FAIRLESS. Yes, sir.

Mr. AVILDSEN. Mr. Fairless, did you say the wage rate in 1929 was 44 and in 1937, 62?

Mr. FAIRLESS. Sixty-two and a half.

Mr. HENDERSON. What was it as reflected in the labor cost per ton of steel?

Mr. FAIRLESS. Well, labor runs pretty close to 50 percent; isn't that the figure? Somewhere between 40 and 50 percent of the total cost of steel products is represented by labor costs. I am not making the point or attempting to make the point that the increase in labor costs is alone responsible. There were many other increases in cost; take the item of taxes, which is obviously a large item; if you compare the cost of raw materials which we purchase, their cost in 1929 as compared with 1937; it is a factor also. I am not taking the position and haven't at any time, what the price advance of 1937 was entirely due to the increases in labor costs. I am, however, making the point that the higher labor cost was a very important factor.

Mr. HENDERSON. Let me get at it this way. The price level for all commodities in 1929 was about 95 compared to 100 base for around 1926. The price level for all commodities never got back further than about 87 or 88 percent in 1937 and during some months we attained a volume of physical production equal to 1929. The price level at the present time is in the neighborhood of 80 and the Federal Reserve Board reports that we are probably making as large a volume of products as we did in 1929. In other words, from your testimony it would seem that as far as the national economy is concerned your company is faced with the prospect of having a price level which would run 30, 40, 50 percent above the prices for all other commodities, in order for you to get reasonable prices, for your company to live and meet the exceedingly increased fair treatment to labor, vacations and the like. Isn't that the natural conclusion we have to come to?

Mr. FAIRLESS. You are getting out of my field now.

Mr. HENDERSON. Don't be afraid to say what you think.

Mr. FAIRLESS. I am not afraid.

Mr. HENDERSON. I know you are not, that is your reputation.

Mr. FAIRLESS. I made the statement yesterday that I am not an economist; therefore, you are getting me into that field.

Mr. HENDERSON. No; but you make price policy, Mr. Fairless, the price which people pay.

Mr. FAIRLESS. Yes, sir; and I make that policy based on facts, not on theories of any kind at all.

Mr. HENDERSON. This isn't theory that I am asking you. You have stated what you think is a reasonable price.

Mr. FAIRLESS. That is right.

Mr. HENDERSON. You state that the 1937 prices represented in your best judgment and those associated with you a fair and reasonable price necessary for your company to live?

Mr. FAIRLESS. That is right.

Mr. HENDERSON. I am saying that the rest of the companies represented by the average of all prices had not found that so. Your industry has had a glorious advance in technology, as we saw from the picture submitted, and what I am asking is whether this committee has to accept as a fact that for the future the prices of steel, which are tremendously important since it is a raw material, are going to be anywhere from 30 to 50 percent higher than the general level of prices at the retail line.

Mr. FAIRLESS. I want to make a definite statement to this committee and have it a part of this record. The pricing policy of the United States Steel Corporation is as follows, and will continue to be: At no time do we want to charge more than a fair price for our products—at no time—and as stated before, we want that price to be sufficient only to permit us to pay fair wages to our employees, to permit the best working conditions possible for our employees, to keep our properties in excellent operating condition in order that they may be ready at any time to meet the demands of this country for the products which we manufacture and which are so important to this country; to permit sufficient income that we can keep our equipment modernized and up-to-date in every respect; to permit sufficient income that we can be constantly studying new processes and new developments for the manufacture and the uses of steel and at the end of the line to have enough left to pay a reasonable return to the owners of this business, our stockholders. That is our policy and we try at all times to cling to it religiously.

Mr. HENDERSON. You understand, Mr. Fairless, I wasn't raising the question of whether you had been profiteering in the price. What I was asking you was what the contemplation of this country was about the prospect of steel prices. I simply recited what you call a reasonable price in terms of the explanation of your price policy as you have just given it, and said that as far as the rest of the economy is concerned it is on a decidedly lower price level, and that there was an enormous spread there which seemed to me had not been able to be cut down by the advance in technology or by the volume of business you are able to get from month to month.

Mr. AVILDSEN. Mr. Henderson, isn't this a fact, that Mr. Fairless has testified that there has been practically no advance in technology in the case of plates, structural shapes, and so forth, but in the case of tin plate, sheets, there has been a great advance? Isn't it also a fact that there has been a very substantial reduction in price of sheets in 1937 compared with 1929?

Mr. FAIRLESS. Yes.

Mr. AVILDSEN. Reflecting that technological advance. Let's see what the percentage of that reduction was.

Mr. HENDERSON. In October 1937 tin plate, coke, domestic 14 by 20-inch 100 base box Pittsburgh was 8 percent above the 1929 level.

Mr. FAIRLESS. Oh, no; I don't think you are right there, if our figures are right.

Mr. HENDERSON. I am taking this from the Bureau of Labor Statistics.

Mr. FAIRLESS. This is our actual schedule. Mr. Gregg will read it.

Mr. GREGG. Our actual figures show, Mr. Commissioner, that in October of 1929 coke tin plate was $5.35 per base box, and in May of

1937, which was the new schedule we were discussing, it was quoted at $4.85 per base box.

Mr. HENDERSON. In May of 1937?

Mr. GREGG. Yes, sir.

Mr. HENDERSON. Then the Bureau of Labor Statistics on this particular item was probably wrong. Is that it?

Mr. GREGG. I assume this sheet is correct. It is taken from our own records.

Mr. HENDERSON. That is the base price?

Mr. GREGG. Yes; that is the price of a base box of tin plate, which is the basis. May I point out further that you selected 3 products which did show, each of them, a matter of 16 or 17 percent increase in sales price. That was only 3 out of the schedule. There are others which show a reduction just as tin plate does. Steel rails, for instance, show a reduction in price in May of 1937 as opposed to October 1929.

Mr. HENDERSON. I would like to leave that subject to challenge, Mr. Feller.

Mr. FELLER. I should just like to get this point clear in the record. First, it is a fact, is it not, that the general level of prices, taking all commodities, was higher in 1937 than it was in 1929.

Mr. FAIRLESS. I see every reason why it should have been.

Mr. FELLER. Were they? I am not inquiring as to the reason. I am trying to establish the fact.

Mr. FAIRLESS. Here are the figures.

Acting Chairman KING. Do you mean in all industry, agriculture, and so on?

Mr. FELLER. No, sir; steel commodities, whether the price of steel, including all steel products, was higher in 1937 than in 1929, or lower. That is the only fact I am asking.

Mr. FAIRLESS. Well, we have here a statement showing pig iron, blooms, billets, sheet bars, wire rods, skelp, standard rails, tie plates, spikes, plates, shapes, bars, pipe, strip, sheets of various kinds, tin plate, bars, wire products, and we show the base prices of those products in 1926, 1929, 1933 and various months, including May 1937, so here is the record that we submit for the record.

Mr. FELLER. I offer this statement which Mr. Fairless has submitted.

Acting Chairman KING. This comes from your organization?

Mr. FAIRLESS. Yes.

Acting Chairman KING. It may be received.

(The chart referred to was marked "Exhibit No. 1390," and is included in the appendix on p. 10716.)

Mr. FELLER. I was going to ask this further question: Is it or is it not a fact that on the whole the technology of the industry, the steel industry, was further advanced in 1937 than it was in 1929?

Mr. FAIRLESS. In certain products, definitely.

Mr. FELLER. Is it not true that those products which constituted the bulk of the tonnage sold in 1937—by that I mean light flat-rolled products—did constitute the bulk of the tonnage in 1937?

Mr. FAIRLESS. No; not the bulk of the tonnage.

Mr. FELLER. Were they relatively more important to your company in 1937 than they were in 1929?

Mr. FAIRLESS. Right.

Mr. FELLER. In those products which had become relatively more important to your business the advance in technology was quite large.

Mr. FAIRLESS. Yes, sir; and also the reduction in prices.

Mr. HENDERSON. I should like, Mr. Chairman, to read from this study which I made myself comparing the Bureau of Labor Statistics wholesale prices at their peak in 1937 with their 1929 levels. In the general category of iron and steel products, these are the percentages above 1929 prices shown by the B. L. S. statistics:

Angle bars (track equipment) per 100 lbs., mill	1. 8
Bar iron, common, per lb., Chicago	18. 2
Bar iron, common, base, per lb., f. o. b. Pittsburgh	1. 7
Bars, reinforcing, billet steel, mill lengths, base price, per 100 lbs. c. l., f. o. b. Pittsburgh mills	23. 3
Bars, steel, merchant, per 100 lbs., Pittsburgh	27. 3
Bars, sheet, per gross ton, Pittsburgh	5. 7
Bars, steel, cold finished, base size, per lb., Pittsburgh mill	27. 7
Billets, steel, rerolling, per ton, 2240 lbs., Pittsburgh	6. 8
Pig iron, basic, gross ton, Mahoning and Shenanago Valley furnace	29. 2
Pig iron, Bessemer Valley, gross ton, delivered Pittsburgh	22. 8
Pig iron, foundry No. 2, Northern, per gross ton, Pittsburgh	29. 6
Pig iron, foundry No. 2, Southern, per gross ton, Birmingham	32. 2
Pig iron, malleable, Valley, per gross ton	28. 1
Pipe, cast iron, 6″, Class B and heavier, per net ton c. l., delivered New York	44. 5
Rivets, large, ½″ and larger, base, per 100 lbs., Pittsburgh or Cleveland	17. 4
Rivets, small, 7/16″ and smaller, per lb., f. o. b. Pittsburgh	23. 0
Rods, wire, per gross ton, Pittsburgh	13. 2
Sheets, steel, No. 27 box, annealed, U. S. Standard, hot rolled, c. l. or more, per lb., Pittsburgh district mills	10. 4
Sheets, steel, galvanized, No. 24, base, per lb., mill, Pittsburgh	6. 2
Skelp, steel, grooved, per 100 lbs., Pittsburgh	13. 0
Spikes (track equipment), ½″ and smaller, per 100 lbs., mill	12. 5
Strips, steel, cold rolled, per lb., to large buyers, Pittsburgh	14. 3

There are a number of others, Mr. Chairman. I am reading these into the record only to show what I said before, that prices of some iron and steel products were higher in 1937 than in 1929. On your own statement, Mr. Fairless, you feel that these were reasonable prices, necessary for the successful administration of business and to meet its labor commitments and its duty to investors. And the only point I was asking you to comment on was whether or not, so far as the future is concerned—and I believe you will agree with me that is the most important thing—we must face a condition in this country in which the posted price for steel products will be substantially in excess of the general average of prices.

What do you think about the future of steel prices?

Mr. FAIRLESS. Well, I don't know how you are going to compare steel prices. What are you going to compare it with?

Mr. HENDERSON. With all other prices. That was the comparison which I made.

Mr. FAIRLESS. It seems to me we get pretty far afield, don't we?

Mr. HENDERSON. No.

Mr. FAIRLESS. The steel business is a business with its own peculiarities. I would just like to give you an example about steel prices. This committee saw the moving picture here on Wednesday morning. It showed how ore is mined and how steel is made, and I just like to cite an example of what this industry does and is doing, and use rails as the example.

Does this committee appreciate and realize that with all of the different operations that you saw on the screen, that we must perform in order to manufacture a rail—do you appreciate that we sell that rail for less than 2 cents a pound? That is the selling price of that rail. It is subject to the very closest inspection. It must be a perfect piece of steel. The lives of millions are entrusted to it. We feel a great responsibility in that product and we are constantly improving its quality, and, as the records show here, not increasing its price.

Now costs can be increased through the development of better quality, as you appreciate, and that is a part of our picture, too We can't compare the requirements of a rail today with those of even 10 years ago, because of the advent of the high-speed trains, and necessarily the pressure for better quality of rails is on this industry, and we are meeting it.

Mr. HENDERSON. Doesn't that follow for other industries, too? There has been a substantial increase in technology in other industries, as well as improvement in quality in this same period.

Mr. FAIRLESS. Well, there is no use for you and me to argue about it at all. I am trying to bring out the facts, and I know you are. I can't accept—not that I question the figures that you give in respect to other industries; I must tell this committee that I am not familiar. I am a steel man.

Mr. HENDERSON. I asked you only one simple question and that was whether, so far as the future is concerned, you feel that the price you must get for your steel products must be above the 1929 price.

Mr. FAIRLESS. With today's costs? Why certainly.

Mr. HENDERSON. You feel, then, that since 1929 your cost per unit has gone up to such an extent that you must get a higher price than in 1929?

Mr. FAIRLESS. Yes, sir.

Mr. HENDERSON. In order for your company to live.

Mr. AVILDSEN. Mr. Henderson, we do know wages have gone up 40 percent at least.

Mr. FAIRLESS. Definitely.

Mr. HENDERSON. I know wages have gone up in other industries, too, Mr. Avildsen.

Mr. AVILDSEN. Prices have gone up in other industries too.

Mr. HENDERSEN. The general level of prices at this time is 80 as against 95 in 1929.

Mr. AVILDSEN. Have you commodities in that—wheat, corn, and so forth?

Mr. HENDERSON. Oh, yes; there are 687 commodities.

Mr. AVILDSEN. Was the price on manufactued goods compared, leaving out farm products and so forth?

Acting Chairman KING. The general relations between prices of all commodities, it seems to me, unless there are some commodities that in their production are identical, would require differentiation and a different classification.

Let me ask whether on steel products, the cost of producing—for instance you mentioned rails—has increased.

Mr. FAIRLESS. Oh, definitely.

Acting Chairman KING. And with the various steel products manufactured by your companies do you say that the intrinsic merit and value of each of those products is superior to what it was in 1929?

Mr. FAIRLESS. Oh, yes; definitely.

Acting Chairman KING. And has that resulted in greater costs in manufacturing and finishing?

Mr. FAIRLESS. In some instances, not all. In technological development, particularly in the flat rolled product, the result has been the lowering of costs with a tremendous increase in quality.

Acting Chairman KING. There is more specialization developed?

Mr. FAIRLESS. That is right.

Acting Chairman KING. Like pig iron—perhaps the cost would not be much greater, the cost of production, than in 1929.

Mr. FAIRLESS. Oh, yes; because labor——

Acting Chairman KING (interposing). Aside from the question of wages.

Mr. FAIRLESS. Labor increases, taxes, of course, affect the cost of pig iron, affect ore, affect every operation we have.

Acting Chairman KING. What I meant was that there wasn't the technological development in the production of pig iron that you would find in the finished product.

Mr. FAIRLESS. No; because we are an old industry; we are not new, and we have been under technological development for a great number of years, and while I am not making the statement that we have reached any stage of perfection, obviously we can't hope to make the strides that some of the newer industries that haven't been at this job as long as we have might make. That is a fair comparison, isn't it?

Acting Chairman KING. I have forgotten for the moment—what were the returns on the investment in 1937?

Mr. FAIRLESS. In 1937?

Acting Chairman KING. You stated it, but I have forgotten it.

Mr. FAIRLESS. We have a chart here that will show returns on investment.[1]

Mr. HENDERSON. While we are waiting for that, Mr. Avildsen, in June of 1939 the index of semimanufactured articles, as shown by the Bureau of Labor Statistics, stood at 74; the finished steel composite, as shown by Iron Age, stood at 93.

Mr. AVILDSEN. That doesn't answer my question, Mr. Henderson, because you are talking about semifinished articles, I am talking about finished articles. I would like to compare finished steel with finished manufactured goods in general, not semifinished.

Mr. HENDERSON. I will get that comparison, and while I can't speak now with exactness, it will show almost the same disparity. I will get that and introduce it into this record.

One other line of questioning while we are at it: The purport of your testimony yesterday was that in the period of the decline which began in 1937 you met competition and the realization was considerably lower than the base price. Now, in meeting that competition, was the price actually charged to all customers uniformly the same?

Mr. FAIRLESS. As best we could do it, particularly in competitive fields.

[1] "Exhibit No. 1391," appendix, p. 10717.

Mr. HENDERSON. Well, may I ask you this: Were any of your buyers paying the base price plus the standard extras?

Mr. FAIRLESS. In what period, now?

Mr. HENDERSON. Well, let's take the period running from the fourth quarter of '37 to the first quarter and part of the second quarter of '38.

Mr. FAIRLESS. Yes; there would be some.

Mr. HENDERSON. There would be some?

Mr. FAIRLESS. Yes.

Mr. HENDERSON. But there would be other buyers who were getting substantial concessions on price in order for you to meet competition?

Mr. FAIRLESS. That is correct.

Mr. HENDERSON. Would they follow any general commodity lines? That is, would the price reductions which you conceded go to any particular consuming industry, and would you charge the full base price to other consuming industries?

Mr. FAIRLESS. When you get into a situation in this industry where prices are not being maintained, you can't have any policy except the policy of meeting competition as you find it. That is the only policy you can have.

Mr. HENDERSON. That means that you have to charge whatever it takes to get that business if you want that business.

Mr. FAIRLESS. To meet competition. Naturally no one will pay me more for steel than they can buy it for from someone else. There is no reason why they should, and they don't.

Mr. REYNDERS. I believe, Mr. Fairless, you said yesterday that the range of competition, the prices, varied from day to day practically during this period.

Mr. FAIRLESS. Yes; take this picture, if you please: The subsidiary companies of the United States Steel Corporation, in a normal period of business, should book about 50,000 tons of steel per day.

Mr. HENDERSON. Repeat that; I missed it.

Mr. FAIRLESS. I am painting the picture of our business and how we must transact it in a normal steel year, not abnormal. The various subsidiary steel companies that go to make up the United States Steel Corporation should book about 50,000 tons of steel per day. That is over this entire country, and in foreign countries, and it is made up of orders that might range from 5 tons to any number of tons. Now we, of course, must have a very definite merchandising policy, but once that policy cannot be adhered to, and once the conditions in the industry from a competitive standpoint are such that you can't have any policy, why you have to do just what your competition forces you to do.

Mr. REYNDERS. From day to day.

Mr. FAIRLESS. And from day to day.

Mr. HENDERSON. I can recall the superintendent of one of your works telling me as I went through the plant of how he went on a tour for 2 or 3 days to try to get a certain order, and then ran it through the mill in less than half a day. I can see your point. What I am getting at is that when you get into this declining period, you have to make day-to-day prices and customer-to-customer prices. You have a choice as to whether or not you will take the business.

Mr. FAIRLESS. That is right.

Mr. HENDERSON. One other question following from that. I think maybe you indicated the key to the answer. What are some of the determinations so far as price concessions are concerned as to how far you will go in getting a substantial order? Do you have any standards on that?

Mr. FAIRLESS. Competition standards?

Mr. HENDERSON. Yes; any fixed reduction below the base price.

Mr. FAIRLESS. No, sir; no, sir; we haven't. We might go below cost. Many times, particularly in the last 9 years, we have taken business knowing that it is a definite loss to our subsidiary companies, in order to furnish more employment for our employees. We have placed orders on our books with plants that were not as efficient as other plants in order that the employees of those plants might share in what business we had.

Mr. HENDERSON. Did it also have some relationship to your costs at different levels of operation?

Mr. FAIRLESS. Well, it might have, Mr. Henderson, if we had control over it, but it is very difficult to build a formula, a basis on which you are going to take business, when you don't know what your competition is. You have to develop your competition, and many times your decision to take an order or not to take an order must be made right on the spot, and many times you say "No" to an order today, which if offered as a similar order next week you would take, because conditions have changed that rapidly in this industry.

Mr. HENDERSON. I think that is a very important point—what is the general idea about what the fixed price of steel is? The question I was addressing, however, had to do with this: Suppose, as was the case in '37 and early '38, you get down below your break-even point. Does the question of keeping up the level somewhere near that bulk vary largely as to whether you will make a greater price concession than you would if it were above the break-even point?

Mr. FAIRLESS. No, no; I wouldn't say that.

Mr. HENDERSON. You might take it to give employment, but you wouldn't consider it in connection with how much of the overhead burden it would carry?

Mr. FAIRLESS. Yes; of course, you consider all your factors of cost; but the main thing you would do is to maintain your position, if possible, in this industry.

Mr. HENDERSON. You mentioned that position. If I gather correctly, you mean you might share other business that is passing at that particular time?

Mr. FAIRLESS. Based on our capacity in the industry.

Mr. HENDERSON. That is if you have 35 percent of the capacity you feel that that is a sort of yardstick and you ought to be getting about 35 percent of the business?

Mr. FAIRLESS. Unless there are some unusual conditions within the industry that make it difficult, as there have been at times, for us to expect that participation.

Mr. HENDERSON. Then if you happen to fall below that assumed level, you exercise your managerial decisions toward getting back up to that percentage of the current volume of business?

Mr. FAIRLESS. Not exactly, as you put it. That is one of the guides that we watch in the daily transaction and monthly transaction of our business. We feel that it is up to us to know what is going on in this industry, but it doesn't just follow that if next month or next quarter we find we are 1 percent below the average in the industry that we promptly then go out and do something price-wise to bring us up. If I understood your question correctly. Not necessarily; it is a factor, that is all. It is a guide.

Mr. HENDERSON. It is a guide.

Mr. O'CONNELL. Mr. Fairless, several times you have referred to the break-even point in the steel industry. Do you have in mind in a general way what the break-even point is in your company at the present cost levels?

Mr. FAIRLESS. With present prices and present costs?

Mr. O'CONNELL. Present costs. I take it that is the main factor.

Mr. FAIRLESS. We must have prices, too, if we have costs. I would say around 50 percent.

Mr. O'CONNELL. What was it in 1937 at the time of the last increase in prices? You have that in mind?

Mr. FAIRLESS. No; really, I don't.

Mr. O'CONNELL. I understand it varies?

Mr. FAIRLESS. It fluctuates, and at different times of the year, too. It isn't constant; it fluctuates with your mix of products. In other words, we can operate one of our subsidiary companies; I will take for example Carnegie Illinois, and with a certain mix of products we could break even at 40 percent; we could produce the same tonnage and ship the same tonnage over all with a different mix of products and lose money at 40 percent. All our products don't show the same return, the same percentage of return. We are constantly, due to competitive conditions, having some products that show no return. Now if in some particular month or quarter or period the tonnage of that particular product or products constitutes a high percentage of our business, why, our profits are affected accordingly, of course. But, Mr. Chairman, I have——

Acting Chairman KING. Mr. O'Connell wasn't finished.

Mr. O'CONNELL. As I understand it at the present time your break-even point is approximately 50 percent?

Mr. FAIRLESS. Approximately, with a normal mix in respect to products.

Mr. O'CONNELL. Now, in 1937 at the time of your last price increase, the price level was substantially higher than it is at the present time. That is correct, is it not?

Mr. FAIRLESS. After the increase; yes.

Mr. O'CONNELL. After the increase?

Mr. FAIRLESS. Yes; of course.

Mr. O'CONNELL. And at the time of the increase and immediately after the increase your level of operations was as high as it is at the present time?

Mr. FAIRLESS. No, no, no. You see, we projected our cost, based on 70 percent of capacity; that was our anticipated rate of operation when our prices were announced. Now the actual rate got much higher than that, higher than we had anticipated, but not as high as today. This industry today, as you know, is operating at 92 or 93 percent of capacity.

Mr. O'CONNELL. What I was trying to develop, if possible, was in a general way what the break-even point was at the time of the price increase in '37.

Mr. FAIRLESS. I really don't remember. If we can develop it for you we would be very happy to do so.

Mr. O'CONNELL. It occurred to me that it might be possible to ascertain in general that if the prices were substantially higher and that costs were—and your carrying charges were substantially the same, and the rate of operation was substantially the same, that the break-even point in '37 would have been substantially lower than at the present time.

Mr. FAIRLESS. Well, it would be if those prices had been realized. You see, we announced those prices in March; we didn't hope to realize those prices, based on our experience in this industry, until the very latter part of '37 and when we reached that period, why, business had gone and we never did. Mr. Chairman, pardon me. In respect to our earnings, the ratio of earnings to net assets; we have prepared a chart, and I would like to submit it for the record.

Acting Chairman KING. Submit it to Mr. Feller.

Mr. FELLER. I understand you to say this shows the ratio of earnings to net assets? That is not the ratio of earnings to invested capital?

Mr. FAIRLESS. It is invested capital.

Mr. FELLER. You make no differentiation between the net assets and invested capital? That is, you consider that your net assets are the same as your invested capital?

Mr. FAIRLESS (nods head, yes). That is what the chart is based on.

Mr. OLDS. You see, Mr. Feller, total assets less current liabilities.

Mr. FAIRLESS. And I believe we have an enlargement of the chart if you would care to have it displayed on the easel, Mr. Chairman.

Acting Chairman KING. I think you had better put it up and then if it is material we can determine whether it should be inserted in the record later. Have you any objection, Mr. Feller?

Mr. FELLER. No, sir; not at this point. I should merely like to say that the Department would like to reserve the right to examine this and to make any comments on it it feels necessary.

Acting Chairman KING. That reservation, of course, is granted, and it will be received, subject to the reservation just indicated.

(The chart referred to was marked "Exhibit No. 1391" and is included in the appendix on p. 10717.)

Acting Chairman KING. Any other question, Mr. Feller?

Mr. FELLER. No, sir; not at this point.

Acting Chairman KING. Do you have any other question?

Mr. O'CONNELL. No, sir.

Mr. FAIRLESS. The answer to your question directly, the ratio of earnings to net assets in 1937, was 5.56 percent.

Mr. FELLER. Now, Mr. Chairman, in answer to your question, I meant I had no further questions along this line. I would like to go on to another line of questioning.

Acting Chairman KING. Any more on this point?

Mr. HENDERSON. On this point, the Bureau of Labor Statistics has supplied me with the figures for September 1939, which are on the basis of 1926 equaling 100. The all-commodity index stood at 79.1 All commodities other than farm products, 81.3; finished products, which is what Mr. Avildsen was asking about, stood at 81.9. Iron and steel stood at 95.5. The difference between finished products and the iron and steel index is between 16 and 17 percent.

Mr. Avildsen. Mr. Henderson, was this all finished products? I don't think it is fair to compare steel prices with other finished products in general as against comparing them with finished products into which the percentage of labor and other things going into which are substantially equivalent to steel. You might call Quaker Oats a finished product. I don't know. There is very little labor in making up a package of Quaker Oats. I think the comparison which would be really helpful to this committee and really mean something ought to be with finished products which are substantially the same as steel insofar as the percentage of direct labor, and so forth.

Mr. Henderson. Mr. Avildsen, in this index are products that run anywhere from, I would say, 5 percent of labor up to much higher than the iron and steel, and my feeling would be that the average would tend to reflect a pretty good average, based on my knowledge of labor statistics. Now I can have prepared also comparisons between steel and any others you would like to suggest.

Mr. Avildsen. I know out in my business in Chicago [1] that we are paying more than 1929 prices for a lot of other things besides steel. I mean steel isn't the only thing that is above 1929. Lots of other manufactured products are above.

Mr. Henderson. My point is that all commodities, regardless of what are above or below the average, are considerably below what the steel index is.

Mr. Avildsen. That may be true, but I don't think it means anything unless the conditions surrounding the manufacturer of those products are substantially the same as the steel industry.

Mr. Reynders. Is that figure of 95 percent in the steel industry based upon published base prices, or how is that arrived at?

Mr. Henderson. It is based on the base price; yes; base price, and in some cases the mill return to the extent that base price isn't realized. That would affect that figure, would it not?

You will agree in September 1939, with the level of operations being what it was, that the realization comes pretty close to the published price.

Mr. Fairless. In September '39? Oh, my; no.

Mr. Henderson. Close to it?

Mr. Fairless. Oh, no. It isn't too close to it now.

Mr. Henderson. Despite all elimination of concessions and the like?

Mr. Fairless. That is right. Steel shipped now was purchased 3, 4, 6 months ago.

Mr. Henderson. I am willing to take a substantial discount on the 95 and still hold to my point, and I gathered from the witness' testimony that as far as he can see his industry is likely to maintain the concept of what is necessary for a reasonable price. Wasn't that the nature of your answer?

Mr. Fairless. I would have to have that question repeated.

Mr. Henderson. I will put it this way: I asked you whether or not—I will make it a direct question looking toward the immediate future—Does your estimate of what is a reasonable price necessary to be attained for your corporation, tend to approach the 1937 prices?

Mr. Fairless. I am not making any statement in respect to what our prices—you are talking about the next quarter?

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[1] Mr. Avildsen's firm manufactures tools.

Mr. HENDERSON. Not next quarter.

Mr. FAIRLESS. What period? We only announce our prices for a quarter, as you know.

Mr. HENDERSON. I am talking about what your estimate of a reasonable price level would be for you—would it be something above the existing level of base prices?

Mr. FAIRLESS. It would depend entirely on many factors.

Mr. HENDERSON. Let me ask you this: Have many factors changed since 1937 which would alter your concept of what a reasonable price is?

Mr. FAIRLESS. Well, the volume of business has changed. I tried to make it clear that when our 1937 price schedule was announced, it was based on a 70-percent rate of operation. That was our estimate of what we saw ahead of us for 1937. Now we were wrong. We were wrong for part of that year. The operations got up in the high eighties somewhere and of course then we had to drop. Now we are faced with announcing a price schedule for the first quarter of 1940 with this industry operating at 92 percent. We are very busy right now, all of our people who are engaged in doing that particular job, anticipating what we can expect volume-wise, what we can expect in respect to distribution of products, and after we get all of our factors together, why then we will be in a position to analyze and announce our prices. I am in no position today to tell you that our schedule of prices for 1940 will be what we expected and wanted them to be in 1937.

Acting Chairman KING. I have had a number of inquiries as to what the prices of wool will be this quarter and next quarter and for the next year. Obviously it is impossible to determine. You can't tell the competition from the fleeces from Australia, New Zealand, and South Africa, you can't tell because of the condition of the weather in the United States whether it will be favorable to the sheep industry, or unfavorable, and I presume the situation would be true with respect to the manufacture of goods, suits, and blankets, and woolen goods. A corporation would be rather uncertain as to the fixing of prices in the future; it wouldn't know what the cost of fleeces would be, what the cost of labor would be, what the demands by the Government would be for soldiers and sailors, and what the demands of private industry will be, and whether or not there is a market abroad. Are all those factors incident to the determination of the prices which your company faces?

Mr. FAIRLESS. Yes; but our over-all policy, which I announced and which is part of the record, will still prevail.

Mr. Chairman, I should like to introduce for the record the exhibit showing the average yearly base prices of principal steel products as reported by Iron Age.

Acting CHAIRMAN KING. What year?

Mr. FAIRLESS. 1924 to date.

Acting Chairman KING. Mr. Feller, have you any objection?

Mr. FAIRLESS. Also reported composite price and composite mill net yield, 1926 to date.

Mr. HENDERSON. Is that for your own corporation?

Mr. AVILDSEN. What does that last one mean, net yield?

Mr. FAIRLESS. It is the reported composite price and the composite mill net yield.

Mr. AVILDSEN. Will you tell us what that means, net yield?

Mr. FAIRLESS. That is our realized price.

Mr. AVILDSEN. Is it the weighted average, weighted on tonnage?

Mr. FAIRLESS. It is the actual; it is the actual return.

Mr. AVILDSEN. Actual realized price per ton?

Mr. FAIRLESS. Yes.

Mr. O'CONNELL. That means contract price less your bid?

Acting Chairman KING. It is the base.

Mr. O'CONNELL. I assume that the realized price meant, in general, the composite of the contract prices less your bid.

Mr. FAIRLESS. Realized price means just what it says it means, what we get for our goods, what we actually get for them.

Acting Chairman KING. Whether there is a loss or whether there is a gain?

Mr. FAIRLESS. That hasn't anything to do with profits or losses.

Mr. FELLER. May I point out, Mr. Chairman, on the table which has just been handed me, entitled "Average Yearly Base Prices of Principal Steel Products", [1] the table is composed, as I see it, of three elements; the first element on the first page reports the average yearly base prices of principal steel products as reported by the Iron Age. On the second page there occur two different things. First, a number of charts which are headed "Average yearly base prices of principal steel products," reported by Iron Age, 1924 equaling 100. At the bottom of that page occurs the following statement [reading]:

> Considerable flexibility exists in steel prices. Not only do steel prices fluctuate widely but, also, prices of different steel products fluctuate in varying degree and direction. As compared with 1924, prices of steel today are generally lower, whereas wage rates are roughly 30 percent higher.

I take it the statement at the bottom of the page is a conclusion of what the person who drew up this chart thinks the chart means.

Mr. FAIRLESS. The man who drew up the chart is present. We will be glad to have him explain it.

Acting Chairman KING. Let me see it. The committee will determine what relevancy and what materiality attaches to it.

(The chart referred to was marked "Exhibit No. 1392" and appears in the appendix on p. 10718.)

Mr. FELLER. The next chart, "Reported composite price and composite mill net yield," I want to point out the fact that the composite mill net yield, United States Steel Corporation's subsidiaries, is based on figures taken from, I presume, the records of the Corporation. These figures we do not have before us and it would be necessary for the Department, in order to determine the correctness of that, to have access to such figures. I do not, however, question that those figures are accurately reported, as they appear on the books of the Corporation. I merely wanted to point out that they are facts which we have not had access to.

Mr. FAIRLESS. Mr. Chairman, I should also——

Acting Chairman KING. One moment. It will be received, subject to the qualifications indicated.

(The chart referred to was marked "Exhibit No. 1393" and is included in the appendix on p. 10720.)

[1] "Exhibit No. 1392", appendix, p. 10718.

THE BIRMINGHAM DIFFERENTIAL

Mr. FELLER. I should now like to call to your attention one of the other matters which was dealt with in your price announcement in June 1938. In June 1938 you announced a reduction in base prices. You also announced elimination of differentials among various points of manufacture, or rather points of delivery. There existed previously, I take it, a differential in price between Chicago and Pittsburgh and between Birmingham and Pittsburgh. That is correct, is it not?

Mr. FAIRLESS. That is right; on some products, not all products.

Mr. FELLER. Yes; on some products. Could you tell us what those differentials were? Let us take first the differential between Chicago and Pittsburgh.

Mr. FAIRLESS. On the products affected it was $1 a ton on some and on others $2 a ton.

Mr. FELLER. And at Birmingham as compared with Pittsburgh?

Mr. FAIRLESS. On products affected it was $3 a ton.

Mr. FELLER. Now is this correct, this statement, that a purchaser desiring delivery of steel at Birmingham would on certain products have paid $3 more per ton than the purchaser desiring delivery at Pittsburgh?

Mr. FAIRLESS. Theoretically, yes; actually, practically, no.

Mr. FELLER. I don't understand.

Mr. FAIRLESS. Well, I will explain it. The big reason that the differentials were eliminated——

Mr. FELLER. I haven't come to that; I am just asking you to explain differentials, that is all; just define them.

Mr. FAIRLESS. Well, I can't explain it unless I tell you the story. I don't know how I could explain it.

Mr. FELLER. My question was, why, prior to June 1938, the differential was theoretical, not actual.

Acting Chairman KING. Was it theoretical or actual?

Mr. FAIRLESS. Theoretical.

Mr. FELLER. Why was it not actual?

Mr. FAIRLESS. It was not actual because it was not practical and hadn't been for a great number of years, and the subsidiary companies of the United States Steel Corporation operating in those districts, Chicago and Birmingham, realized that it wasn't practical to charge these differentials, although possibly at the time that they were originally put into effect they were justified.

Mr. FELLER. When were they originally put into effect?

Mr. FAIRLESS. I can't answer that; it was before my time.

Mr. FELLER. Mr. Gregg, can you tell us?

Mr. GREGG. I do not know; I have been with the Steel Corporation and the subsidiaries only for the past 7 years.

Mr. FELLER. Mr. Hughes?

Mr. HUGHES. I can't tell you definitely, but I imagine it was—I imagine in the early twenties.

Mr. FELLER. In the early twenties, somewhere in the early twenties, the Corporation quoted a differential on prices at Birmingham as compared with prices at Pittsburgh?

Mr. HUGHES. That is right.

Mr. FELLER. Mr. Hughes, could you tell us why that policy was instituted?

Mr. Hughes. Well, at that time the facilities that we had for the production of steel in Birmingham were not sufficient to supply the demands of those districts and it is only natural, I would think, that there would be a differential.

Mr. Feller. You mean that because you didn't have enough steel producing facilities at Birmingham that you charged the purchasers in Birmingham $3 a ton more?

Mr. Hughes. Not all of them.

Mr. Feller. On those products?

Mr. Hughes. Not all of them on those products.

Mr. Feller. You mean that you differentiate between purchasers?

Mr. Hughes. We had contracts which provided that the prices charged would be those at Pittsburgh.

Mr. Feller. Why did you make that differentiation? Why did some purchasers have to pay a differential and some none? What was the basis of that differentiation?

Mr. Hughes. Well, some large manufacturers said they would start operations in Birmingham if we would supply them with steel at Pittsburgh prices.

Mr. Feller. Was it a fact that during the period when these basing-point differentials were being quoted by the corporation that the costs of producing steel at Birmingham were, generally speaking, less than the cost of producing steel at Pittsburgh?

Mr. Hughes. I can't answer that.

Mr. Feller. Can you answer that, Mr. Gregg?

Mr. Gregg. In general I would say this, that the cost of production at a given rate of operation might be less and probably is less than at Pittsburgh, but that isn't the whole story of cost. It is the cost of doing business that you want to bear in mind; the cost of production is probably lower than at Pittsburgh.

Mr. Feller. What do you mean by the cost of doing business?

Mr. Gregg. The cost of doing business brings into account the selling and distribution of your products. You must bear in mind that the Tennessee Co., which is the southern subsidiary, covers a very large area of the Southern States where you do not have the concentrated buying power that you have in those areas served by Carnegie-Illinois, at Pittsburgh, and Chicago, and as a consequence of traveling expence, of selling expense, our general expense of doing business is substantially higher than is true in the Pittsburgh and Chicago areas.

Mr. Feller. And during that period, however, if a consumer of steel wanted to locate a plant at Birmingham he would be apt to say, would he not, it would cost me $3 more a ton to buy this steel at Birmingham than it would at Pittsburgh and consequently that would be a factor which would keep me away from that area?

Mr. Gregg. It would all depend on where he proposed to distribute his product. If he proposed to distribute his manufactured products in the Pittsburgh area, of course he would be at a very distinct disadvantage to locate that factory in Birmingham.

Mr. Feller. Supposing he proposed to distribute those products in the intermediate area, let us say in Kentucky, Tennessee, southern Ohio.

Mr. GREGG. There again the freight rate would determine the point beyond which he probably would not go.

Mr. FELLER. The freight rate on the one hand, but also would it not——

Mr. GREGG. Plus the differential, if it existed at the time; yes.

Mr. FELLER. I take it then that because the South was poor, because it was hard to get business from the South, that you compensated for that by charging southern manufacturers who bought these products more?

Mr. GREGG. That is not a proper statement to make at all. The fact remains that it cost us a great deal more money to do business per ton of steel secured than it did in other areas, and we had a right to compensate ourselves for that.

Mr. FELLER. Would you make a calculation of the amount which you saved in cost of production as compared with the amount which you had to pay out in cost of securing business?

Mr. GREGG. I can't say that that has been done, no, except in a very general way, and sufficiently to indicate the statements that I have made to you.

Mr. FELLER. Would you say now that the $3 a ton differential represented, roughly speaking, the excess cost of getting business as compared with the savings made in production?

Mr. GREGG. I won't answer that directly because I can't. I don't know. My best judgment is that it did.

Mr. FELLER. What would you say to that, Mr. Hughes?

Mr. GREGG. This is the early 1920's we are talking about.

Mr. HUGHES. I would like to say that in those days the capacity and the products produced in Birmingham that carried the differential were very small, the rail production was there.

Mr. GREGG. The rail production was the major item.

Mr. HUGHES. Shapes and bars were very small.

Mr. FELLER. Let us take the period of 1937 as an example, the good year, the good parts of 1936 and 1937. What about the situation there at that time, when the differential was still in effect?

Mr. GREGG. I would answer that this way, that in 1936 and '37 and in 1933 and '34 and '35, we weren't getting the differential. As a matter of fact our net mill return clearly reflects the fact that we were not getting the differential.

Mr. FELLER. What do you mean by "you were not getting it"?

Mr. GREGG. I mean our base price was not being realized to a very substantial degree. It means we were getting a mill net return of less than the base price, which base price reflected a $3 differential over Pittsburgh, that base price was not our mill return.

Mr. FELLER. Could you tell us why you weren't getting it?

Mr. GREGG. Yes; because competition wouldn't permit us to get it.

Mr. FELLER. Because other producers were selling below the base price?

Mr. GREGG. They were selling at less than our published price; yes.

Mr. FELLER. And in order to meet that you came down below.

Mr. GREGG. We had to come down; yes.

Mr. FELLER. And was that true in that quarter of '36 when operations were at a relatively high level?

Mr. GREGG. Yes.

Mr. FELLER. Was the mill return per ton of steel sold by Tennessee Coal & Iron, which is located at Birmingham, greater than the return of Carnegie-Illinois?

Mr. GREGG. That I don't know.

Mr. FELLER. Would you happen to know that, Mr. Fairless?

Mr. FAIRLESS. On similar products?

Mr. FELLER. Yes; on similar products.

Mr. FAIRLESS. I can't answer specifically, of course. Items like rails, no; of course not; there never was a differential on rails at Birmingham.

Mr. FELLER. I am not talking about those items on which there was no differential.

Mr. FAIRLESS. As I say, this is just my judgment. I haven't the figures, but I would say on sheets that the net return, realized price, on sheets to the Tennessee Co. was less than to the Carnegie-Illinois Steel Corporation in the Pittsburgh and Chicago districts; that is my opinion.

Mr. FELLER. Does that mean, then, that the $3 differential was more than wiped out?

Mr. FAIRLESS. Yes.

Mr. FELLER. By virtue of the concession?

Mr. FAIRLESS. Definitely more.

Mr. FELLER. Mr. Gregg, how long was that fact operative over this period when the differential was in effect?

Mr. GREGG. I can only speak from 1932, Mr. Feller, and I would say that it has not been materially in effect during that entire period.

Mr. FELLER. Since 1932?

Mr. GREGG. Yes.

Mr. FELLER. Now, Mr. Fairless, you testified earlier yesterday that the price reduction which took place in June 1938 more or less brought your base prices down to the prices that you were actually getting?

Mr. FAIRLESS. On some products, I said in my testimony. You can refer to it.

Mr. FELLER. On some products?

Mr. FAIRLESS. You say more or less; yes, I agree to that; yes.

Mr. FELLER. In other words, the resulting level was approximately the same, perhaps slightly below, as you told us, by virtue of the fact that you hadn't anticipated certain conditions and there had to be certain corrections made?

Mr. FAIRLESS. The record speaks for itself.

Mr. FELLER. Yes. Now what about the prices at Birmingham? At Birmingham, I take it, there was a sharper reduction in the base price, was there not, in published price?

Mr. FAIRLESS. In published price it was a reduction, plus the differential.

Mr. FELLER. Plus $3?

Mr. FAIRLESS. Wherever it applied; yes.

Mr. FELLER. Now, would you tell us what the comparison was between the final published base price at Birmingham after the reduction in 1938, plus elimination, with the return that you were actually getting at that time in Birmingham? Perhaps Mr. Gregg——

Mr. FAIRLESS (interposing). On the products affected I think Mr. Gregg could answer that.

Mr. GREGG. I can't because we do not have a break-down showing the comparisons of mill net returns at Pittsburgh, at Chicago, and at Birmingham; and the comparison was what you wanted, was it not?

Mr. FELLER. No; I was thinking in terms only of the T. C. & I.—Tennessee Coal & Iron, at this moment.

Mr. GREGG. Ask the question again. I misunderstood it.

Mr. FELLER. In June 1938, after you had reduced the base price and eliminated the $3 differential, was the final announced base price at Birmingham approximately the same as the realization that you were actually getting at Birmingham prior, just prior, to the reduction?

Mr. GREGG. It more nearly approached it than at any time previously; yes.

Mr. FELLER. Would you say that you were getting less money for your product after the reduction and elimination of the differential than you were just before?

Mr. GREGG. To a slight degree; yes.

Acting Chairman KING. If steel had been purchased at Birmingham or in that district from Pittsburgh or from your mills in Pennsylvania, wherever they are, would it have cost more to the purchaser than steel purchased in Birmingham? Was not the freight rate between the steel companies and——

Mr. GREGG (interposing). Oh, I understand you to ask the question this way, that if a purchaser in Birmingham ordered steel from Pittsburgh——

Acting Chairman KING (interposing). Or from the mills in the North.

Mr. GREGG. Would I pay more for it than if I ordered it from the Birmingham mill?

Acting Chairman KING. Yes.

Mr. GREGG. No; the price would be the same, approximately.

Acting Chairman KING. Of course the freight from the Birmingham mill to the section in which it delivered its commodities—that would be probably from Alabama, Mississippi, and Tennessee——

Mr. GREGG (interposing). Yes, sir.

Acting Chairman KING. The freight there to the distributing point would be less than the freight from the northern mills.

Mr. GREGG. Yes.

Mr. REYNDERS. I would like to ask Mr. Fairless a question. Is it possible to get more favorable rolling schedules in the Birmingham market than you get up North?

Mr. FAIRLESS. Not as favorable. Steel orders for similar products are smaller in the Birmingham district than they would be in Chicago and Pittsburgh, and it is a factor in the cost. It is quite a factor in the cost.

Mr. AVILDSEN. It tends to offset the lower labor cost down there.

Mr. FAIRLESS. Yes. Mr. Gregg can give you a very clear comparison of size of orders for bars and other products.

Mr. GREGG. They average substantially less than our orders in the Pittsburgh and Chicago areas, requiring more frequent roll changes on the mills producing those particular orders.

Mr. REYNDERS. Do you have a continuous sheet mill down there?

Mr. GREGG. No; we have a continuous strip mill that has been in operation about a year or a year and a half. It was put in at the time facilities were provided for the reduction of full reduced tin plate.

Mr. Reynders. In a continuous mill the character of the rolling schedule has a definite effect upon the cost.

Mr. Gregg. A very definite effect.

Mr. O'Connell. May I ask one question in connection with the size of orders in Birmingham as compared with Pittsburgh? Is that factor as important as it was a few years ago?

Mr. Gregg. It is always important. The less frequent roll changes you can have the better costs you have.

Mr. O'Connell. I take it that that was a factor in the establishment of the $3 differential.

Mr. Gregg. It was a factor; yes. So I understood from Mr. Hughes.

Mr. O'Connell. And I understand the $3 differential has been, in fact, eliminated?

Mr. Gregg. Yes, sir. It doesn't follow from your question, though. It follows largely from the competitive conditions that have existed in the South for some time past, where with the increased capacity—put it this way: Where the competing mills have looked further afield for an outlet for their steel, they have come more and more into the South and in order to maintain a position there and to sell certain parts of their steel, certain tonnages, we have found that prices have not at all approached the differential of $3 a ton; that is, the published price. It would have been somewhat less than that. So, that at no time in my knowledge over the past 7 years has the Birmingham area been able to secure its full published price for its material, except in rare instances.

Mr. O'Connell. Would you know whether it has been able to come as close to securing the posted price as your Pittsburgh plants in northern areas?

Mr. Gregg. I think that since June 1938 we probably have been able to come fairly close.

Mr. O'Connell. I mean prior to 1938, prior to the change in the posting of the differential.

Mr. Gregg. That would be purely a guess on my part.

Mr. O'Connell. You suggested that they had in the past 7 years been unable to get the posted price, but I also understood that that was the situation that existed not only in Birmingham but in the industry generally.

Mr. Gregg. I think it has been general.

Mr. O'Connell. So we really can't say that the situation in Birmingham was a situation that did not exist in other areas.

Mr. Gregg. It generally existed throughout the steel industry, I think.

Mr. Feller. I should like to revert to a question which I asked earlier. The question was whether, after the reduction in price, after the elimination of the differential in June 1938, the price that you were actually getting was much lower than the price that you had been receiving just before, or was approximately the same. If I recall your answer—perhaps I am wrong about that—you said it was somewhat lower, but not very much.

Mr. Gregg. Yes.

Mr. FELLER. I should like to have you identify the chart you have before you there, Mr. Gregg.

Mr. Chairman, this is a table which is headed "Approximate effect of elimination of base differential and reduction in base sales prices, effective June 24, 1938, on sales values of principal products sold by T. C. I. and R. R. Co. sales responsibilities basis of net sales [prices for March 1938 (prior to reduction) and July 1938."

This was taken from the files of the United States Steel Corporation.

Acting Chairman KING. You offer it for the record?

Mr. FELLER. I offer it.

Acting Chairman KING. Any objection?

It will be received.

Mr. GREGG. Yes; that is all right.

(The table referred to was marked "Exhibit No. 1394" and is included in the appendix on p. 10722.)

Mr. FELLER. Mr. Gregg, this chart, which was prepared by an employee of your company, shows in its second column the following. It is headed "Actual net sales prices," and one column is for March and the other column for July. Now March was a month in which, theoretically, the base price, the published base price, including the differential, was in effect. That is correct?

Mr. GREGG. Yes.

Mr. FELLER. In July the published base price had been reduced and the differential had been eliminated. Now I see on this table that your total actual net sales price for the products here listed was, in March, $67.91, and in July $61.36, a difference of over $6. Is that correct?

Mr. GREGG. Yes; that is what the statement shows.

Mr. FELLER. Then is it not true that after the elimination of the differential and the reduction in base price, the prices at Birmingham were substantially lower than they had been before—10 percent lower?

Mr. GREGG. Yes. At that particular time it was true; yes.

Mr. FELLER. That was true in July. Would you anticipate that it would not be true later on?

Mr. GREGG. Prices fluctuate and vary to such an extent that you can't lay down a firm rule and state that they were reduced $9 or $6 a ton in July, and that was current throughout the remainder of the year. I don't know.

Mr. FELLER. The base price always remained the same, didn't it?

Mr. GREGG. For instance, you can take one item shown on this sheet. Here is an item of cotton ties that never did have any differential, yet the drop in price between March and July was $14.87 a ton. That differential never affected that at all. Foreign competition largely determined that.

Mr. FELLER. But taking the over-all picture, would you say that at any time subsequent to July you got, on your whole range of products, a higher price than you did in that month of July?

Mr. GREGG. I should hope we did.

Mr. FELLER. You mean by that that in July, immediately after the announcement of the new base prices, substantial concessions were being offered?

Mr. GREGG. Yes.

Mr. FELLER. Below the new base prices?

Mr. GREGG. Why, yes; and you must bear in mind further the fact that your July shipments may have been made up of sales made before that, but rolled and billed in July. A July invoice doesn't mean at all it was a sale made in July or prices in effect in July.

Mr. FELLER. Yes; but the price immediately preceding it was a higher price.

Mr. GREGG. The published price was.

Mr. FELLER. Wasn't your return higher; the actual net sales prices on the whole were higher previously than before, and wouldn't that mean that your return in July might be overstated, might actually be higher than it would have been if you hadn't taken these previous orders into account?

Mr. GREGG. You mean, would our July price be higher if we hadn't taken these previous orders into account?

Mr. FELLER. I mean it the other way around. You have stated that the price in July was affected by virtue of the fact that you were making deliveries on contracts or orders secured previously at the other price level.

Mr GREGG. At price levels in effect at the time they secured the orders. That didn't mean, necessarily, the published price.

Mr. FELLER. But it was a higher price level.

Mr. GREGG. According to this statement; yes. All you need to add further to that is that in July and August we were up against about as severe a competitive price as we have known, and we were getting substantially less, and I hope that since that time we have been getting a higher price.

Mr. FELLER. Well, may I see just where this brings us to. At the present time, is the price level at Birmingham higher or lower than it was prior to June 1938?

Mr. GREGG. I haven't the figures in front of me. I don't know.

Mr. FELLER. I think we will let it stand on the record that way.

Mr. GREGG. I do want it to stand in the record that way. I don't carry figures in my head to that extent. What you mean to ask me is whether or not our mill net returns today, November the 6th, or whatever it is, are higher than they were in July of 1938. Frankly, I don't know.

Mr. FELLER. Let me ask you this question: Let's look at it not from the standpoint of the mill net, but from the standpoint of what the purchaser is paying.

Mr. GREGG. What the purchasers pay constitutes our mill net, excepting actual transportation charges.

Mr. FELLER. Yes; now supposing I ask you to select one of your large purchasers. Could you mention a large purchaser of the Tennessee Coal & Iron?

Mr. GREGG. Yes; the railroad group is a large purchaser.

Mr. FELLER. I won't take the railroad group, because there was no differential on that. Will you give me a customer who purchases steel products on which there was a differential prior to June 1398?

Mr. GREGG. Yes; any hardware company would be.

Mr. FELLER. Yes; let us take any hardware company in Birmingham. Does that hardware company, assuming that it purchases the same specifications, the same products, from you today that it did in

June 1938, pay you less or more, or substantially the same as it did in June 1938?

Mr. GREGG. You are asking me again to remember a series of figures that I don't recall. I simply don't carry them in my head. The general level of prices is about the same.

Mr. FELLER. But they were not about the same in July.

Mr. GREGG. By "general level of prices" I mean there have been practically no changes in the published prices, and we have been able to secure a better return due to improved demand in recent weeks than we were in July of 1938, meaning the mill return to the Tennessee Co.

Mr. FELLER. Was that true in July of '39, this year?

Mr. GREGG. In July of '39?

Mr. FELLER. That was a period when presumably competitive conditions were forcing you to give concessions.

Mr. GREGG. We are still giving concessions. In July '39 we were giving concessions. I would say July concessions would be less than they are today; that is, our mill net return would be less than it is today.

Mr. FELLER. I am looking now from the standpoint of your purchaser. Was he paying less for steel in July of 1939 than he was in March or May of 1938?

Mr. GREGG. Would he be paying less in July of '39 than he was in March of '38? I should say about the same, or maybe a little different.

Mr. FELLER. Then you would say that your return at that time was higher than your return in July of '38?

Mr. GREGG. My best guess would be "yes." I don't want that to stand as a specific statement. It is a guess.

Mr. FELLER. I understand you, then, to say this, if I may summarize: That prior to June 1938, and for some period prior thereto, at least as far back as 1932 your company was giving concessions, forced to do so by competitive conditions, we will assume—that the prices at which your company was selling steel were not only below the Birmingham price but were actually below the Pittsburgh price. In other words the prices that you were giving had eliminated the $3 differential and had gone below the point at which steel was selling at Pittsburgh.

Mr. GREGG. As to certain commodities; yes.

Mr. FELLER. The general level of prices of those commodities on which differentials had been quoted.

Mr. GREGG. As to certain commodities, very definitely we were selling below even the Pittsburgh price. You must bear in mind this in your summary, Mr. Feller. The Tennessee Co.'s price differential, so-called, or the Birmingham price differential, so-called, was applicable in a limited territory. The Tennessee Co. likewise sold its material in areas where the Birmingham price did not govern at all, but the Pittsburgh price governed. In other cases the Chicago price would govern; in other cases even an arbitrary price would govern. We sold on the Gulf coast points, we sell on the Pacific coast, we deliver on the Pacific coast to the Columbia Steel Co. We sell into Texas, we sell into other States where the Birmingham base price, which included at that time a differential, did not prevail and did not govern the sales, so that when you begin talking averages, or net returns, or things of that kind, comparing one month with another, you involve a great many variables, and any comparison is hardly fair unless you take into account, duly weighted, all of those variables.

Mr. FELLER. Yes; but generally speaking, are we to take it that the $3 differential which was in force at Birmingham from the early 1920's until June 1938 was a fiction?

Mr. GREGG. No; I wouldn't say that.

Mr. FELLER. What did it mean?

Mr. GREGG. I would say very specifically that by virtue of that differential the Tennessee Co. secured a higher price than they would have secured if they hadn't had that differential.

Mr. FELLER. I am very glad to get that statement.

Mr. GREGG. I am very glad to give it to you.

Acting Chairman KING. You are both happy, so proceed.

Mr. FELLER. Will you tell us, Mr. Fairless, again, why these differentials were eliminated? You said they were not practical. Could you elaborate on that a bit?

Mr. FAIRLESS. It doesn't need much elaboration—I don't think it does. We had reached the point where the Chicago district, for example, was able to take care of itself in respect to the supply of steel for industries in that district, therefore it was not necessary to ship steel from the Pittsburgh district, manufactured by our sister companies, in order to take care of that district.

On the other hand we had over a period of years developed that competitive conditions did not permit charging a higher price in Chicago than in Pittsburgh, and on many products, of course, that differential had never been charged; I cite you, for example, the car building industry. If a railroad had to pay a dollar or two dollars more per ton for car material in Chicago than in Pittsburgh, the result of that would be it wouldn't build its railroad cars in Chicago; it would build them on the other end of the line, and of course we couldn't permit that. We were interested, as we are, in the development, industrial-wise of every district in which we operate our properties, and whether or not we operate properties we are interested in the general overall industrial development of America.

Furthermore, a careful study of our actual performance in respect to return showed us, proved to us, that the very meager return we were getting in respect to the differential certainly did not pay us to carry it and—I am using Chicago and Pittsburgh—that same comparison is true, maybe to a little lesser degree, in respect to Birmingham and Pittsburgh, because Birmingham is not able to take care of the full requirements of the district that it serves, and that is proven by the great tonnage of steel that is shipped into that territory by competitors as well as by other subsidiary companies of the United States Steel Corporation.

Mr. FELLER. Would you tell us why it took you some 14 or 15 years to decide that the differential was not practical?

Mr. FAIRLESS. I have only been with the United States Steel Corporation since 1935.

Mr. FELLER. Mr. Gregg, you have been with it somewhat longer. You testified with respect to your experience since 1932 and you said, I believe, that since 1932 the differentials were not being observed in actual practice. Can you tell us why differentials were not eliminated earlier?

Mr. GREGG. The full differential has not been reflected in our mill return since 1932. I can speak from knowledge on that point. Now, there are several very good reasons why the differential should have been eliminated at the time it was. I do not for a moment question the wisdom of having inaugurated that differential; viewed in one respect it reflected a saving to the customers in the South.

Mr. FELLER. Would you mind repeating that again?

Mr. GREGG. In one respect it reflected a saving to the customers in the South.

Mr. FELLER. Will you explain——

Mr. GREGG (interposing). I will explain; wait a miniute. In this respect we were spending, the companies, the United States Steel Corporation had spent, a very substantial sum of money developing the properties of the Tennessee Coal, Iron & Railroad Co. In the absence of that expenditure our people in the South, and I am a southerner so I say our people in the South, would have had to pay a Pittsburgh or a Chicago or a Philadelphia or some other producing center price plus the full freight to Birmingham or to other parts of the South.

The Steel Corporation, however, developed that property and spent a very substantial sum of money. That development has been going on over a period of years, and immediately they reflected a part of the saving to the people, the purchasers of steel in the South, brought about by the installation of these facilities—not all; perhaps not all of the freight rate. They did set a price, however, which tended to encourage the development of industry in the South and at the same time tended to encourage the development of the Tennessee Co. properties by returning an adequate, fair return on its investment.

Those developments, as I say, have gone on over a period of years. The Fairfield Steel Works were started in 1919 or 1920. Since that time other mills have been added. The sheet mills, for instance, there, were built in 1926 and 1927; universal plate mill, I think, was built in 1931. The continuous strip mill that one of the gentlemen asked about was completed in 1937 or 1938. The cold-reduced tinplate mills were finished at or about that time. And so, having reached the stage where we were rounding out our facilities, and where we were in a better position adequately to serve the customers whom we had built up in the South, we recognized that with the competition we had been facing during those years of development the time had about arrived when we could face the public and say, "Let's eliminate the differential. The price of steel is the same as it is in Pittsburgh. Go ahead and plan your program accordingly," and it was done.

Mr. FELLER. Now, I understand that you made this point. The United States Steel Corporation began to develop properties at Birmingham and built the mill there. It decided that in order to give that particular mill a return it was necessary to charge a higher price at that mill than at the mills in Pittsburgh.

Mr. GREGG. Well, now, let's don't confuse that again. What would the customer in the South have done without the construction of that mill? Where would he have got his steel?

Mr. FELLER. He would have had to buy it, I presume, from Pittsburgh.

Mr. GREGG. What would he have paid for it? He would have paid the Pittsburgh price plus freight from Pittsburgh to his delivery point, and that as a rule ran between $10 and $12 per ton.

Mr. FELLER. That is correct.

Mr. GREGG. The differential that has been publicized at Birmingham amounted to $3 a ton, so that confirms the statement that I attempted to make to you that there was a saving in that case of about $9 a ton to the southern customers.

Mr. FELLER. Well, what I fail to understand is this. This customer did not have to buy from Pittsburgh because you had a plant at Birmingham.

Mr. GREGG. Correct.

Mr. FELLER. And you say that because you had put a plant there at Birmingham you felt that you were entitled to charge the purchaser at Birmingham $3 more, because if there weren't a plant there he might have to buy it from some other place.

Mr. GREGG. We might make this further statement, that we were entitled to charge him a reasonable price which would return to us a return on the investment that had been made there in providing the facilities for him. Bear in mind, and I recall your attention to this, that I have stated explicitly that our cost of doing business in the South consistently has been higher than our cost of doing business in the Pittsburgh and Chicago areas which have the more highly concentrated buying communities than in the South. Again you have to look at the over-all picture.

Mr. FELLER. Now may I ask you this. Doesn't that lead us to this conclusion, that the price at each mill of the United States Steel Corporation should be sufficient to recover the cost plus reasonable profit of that mill?

Mr. GREGG. Are you speaking of one mill or of a subsidiary company? For instance, the Tennessee Coal, Iron & Railroad Co. has three plants. They are all within easy hailing distance one of another, and each of those plants has several mills in it. Just what are you referring to? Are you taking the Tennessee Coal, Iron & Railroad Co. as such?

Mr. FELLER. I am talking about the mills at Birmingham.

Mr. GREGG. Are you talking about the Bessemer Rolling Mill? We operate it.

Mr. FELLER. I am taking all your mills at Birmingham in a group. You say you felt they were entitled to receive a higher price than the mills as a group of the Corporation in Pittsburgh, because you told us——

Mr. GREGG (interposing). Wait a minute, I didn't say that. You say we were entitled to a higher return on our investment in Birmingham than the mills at Pittsburgh.

Mr. FELLER. Higher price.

Mr. GREGG. I thought you said higher return.

Mr. FELLER. I am sorry. You said the mills at Birmingham as a group were entitled to a higher price at that time than the mills at Pittsburgh as a group. That is correct, is it not?

Mr. GREGG. Yes, sir.

Mr. FELLER. Because of the fact that the cost of doing business from the mills at Birmingham was higher, because it was new property, because it was necessary to develop it.

Mr. GREGG. And also to take care of the competitive conditions that affected us at the time. Yes; all of those factors enter into it.

Mr. FELLER. Doesn't it follow on the same line of reasoning, the price at each group of mills operated by the Corporation should be different because certainly the conditions at Chicago were different from the conditions at Pittsburgh?

Mr. GREGG. That doesn't follow at all. As a matter of fact we have reached the conclusion, as evidenced by the fact that the differentials are eliminated, that the conditions more nearly approach equality, one with another, right now, and as a consequence we have the same price at Chicago, at Pittsburgh, and at Birmingham, as regards the base price of our steel.

Acting Chairman KING. Assume that Mr. Feller and myself have large steel mills at Pittsburgh and Chicago and we have expended large sums for the development of the industry there. We are appealed to by the people of Birmingham and vicinity to build a steel mill there. Mr. Feller and I at very large expense explore the resources and the opportunities and finally we spend a large amount, fifteen, twenty, thirty millions of dollars, whatever is necessary for the establishment of a steel mill there. It would seem to me, as merely a suggestion, that we would be entitled to a higher price for the product in view of the enormous development there than we would get for our product up in Pittsburgh where we had had it established for years and had a large clientele and were making large reserves, until we got a reasonable return on the investment which we made in Birmingham.

Mr. GREGG. If I may be permitted to say so, I think the chairman has made a very concise statement of the facts. May I add this further thought, though, that when you think in terms of the Tennessee Co.'s properties the experiences of the stockholders of that institution weren't so pleasant over the years 1852 to 1907. I happen to know about these. The Steel Corporation bought those properties in 1907 and they undertook to develop them just as the distinguished chairman has pointed out, and they have spent large sums of money there, and it has made possible a development of a steel industry in the South that no other industry, no other steel group in the South has been able to approach, and as a result of that today the southern consumer of steel is getting the finest quality that can be produced,—the best service that can be produced,—at a price no higher than he would pay for it if he were located in Pittsburgh or in Chicago.

Mr. FELLER. That is correct today. We were addressing our questions, however, to the situation before June 1938. I should like to ask you this. Was this differential as against Birmingham established when the Tennessee Coal & Iron properties were acquired by United States Steel?

Mr. GREGG. When the properties were acquired by the United States Steel Corporation (I was not with them at the time and I can't answer specifically) my best recollection is that all they produced at the Tennessee Co.'s plants were pig iron and steel rails, with perhaps a small tonnage of bars, although I am not sure of that. Rails have never had a differential. Pig iron has always had a lower differential; that is, its price has been less than at Pittsburgh because of certain chemical specifications, so that I can't say that they had any differential in 1907, '08 or '09, I don't know.

Mr. Feller. You testified that the differential was established early in 1920.

Mr. Gregg. Mr. Hughes testified as to that. I didn't.

Mr. Feller. You testified that the differential was established early in 1920?

Mr. Hughes. That is my recollection.

Mr. Feller. Was that differential established because of developments which were then undertaken in the Tennessee Coal properties?

Mr. Hughes. That is my recollection. Before that time we were charging, I think, Pittsburgh price plus the freight, or approaching that.

Mr. Feller. Before that time, you charged at Birmingham the price at Pittsburgh, plus freight.

Mr. Hughes. Approximating that.

Mr. Feller. Before that, you were also charging the Pittsburgh price, plus freight, at Chicago, too, were you not?

Mr. Hughes. I think so. I am not sure.

Mr. Feller. Do you remember the occasion of the change?

Mr. Hughes. Why it was made?

Mr. Feller. Yes. Why did you abandon the system of quoting prices at Pittsburgh plus freight, and go into this system of quoting separate prices based on differentials from Pittsburgh?

Mr. Hughes. That is so long ago I can't answer.

Acting Chairman King. May we take a recess now? If not, will you continue.

Mr. Feller. I am through.

Acting Chairman King. We will take a recess until 2:30.

(At 12:30 the committee recessed until 2:30 p. m. of the same day.)

AFTERNOON SESSION

The hearing was resumed at 2:35 p. m., upon the expiration of the recess, Senator King, acting chairman.

Acting Chairman King. The committee will be in order. Are you ready, Mr. Feller?

Mr. Feller. Yes, sir.

Acting Chairman King. Proceed.

Mr. Feller. I should like to recall the three gentlemen to the stand, if you please.

Acting Chairman King. Proceed, Mr. Feller.

Mr. Feller. Mr. Chairman, just before the recess we were discussing the differential which existed prior to June 1938, at Birmingham and at Chicago. As was stated, in June 1938, those differentials were abolished. Mr. Fairless, there still are some differentials left, are there not?

Mr. Fairless. Yes; some very moderate ones—at Worcester, Mass., and Duluth.

PACIFC COAST PRICES

Mr. Feller. And there is also a differential with respect to the Pacific coast?

Mr. Fairless. Well, no. The Pacific coast is built up on a delivered price which reflects a combination of rail delivery and water delivery and is also based on foreign competition which exists on the Pacific coast.

Mr. FELLER. If a purchaser of steel in San Francisco orders steel from the Columbia Steel Co. works near San Francisco——

Acting Chairman KING (interposing). No; in Utah.

Mr. FELLER. In Utah, I believe they make pig iron.

Acting Chairman KING. All right; we have a Columbia Steel works in Utah.

Mr. HENDERSON. You probably were instrumental in getting them there, too.

Acting Chairman KING. It took a long time to get them.

Mr. FELLER. The customer in San Francisco who wanted to buy steel to be delivered by the Columbia Steel Co. works would pay more, would he not, than a purchaser at Pittsburgh?

Mr. FAIRLESS. Yes.

Mr. FELLER. And that is due to the fact that he received a delivered price at the port. He is quoted a delivered price at San Francisco for that steel.

Mr. FAIRLESS. Well, that isn't the reason he pays a higher price. That is the basis of the price, but not the reason for the higher price.

Mr. FELLER. Could the purchaser at San Francisco give the Carnegie-Illinois Steel Corporation an order at Pittsburgh at the Pittsburgh price and say, "I will take it in my trucks across to San Francisco"?

Mr. FAIRLESS. No, sir.

Mr. FELLER. Could you explain the reason for the difference between the price to a purchaser at Pittsburgh and to a purchaser at San Francisco?

Mr. FAIRLESS. Well, the reasons are obvious. The costs for making steel in San Francisco are higher than they are in Pittsburgh. The raw materials, for example, in the form of pig iron, are transported from Utah to San Francisco——

Acting Chairman KING (interposing). By rail.

Mr. FAIRLESS. By rail. The freight rate, as I recall it, is in the neighborhood of between $5 and $6 a ton. The quantities of steel—first, the steel plants of the Columbia Steel Co. do not make a full range of products on the Pacific coast, for the reason that the demand is not sufficient to cause the investment in the equipment necessary to make a full line of products.

Also, the nature of the business on the Pacific coast, generally speaking, in the products manufactured by the Columbia Steel Co., the size of orders is relatively small as compared with Pittsburgh and Chicago districts. The real reason that we do not charge the full freight rate from basing points such as Chicago is because we want to give our customers on the Pacific coast the cheapest delivered price that we can make for them or to them, and at the same time reflect a fair profit.

Now, we have had periods where due to extensive competition, prices of certain commodities on the Pacific coast fell below prices of those same commodities back east, but that in no way was affected by the principle of selling on the Pacific coast but simply due to competition, not only from within our industry in this country but also foreign competition. I just returned from the Pacific coast shortly before the first of September and I found to exist there at that time a very serious problem in respect to the price of bars, because of importation, and of course many things have happened since my return, which occurred about the time war was declared abroad; and the condition isn't as acute as it was, but it was serious at the time I was there. So our prices on the Pacific coast are at all times subject to changes due to importation of steel.

Mr. FELLER. You mean the actual prices you receive as distinguished from your announced published prices?

Mr. FAIRLESS. That is right.

Mr. FELLER. It was testified to earlier this morning that the differential at Birmingham, generally speaking, was not very significant in the actual sales performance.

Mr. FAIRLESS. That is right.

Mr. FELLER. And that it was a bad one because it was impractical. Do you feel that the different price on the Pacific coast as compared with the eastern prices has practical significance, and that it is practical to maintain?

Mr. FAIRLESS. Yes; I do. I don't feel that the Pacific coast and the Birmingham district are at all comparable.

In the Birmingham district we have raw materials available for the manufacture of steel. On the Pacific coast those same raw materials are not available, and the most important cost in the manufacture of steel is the assembly cost of raw materials, and the only reason that we do not manufacture pig iron, for example, on the Pacific coast is that due to the supply of raw material in the Senator's good State we can make pig iron cheaper in Utah and transport it to the Pacific coast as against transporting the raw materials there and manufacturing the iron. Also, scrap is an important item in the manufacture of steel on the Pacific coast. The supply is limited and any greater demand, I believe, with conditions as they are now, would cause a price of scrap that would be prohibitive in order for our coast mills to compete in that market.

Mr. FELLER. Would you say that, generally speaking, the prices at the Pacific coast ports are about the equivalent of the base prices in the East, plus freight, or are they somewhat below that?

Mr. FAIRLESS. Oh, much below that.

Mr. FELLER. Is that true of all products?

Mr. FAIRLESS. Well, I wouldn't want to make the statement that it is true of all products, if you got into some specialties such as stainless steel.

Mr. FELLER. How about plates?

Mr. FAIRLESS. Oh, plates, of course. Plates reflect a delivered price which is lower. Am I correct, Mr. Gregg?

Mr. GREGG. I think you are. Of course, the Pacific coast plants do not roll plates.

Mr. FELLER. That is precisely the reason I asked the question. That is, is there any differentiation between those products rolled on the Pacific coast and those which are not?

Mr. FAIRLESS. Well, I couldn't answer that. Mr. Hughes?

Mr. HUGHES. According to Iron Age, I think they are lower than the ocean freight.

Mr. FAIRLESS. My impression was lower than the all-rail freight.

Mr. FELLER. Well, let us put it by the usual means of transportation which I presume is the ocean.

Mr. FAIRLESS. The prices are somewhere between, from a transportation-cost standpoint, the actual rail freight and the water freight. Now, some of our business on the Pacific coast is of such a nature that we have to ship by rail, if the customer requires that type of shipment. That, however, does not affect his delivered price. We quote and do our business on a delivered-price basis. I do know—well, we will check this so we give you the correct information—that it is a fair statement to make that by and large users of plates on the Pacific coast are not penalized in respect to price in comparison with the users of plates in the East.

Acting Chairman KING. May I ask one question there? Do not water rates from Birmingham through the Gulf and through the Canal and up the Pacific have some influence on freight rates in California generally?

Mr. FAIRLESS. Oh, yes; and from other points, too.

Acting Chairman KING. Not only steel but commodities generally?

Mr. FAIRLESS. Yes.

Acting Chairman KING. You get a better rate on some commodities from the Gulf and from Birmingham through the Gulf and through the Canal and up to San Francisco, or to Los Angeles, San Pedro Harbor there, better rates than you could by rail?

Mr. FAIRLESS. Yes; that is right.

Mr. FELLER. Mr. Chairman, I am now about to proceed to a somewhat different topic with respect to these witnesses. I wonder if there are any questions?

Acting Chairman KING. Any questions from you, brethren?

Mr. REYNDERS. I don't think of any, Mr. Chairman.

Mr. HENDERSON. Just one statement in connection with our interchange this morning. I referred to the 1937 price levels of certain commodities, steel commodities, as compared with the level for all prices and the 1929 level, and I indicated the range of some of the individual commodities, and said that some of these were 30, 40, to 50 percent higher than the general average. I didn't mean to imply by that that the whole level of iron and steel prices as a group was that far above. I have consulted my record here and find that as a group it is about 105; it was exceeded by coke, which was at 125; drugs and pharmaceuticals, which were about 108; by bituminous coal which was about 108; and was followed by cement, about the same level as iron and steel; paper and pulp, hides and skins, so I wanted to make it clear as to the general averages.

Acting Chairman KING. Proceed, Mr. Feller.

"EXTRAS"

Mr. FELLER. We have been discussing until this point the base price and we have also been discussing very lately the differentials which exist among the various points of delivery. Now I should like to address a few questions with respect to the matter of extras which have been adverted to here from time to time, and may I ask that Mr. Lucas be called to join the gentlemen here?

Acting Chairman KING. Come forward, Mr. Lucas. Do you solemnly swear the evidence you shall give in this hearing shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. LUCAS. I do.

TESTIMONY OF FRED H. LUCAS, CHICAGO MANAGER OF SALES, STRUCTURAL AND PLATE DIVISION, CARNEGIE-ILLINOIS STEEL CORPORATION

Acting Chairman KING (interposing). Will you give your name to the reporter?

Mr. LUCAS. Fred H. Lucas, Chicago. I am manager of sales, structural and plate division, Chicago district of Carnegie-Illinois Steel Corporation.

Mr. FELLER. Mr. Fairless, would you recall to the committee just briefly what "extras" are, the definition as that term is used in the industry?

Mr. FAIRLESS. Mr. Chairman, in the steel industry we have a method of merchandising our various products by beginning with the base price. That base price is usually arrived at by the selection of a popular size, if you please, or grade of some particular product, and from that we make charges and deductions, dependent upon the requirements of the particular inquiry involved. Personally, I have always felt that the naming of this particular charge for service rendered, naming it "extra," leaves a very bad inference with the public; it doesn't with those who buy steel because they are very familiar with it and know its meaning, but it does leave an inference that there is some mystery about it. I want, if I can, to take the time to explain that there is absolutely no mystery in connection with the book of extras on which the subsidiary companies of the United States Steel Corporation do their business.

Mr. FELLER. Mr. Fairless, I should just like the committee——

Acting Chairman KING (interposing). A sort of misnomer?

Mr. FAIRLESS. I am coming to it.

Mr. FELLER. I would just like the committee to look at what a book of extras looks like. This is a book of extras of the Carnegie-Illinois Steel Corporation.

Mr. FAIRLESS. Extras and deductions, if I may correct the title, please.

Acting Chairman KING. I suppose you are not asking to have this introduced.

Mr. FELLER. No, sir; that is merely for the committee to look at.

Mr. FAIRLESS. I have a definition here but I would like to talk about it in my own language, if I may. We begin in sheets, for example, with a popular size of sheet in respect to gage, finish, and so forth, and we name at our various basing points, the price that is to apply on that particular product, and from those basing points of course we develop, through the various transportation routes, a delivered price at the customer's plant. Now if the customer orders that particular specification that is covered in that base price announcement, he pays just that, but if he says, "I don't want that particular gage, I want some lighter gage," or, "I want some heavier gage, I don't want that particular width, I want some wider width, or some narrower width," if you please, then we show him through this so-called book of extras and deductions just what we charge for the extra service rendered. He might say, "I don't want this hot-rolled finish," which means the finish as it comes from the mill, "I want a finer surface because I am going to apply paint, varnish, or lacquer," if you please, "I am going to build refrigerators, so I can't use a hot rolled sheet, I have to have a higher grade of sheet." Then we tell him, through this book, exactly what that particular product is going to cost him and in order that it might be uniform, in order that it might be readily understood by both the buyer and the seller—and I cited for example here this morning that if we are to deal in terms of 50,000 tons of orders per day, there can't be very much mystery in the method in which we tranact our business, so this is the salesman's Bible, if you please; this is the basis on which he goes to the customer and tells the customer what his particular inquiry is going to cost him.

Now, if the base size or gage, if what the customer wants is something less expensive than that which is covered in the base price, then deductions are made, and the entire book of extras and deductions is built up to the best of our ability to build it, based on costs. There isn't any desire of the United States Steel Corporation to establish extras for services rendered other than to cover our costs. We expect and hope to make our profit on the base steel price, and a very simple example—it goes on in every industry—is, the automobile manufacturer who tells us what the price of a certain model is, and he also tells us that we can have four, maybe five, tires as a part of that price. But if I as a purchaser say I want six tires, if I say I am not happy with the particular make of tire that he furnishes, he will furnish it—of course he will—but he will charge for the extra service rendered.

Now, we conduct our steel business in exactly that way. It isn't quite that simple because of the many ramifications of the steel business, because it isn't only size, it isn't only surface, it isn't only width or length, it is analysis, it is chemistry, it is physical requirements. Sometimes a customer will want his bars heat treated or annealed for machineability. So this book of extras and deductions is built up in the manner that I have told you and for the purposes that I have indicated.

Acting Chairman King. I suppose there are many forms of steel products.

Mr. Fairless. Oh, many—a great multiplicity.

Acting Chairman King. Hundreds of them.

Mr. Fairless. Thousands.

Acting Chairman King. And in some instances the purchaser will desire a superior quality of steel which will cost more than the ordinary base price steel. Is that true?

Mr. Fairless. That's right.

Acting Chairman King. Desire it as you have indicated, for refrigeration or for some very important and finely finished product, and those would come under the head of extras in your nomenclature, and the price would be fixed according to the services rendered in making that finished product.

Mr. Fairless. That's right; it is a charge for services rendered, it is published and it is in the hands—I will venture to say that every steel buyer of any importance in this great country of ours has either our book of extras or someone's.

Mr. Feller. Mr. Fairless, I understand that the basis for these extras is cost.

Mr. Fairless. That's right. I would like, if I may, to enlarge upon that a little bit. It may be answering your question; I don't know.

We arrive at these extras by anticipating in some instances our costs. Now the extra might be some special section and I cite you, for example, in the early days of the agricultural implement business, where special sections were very common. I wasn't making or selling steel in those days, but I can very readily see the picture, that in those days, those special sections were designed by engineers, they were submitted to some steel company, and price quotations were asked. I can conceive that those prices were substantially higher, quotations were substantially higher, than some common, ordinarily the popular, section.

But the agricultural implement business developed into such great quantities that many of those so-called special sections of that day now are standard, and the extras for the section have disappeared. They have disappeared because the extra cost of making them has disappeared, because the quantities ordered are sufficient now that the manufacturer can afford to prepare rolls, keep rolls, set up his mill and make a run where he will get costs that permit him to sell on the same basis as the regular section.

Mr. FELLER. I'm sorry; I just want to elucidate this point. The extras that you set up are on the basis of your cost or your anticipated cost.

Mr. FAIRLESS. Not only our cost, but a cross section of the costs of the industry.

Mr. FELLER. How do you know that?

Mr. FAIRLESS. We make it our business to find out. We talk costs of extras with our competitors.

Mr. FELLER. Oh, you and your competitors consult with each other with respect to the extras.

Mr. FAIRLESS. Yes, and I am advised by my general counsel that that is perfectly within our rights to do so.

Mr. HENDERSON. Is that done through the Institute?

Mr. FAIRLESS. No, sir.

I may have answered that too quickly, Mr. Henderson. We have technical committees, manufacturing committees, in our Institute that make studies of various phases, but they don't fix the price. They don't fix the price charged for these special services rendered, but they do make analyses of the costs and studies of the costs, and since our motive is only to charge cost for services rendered, then obviously it is our duty to develop the best cost that exists, not only within our own company but within this industry.

Mr. HENDERSON. How long have you been having these cost consultations?

Mr. FAIRLESS. Oh, for probably as long as the steel industry has existed, so far as I know. It has been going on during the 25 years that I have been in it.

Mr. HENDERSON. Is there any general organization through which you get together for discussion of costs?

Mr. FAIRLESS. No, no. In other words, I might—when I say "I" I am speaking of my company; we might very well—all extras aren't established in the same manner. We might very well be presented with a special section to roll for some customer. We might very well there and then establish the extra, tell him what we will charge for it, and so we go on. Some compettititor of ours, however, might come to the conclusion, and many times does or has, that his cost to roll that particular section isn't that great.

Mr. REYNDERS. In that event you would have to adopt the lowest charge for that service?

Mr. FAIRLESS. That's right.

Therefore, extras are competitive whenever they get out of line in respect to costs, and it doesn't mean because an extra is out of line in respect to cost today that it has always been out of line, because technical developments in the industry, are constantly lowering our costs, and sometimes they catch up with us before the extras actually are reduced; but leave it to this industry, if there are any extras in respect to widths or quality or whatever it might be that show any profit, its competitive spirit will take care of that very readily.

Mr. HENDERSON. I understood you to say that you had been advised by counsel that that is perfectly all right.

Mr. FAIRLESS. Yes, and I cite you this. Out of these so-called extras comes standardization. We couldn't operate this industry of ours unless we had standardization. If some Government building or private building were erected from steel made by the United States Steel Corporation and they had their special section and no one else made that section, that would mean that any addition to that building would have to be bought from the United States Steel Corporation or the owner would absorb great costs in hooking up some new section, so we have standard sections. There isn't anything unusual about it. Why is it that you go into a bathroom and turn on a faucet and that faucet may be made by 10 or 15 different manufacturers, but they are standard. How could they have ever become standard if those manufacturers didn't get together and standardize? Standardization is going on all over this country, and, I think, must go on. Why are your automobile tires interchangeable in respect to size?

Mr. HENDERSON. That is a standardization, Mr. Fairless, having to do with products—it is a product standardization. Of course, it got a great impetus after the World War. The initial drive came during the World War and then the simplification movement was encouraged by the Department of Commerce and the engineering societies later. This has to do with about 10 percent of the price, does it not?

Mr. FELLER. With respect to the question of how much the extras count in delivered price, we have prepared an analysis on the basis of returns furnished to questionnaires by various companies in the industry, 52 companies, I think, somewhere in the neighborhood of 50 companies.

Acting Chairman KING. 50 companies?

Mr. FELLER. Yes. The analysis which we have made is on the basis of a selected number of products shipped during February 1939, to the various consuming districts in the United States. It does not include exports, f. o. b. mill sales, shipments to plants or warehouses of the same or affiliated companies, or shipments to jobbers' warehouses. It includes all other shipments in the industry. On the basis of our calculation—and I shall include this very shortly—the percentage of extras which appears on the invoice as a percentage of delivered value varies from product to product. In the case of tin plate the deductions are of particular significance and the result is that the deductions reduce the price by 3.9 percent.

In the case of other products the extras figure something like this. Only seven-tenths of 1 percent of the delivered value in the case of cold-rolled sheets, and then going up, 4 percent in the case of heavy structural shapes, 5.7 percent in the case of wire rods, and the highest on the products that we calculated was 29.7 percent in the case of cold-rolled strip. On the 10 products which we had the total appeared as follows: The extras were 9.9 percent of the total delivered value——

Mr. FAIRLESS (interposing). May I ask the names of the 10 products?

Mr. FELLER. Sheet and tin plate bars, wire rods, plates, heavy structural shapes, hot-rolled and hot-rolled annealed, hot-rolled strip, cold-rolled sheets, cold-rolled strip, tin plate, and plain drawn wire.

Mr. FAIRLESS. Plain drawn wire?

Mr. FELLER. Yes, sir.

Mr. FELLER. I should like to state at this point that there are other matters in this exhibit. I offer this for the record, Mr. Chairman, and I shall refer to it.

Mr. HENDERSON. I would like to ask a few more questions.

Mr. FAIRLESS. I should like to inject here, if I may—I think it is perfectly obvious, without injecting it. You can imagine what the extra costs of piano wire, for example, might be as compared with ordinary fence wire.

Mr. HENDERSON. Well, getting back to this question I was about to ask you when Mr. Feller introduced this exhibit, in period such as you had in 1937 and early 1938, which was a period of competition and expressed itself in price concessions, is it the practice of your corporation to vary the extras at all, or do you vary the base?

Mr. FAIRLESS. We prefer—our policy would be, if we were permitted so to operate, and not be forced to change our policy because of competition, not to change our price through the extra or deduction route, until such time as we did it in an orderly way. In other words, we have built a new machine, we have installed a new mill, we have developed a new process, and the extra charge or the deduction made for the product by the old process is now out of date; we would prefer right then to make a new extra, charge a new extra or establish a new deduction, but for the purpose of getting an order, if you please, reducing the price; we much prefer, and our policy is, if we can carry it through, to go the base-price route.

Mr. FELLER. May I interrupt, Mr. Chairman? Was this document received?

Acting Chairman KING. Yes.

(The document referred to was marked "Exhibit No. 1395" and is included in the appendix on p. 10724.)

Mr. HENDERSON. Well, in this period we were referring to, was there much variation or concession on the extra list by your competitors that came to your attention?

Mr. FAIRLESS. There has been from time to time; there has been, but if you take the size of the book there, the changes in extras, while there are many because the changes in manufacturing methods in our industry are many, and rapid——

Mr. HENDERSON. I am not getting at the number of changes in the extra book, but I am talking about individual orders. Do you get many reports in a period of competition that your competitors have made their concessions on the basis of a reduced extra?

Mr. FAIRLESS. Yes; we do, but I know, or feel, that percentage-wise that is a very small percentage of the cases in which prices are reduced.

Mr. HENDERSON. What does your group do when that happens?

Mr. FAIRLESS. Group?

Mr. HENDERSON. Do you say anything to the——

Mr. FAIRLESS. Group?

Mr. HENDERSON (continuing). Anything to the offender?

Mr. FAIRLESS. Many times you don't know who the offender is immediately, but you do know you have to be competitive, and you meet that competition maybe by not touching the extra involved at all. You might do it through the base-price route, and maintain your position in respect to the extra.

Mr. HENDERSON. What I am getting at, if you hear that for the purpose of getting an order there has been either an elimination of or reduction in the extra price, does your group working toward standardization take any action at all?

Mr. FAIRLESS. No, sir; as a group—no, sir.

Mr. HENDERSON. Do you as individuals?

Mr. FAIRLESS. Yes; I have just explained it.

Mr. HENDERSON. I mean do you call up the competitor and say what you think about it?

Mr. FAIRLESS. No; if the reduction of that extra becomes persistent, why it automatically establishes a new basis for the charge for that extra, even though that new charge does not represent cost, and we have had that happen many times.

Mr. HENDERSON. It might happen when you are quoting on, say, some consuming industry that was a pretty large buyer, might it not?

Mr. FAIRLESS. No; I don't think we want to confuse the thing. I am trying to present this subject to you very straightforwardly.

Mr. HENDERSON. I might say I never heard a more straightforward presentation, Mr. Fairless, than you have made.

Mr. FAIRLESS. There is no camouflage and we haven't anything hidden at all; we start on the basis that we render additional service to what we offer in our base price, and we have arrived at charges for that. We have arrived at charges for that on the basis of costs for the operation required to furnish that additional service. Now when that particular extra or deduction gets out of control, we don't call a meeting of the steel industry or any of the principals of the steel industry. It then is on the basis of a competitive situation which we have to meet; as we do the base-price situation.

Mr. HENDERSON. But the next time your cost people got together they would take those deviations into account as to whether or not a new extra would be established?

Mr. FAIRLESS. We have no group; we have no set-up, no mechanics to do this thing. Once the extra is established then it is taken care of in the regular routine of the industry's day-by-day business.

Mr. HENDERSON. Does your company establish the extra?

Mr. FAIRLESS. You mean us alone? Oh, my, no.

Mr. HENDERSON. I mean do you announce it?

Mr. FAIRLESS. We may.

Mr. HENDERSON. Is it the general custom in the industry for your group to announce it?

Mr. FAIRLESS. Changes in extras? We may or others may; it all depends on the extra involved. The extra involved might concern some product of which we are not the largest producer, or in which we are not very much interested.

Mr. HENDERSON. Pretty much like price posting announcements?

Mr. FAIRLESS. Yes; that is right, although we don't have any quarterly basis for announcing extras or changes in extras. A change in an extra might occur at any time during a quarter or at any time.

Mr. HENDERSON. Then you get out a new loose leaf sheet?

Mr. FAIRLESS. Notify our district offices of the change in the extra and when we publish our new book, then we would publish the change in the book, or as you say in this instance.

Acting Chairman KING. Are those so-called extras in part based upon new discoveries, new inventions, new processes, new technological developments in the industry or in the activities of your organization? Or are they more standard and those extras are utilized by all of the entire industry, and the form of the extra, the physical form and its intrinsic merit and value is exactly the same?

Mr. FAIRLESS. Yes; for example, Senator, it is only within the last few years that this industry has ever heard of a heat-treated rail. I don't mean that this industry didn't know that rails could be heat-treated, but the requirements of the railroads was not such that heat-treated rails were required, and now we heat treat rails. By heat treatment I mean give them the real heat-treating method or process, putting them through heat-treating furnaces and cooling and straightening and all the extra work that goes with it.

Acting CHAIRMAN KING. You would call that an extra?

Mr. FAIRLESS. We charge an extra for that service, and we hoped when we established it that it would cover the costs of the service rendered, but unfortunately for us it hasn't but still it is the extra that is in vogue.

Acting Chairman KING. Have you so analyzed and appraised the costs of these extras as to determine just what relation those costs are to the entire business?

Mr. FAIRLESS. Oh, yes; we are constantly—our technical people and our practical people are constantly working on that very problem, constantly.

Acting Chairman KING. If you could segregate the cost of your extras from the cost of your general business would you be able to determine whether you had made money or lost money, whether you had profits in the manufacture of extras?

Mr. FAIRLESS. I would say yes, and I would say if you took the entire extras charged, and the cost of the services so rendered, it would show a deficit, so far as the steel industry is concerned. I am sure it would, so far as the U. S. Steel Corporation is concerned. I am not going to make the statement that you can't pick out a product or products where certain extras might reflect as of today a profit, so to speak, or a return greater than the cost of the service rendered, but I also wish to add that corrections are being made constantly and we find that through the route of competition any extra involving a profit will soon find its level.

Acting Chairman KING. You have the same competition in extras as you do in business generally?

Mr. FAIRLESS. No; not so keen, because many of these extras have been established for years and they haven't changed because processes haven't changed.

Acting Chairman KING. Sort of standards?

Mr. FAIRLESS. Extras aren't changed to the extent that base prices are.

CHANGE IN EXTRAS IN MAY 1938

Mr. FELLER. Mr. Fairless, in May 1938 there was a rather substantial change made with respect to extras. That is about the most extensive change that has been made in the last 2 years?

Mr. FAIRLESS. That is the most extensive change that has been made, I believe, during my connection with the steel business.

Mr. FELLER. I should like to offer for the record the circular letter of the Carnegie-Illinois Steel Corporation to its managers of sales which explains this change. It is dated May 26, 1938.

(The letter referred to was marked "Exhibit No. 1396" and appears in the appendix on p. 10729.)

Acting Chairman KING. Are you familiar with it, Mr. Witness?

Mr. FAIRLESS. I am familiar with it and also, Mr. Chairman, the man who developed these changes is here and if you would desire it, we would be very happy to have him present the chart showing the changes that were made and the reasons why they were made, because right at this time the making of this new schedule was brought about by the advent of the continuous mill process of manufacturing sheets and other flat-rolled products. We had had extras and deductions for the old hand mills that had stood, with changes, of course, from time to time, over a long period of time, and this industry came in with a new process of manufacturing sheets. Obviously, some of the extras and deductions in the old process were out of date and the relationship of one flat-rolled product to another became unjointed, so Mr. Adams of the Carnegie-Illinois Steel Corporation at that time in conjunction with others, within and without the U. S. Steel Corporation subsidiary companies, made a very exhaustive study on this particular problem and developed the changes that Mr. Feller has referred to, and he is here, available, and is much more familiar with it than I am.

Acting Chairman KING. The document will be received, and later on it may be important for you to go over it if you care to.

Mr. FELLER. I don't know that it will be necessary, but if we need to we can call Mr. Adams.

Acting Chairman KING. If it is necessary to elucidate the question Mr. Adams may be called.

Mr. FELLER. I should just like to ask you this question: At that time when these extra changes were made as an overall matter, was the result to increase the extras?

Mr. FAIRLESS. It may have been—oh no, of course not; you mean the delivered price.

Mr. FELLER. Oh no, no, the extra charges in and of themselves.

Mr. FAIRLESS. It was properly to relate and to establish proper extras for the various commodities and specifications.

Mr. FELLER. Well, I would just like to read you one of the paragraphs.

Mr. FAIRLESS. I don't mean to say by that that there weren't some increases, there may very well have been some, and justified ones.

Mr. FELLER. Oh, yes; I am not concerned now with justification, but as a general overall matter, was the result an increase above the then existing base price?

Mr. FAIRLESS. Base price?

Mr. FELLER. Yes.

I will read this paragraph from the bottom of page 2 of "Exhibit No. 1396." [Reading:]

> We applied our new lists of extras and deductions to our last year's business and found that by using a constant base price there was an increase in the net of approximately $1.20 per ton for cold rolled products and $1.04 per ton for hot rolled products; therefore, in order that we would not have to announce an increase in our average prices, we made a reduction of $2 per ton in the base price for the third quarter.

Mr. FAIRLESS. That is a pretty good example, gentlemen, of the way the steel business is operated. In order not to gain $1.04 we reduced the price $2. That is a little facetious.

Mr. HENDERSON. The Senator and I were talking. I didn't want to miss that. Will you state it again?

Acting Chairman KING. For the information of Mr. Henderson and myself.

Mr. HENDERSON. You said it was an example of how the steel business was conducted.

Mr. FELLER. The point was that apparently when the calculations were made of these extra changes the result was that if applied to the preceding year's business, it resulted in an increase of $1.20 a ton for certain products and $1.04 a ton for some other products and the corporation in order to avoid that result reduced the base price on those particular products $2 a ton.

Mr. FAIRLESS. That was the cause of my remark. I justified it for this reason. It was so necessary for this industry, our company, to have the proper relationship in these various products that we were willing to make a sacrifice to that extent and we did.

Acting Chairman KING. To get the proper relationship, taking all factors into consideration, you have sometimes to lower the price on some commodities so that you lose on that but by that relationship it is evened up by the sale of other commodities.

Mr. FAIRLESS. Yes; for example, we had reached the point in having these various cards of extras applying, one for sheets and one for strip and one for plates, that the customer, in buying one of those commodities didn't know what the price was because he could arrive at one price using the plate card, another price using the sheet card, and another price using the strip card. That is an outside example but still a true one in certain specific instances. We put Mr. Adams to work and said, "We want this job done properly, we don't want to make profits through the extra route, but we do want the proper relationship. You go to work and do a job."

He worked on that job for months with the results that Mr. Feller refers to.

Mr. FELLER. Mr. Fairless, prior to this announcement of these rather extensive extra changes, was there consultation with other members of the industry?

Mr. FAIRLESS. Mr. Adams worked with various members of the industry, as I told you. This was such a radical change and covered so many problems that were within this industry, there were many discussions in respect to it, many discussions.

Acting Chairman KING. They were with reference to the factors that would enter into the cost?

Mr. FAIRLESS. Oh, yes.

Acting Chairman KING. And the changes which would result if those extras were made or not made in the general plan of production?

Mr. FAIRLESS. Entirely, entirely based on related costs.

Acting Chairman KING. I assume some of the extras necessitate the abandonment of some other form of production?

Mr. FAIRLESS. That is right, that is right.

Acting Chairman KING. You would have to treat some machinery as obsolete and abandon the same.

Mr. FELLER. Do you recall the representatives of which companies Mr. Adams consulted?

Mr. FAIRLESS. No, that is the reason I suggested that you have him here. Is Mr. Adams here, please?

Acting Chairman KING. Hold up your right hand, Mr. Adams. Do you solemnly swear that the testimony you will give in this hearing will be the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF AVERY C. ADAMS, VICE PRESIDENT, UNITED STATES STEEL CORPORATION OF DELAWARE, PITTSBURGH, PA.

Mr. ADAMS. I do.

Acting Chairman KING. State your full name for the reporter.

Mr. ADAMS. Avery C. Adams.

Mr. FELLER. Could you tell us, Mr. Adams, which companies were represented in this consultation prior to the——

Mr. ADAMS (interposing). I can't remember that specifically at this time. Suffice it to say that most of the companies in the steel industry were represented.

Mr. FELLER. By most of the companies do you mean something in the neighborhood of 50 or 60, a large number, or a relatively small number?

Mr. ADAMS. I don't think the number would run up that high.

Mr. FELLER. Did it include representatives of the nonintegrated companies, too?

Mr. ADAMS. Yes, sir.

Mr. FELLER. Did it include most of the large integrated producers?

Mr. ADAMS. Yes, sir.

Of course, the representatives that were present at those meetings were product managers, the managers of sales covering those specific products, and also some operating people from time to time.

Mr. FELLER. Mr. Fairless, I should like to ask you what the process of final adoption was. I take it that the product managers and other technical people who consulted with respect to this list made a recommendation to you or to other officers in the Corporation. Isn't that true?

Mr. FAIRLESS. Mr. Adams made the recommendation.

Mr. FELLER. He made the recommendation to you?

Mr. FAIRLESS. But he, of course, before arriving at that recommendation, had consulted with many people within our company—technical people and operating people and the product managers of each of the products involved in these changes, and finally he had a prepared proposal to recommend.

Mr. FELLER. Did you have, yourself, any consultation with other chief executive officers of steel companies, before arriving at a final decision, or was that done on your own initiative?

Mr. FAIRLESS. That was just done as you talked to people in the steel industry. I find steel men, Mr. Feller, are very much like professional men and men in other lines of business. Whenever they meet they talk about the steel business. I always find myself talking about the steel business when I meet a steel man.

Mr HENDERSON. Of course, Adam Smith suggested that when businessmen met they talked about prices. Do you talk about prices when you get together?

Mr. FAIRLESS. Certainly; certainly. Usually we are bewailing the fact that they are too low.

Mr. HENDERSON. I would like to ask Mr. Adams some questions, if I may.

In the final analysis, what do you believe were the main considerations that were determinative of what exactly the extra should be?

Mr. ADAMS. Well, unquestionably cost was given a great deal of consideration.

Mr. HENDERSON. Whose costs?

Mr. ADAMS. Our own costs.

There are one or two points, Mr. Commissioner, that I think we are overlooking here, and that is that this study was completed in the interest of simplification and improvement in trade practice. By that I mean this, that in the range of sizes from three-eighths inch wide to 86 inches wide and from 8 gage to 30 gage there were eight products defined by name; that is, cold-rolled strip, cold-rolled commodity strip, cold-rolled sheets, cold-rolled tin-mill black plate, hot-rolled strip, hot-rolled sheets, hot-rolled annealed sheets, and hot-rolled tin-mill black plate. No one of those eight products covered this entire range of sizes, but the group collectively did cover the entire range of sizes, so there was an overlapping by name.

The object of this study was to eliminate that overlapping by name, to realign the products by size, and to simplify our processes. The net result, as has already been brought out, insofar as extras are concerned, was very minor, an increase in the net of \$1.20 on cold rolled and \$1.04 on hot rolled, which was offset on our own initiative, by reducing the base price \$2 a ton. This was an attempt to improve our trade practices and to simplify our procedure.

Mr. HENDERSON. That is what I am getting at. When you were talking with the other cost men, the product managers, you call them——

Mr. ADAMS (interposing). Yes, sir; product managers.

Mr. HENDERSON. Suppose they had a cost different from yours. Suppose they had a higher cost than you did. Would your cost then be controlling?

Mr. ADAMS. I wouldn't say that our cost would be controlling. You must realize that in this picture our own individual costs varied from time to time. We try to relate our extras to cost, but it is impossible to do more than relate them to cost. You cannot predicate them exactly on costs, because our costs are changing constantly.

In addition to that the demands for specific products are changing constantly. In other words, we might have a large order placed, or a group of orders placed, for a certain size, which would reduce the cost for that specific size, and throw that extra out of line; and by the same token the orders might be small, which would increase the cost on that specific size, so that there is a constant change in the cost of extras going on all the time.

Mr. HENDERSON. Suppose one of your competitors had a substantial volume of business in that particular classification and you had a smaller volume, and therefore your costs were higher. Did you have many cases in which the competitor would press for a reduction in the extra?

Mr. ADAMS. I wouldn't say that our competitors would press for a reduction in extras, no. The trend of extras—I'm sorry we haven't got the figures here showing the average extra over a period of time so that we could project a trend, but from my own experience in the steel business I can say confidently that the average extra has declined over a period of time.

Mr. HENDERSON. There was some time when it was probably more than 9.9 percent?

Mr. ADAMS. Unquestionably at some time, because we have seen the elimination of a great many extras, some brought about by competition, others brought about by improvement in our manufacturing processes.

Mr. HENDERSON. Now, I state the obverse case, where a competitor had a small volume and therefore a high cost for a particular service, and you had a low cost. Did you have many cases where the competitor pressed for the acceptance of his particular cost?

Mr. ADAMS. No, sir. We would decide, as a company, what we thought our extras should be as related to our own individual costs. We would announce that. Now, if a competitor of ours, at a lower cost, wanted a lower extra, he would announce a lower extra, which we in effect would be forced to meet by competition at some later date in the market.

Mr. HENDERSON. And if you had the lower cost and announced that, then your competitor had to absorb a part of his extra cost and take it out of his realization.

Mr. ADAMS. Unquestionably.

Mr. HENDERSON. Well now, in these meetings was there much occasion for protests on account of what a change might mean to some of the competitors?

Mr. ADAMS. I wouldn't say that there was, Mr. Henderson, no; because this was a study with the thought in mind of improving trade practices. Take again that range of sizes that I cited, three-eighths inch to 86 inches in width and from 8 gage to 30 gage. There were eight products in that range of sizes, four hot rolled and four cold rolled. As I said before, no one covered that entire range, so we found a certain number of sizes where we had four products by name covering the same size and identically the same piece of steel so far as its physical characteristics were concerned.

Now, in that range of sizes, those 8 products were priced by using 10 different base prices and 7 different extra prices, so a state of confusion existed and the real object of this study was to eliminate that state of confusion.

Mr. HENDERSON. Did your competitors look on it from that standpoint also? Were they as anxious as you were to eliminate the confusion?

Mr. ADAMS. Very definitely.

Mr. HENDERSON. So what you are saying is there was more emphasis on that than on what any change might mean to the individual company?

Mr. ADAMS. That is correct.

Mr. HENDERSON. And they understood pretty generally that your own costs would be the ones in final analysis that would be used as a basis for what you adopted?

Mr. ADAMS. There was no understanding reached at any of these discussions. There was a discussion that pointed primarily toward simplification and improvement in trade practices. Now, this was the practical situation that existed. A man would enter the market for one of these flat-rolled products. He would have to go through four separate base-price considerations—I am talking about the buyer now—and four different extra charges. He would figure up his net price on these four products that fell in that range that I have just described. He would arrive at his lowest net price.

By the same token the salesman calling upon that buyer would go through the same procedure, attempting to determine what was the lowest price he had that had been published which he could quote to that buyer in connection with that particular piece of business, so there was a state of confusion from a pricing standpoint.

Therefore, we eliminated some of the extras, and the net result, as you gentlemen can see, was a very minor change as far as the price factor is concerned, but we did make some progress as far as improvement in our trade practices is concerned.

Mr. REYNDERS. Whatever answer you finally found was something that might be correct with one company one month and the next month it might be correct with some other company, but you struck a general average in your judgment resulting from your study. It is not an exact science.

Mr. ADAMS. You would have to do that because some of the cost factors insofar as extras are concerned are beyond your control. That is the market demand from month to month, and the change in demand for certain specifications.

Mr. REYNDERS. If you had a lot of volume in one month the cost of the extra would necessarily go down with the main cost of the product.

Mr. ADAMS. Your cost would go down in connection with the process to which the extra applies.

Mr. REYNDERS. The extra would vary from month to month depending upon the quantity that happened to be produced in that month, but you struck a general average of what it might be over a long period of time.

Mr. ADAMS. Well, we tried to the best of our ability to relate those extras to costs.

Mr. REYNDERS. In other words, you couldn't arrive at a mathematically accurate figure.

Mr. ADAMS. We couldn't arrive at a mathematically exact figure. As near as it was humanly possible to do so we related those extras to cost.

Mr. FELLER. That was an average cost.

Mr. ADAMS. What do you mean by "an average cost?"

Mr. FELLER. Since an attempt was made to relate the extras of the industry generally it couldn't be the cost of any one particular company, could it?

Mr. ADAMS. I can only speak from the standpoint of our own costs. We made a study of our own costs, and when we finally announced these extras the announcement we made covered extras that were related as closely as possible to our own company's costs.

Mr. FELLER. What about the other companies? Were their costs more or less the same as yours?

Mr. ADAMS. I can only testify for my own company.

Mr. HENDERSON. Let me ask you this, Mr. Adams: Did you get the impression from the discussion with these other companies that they had as accurate information on costs as your own?

Mr. ADAMS. I would say that they had as accurate information. I don't know that they had carried the study quite as far as we had. You must remember, Mr. Henderson, that our competitors have identically the same type of rolling equipment that we have; they are not all located in the same localities that we are, but, generally speaking, their labor rates are about the same, their physical equipment is about the same, and the resultant product is about the same, so that you wouldn't expect a wide variation—a wide variation in costs.

Mr. HENDERSON. That wasn't my point. Maybe I didn't express it.

Mr. FELLER. I would like to clear something up. There are certain variations in labor rates.

Mr. ADAMS. Yes; oh certainly. I am speaking very generally, Mr. Feller.

Mr. HENDERSON. What I was getting at, Mr. Adams, was whether or not they kept their costs. I am not asking what the range might have been, but did you get the impression that they had as accurate information compiled about costs as you did?

Acting Chairman KING. On extras?

Mr. HENDERSON. Yes; on extras.

Mr. ADAMS. Of course, I never had access to our competitors' costs.

Mr. HENDERSON. That again was not the question. I am asking you whether you got the impression that you had more complete and accurate costs than they had.

Mr. ADAMS. Naturally, as a representative of Carnegie-Illinois, I felt that we knew our costs as well as anyone in the industry.

Mr. HENDERSON. Let me ask you this: As far as some of these people are concerned, did you get an impression that they didn't compute their extra costs except perhaps in certain circumstances?

Mr. ADAMS. I don't think that occurred to me at the time as to whether or not they actually computed their costs to the extent that we did.

Mr. HENDERSON. But there was some debate going back and forth.

Mr. ADAMS. I wouldn't say there was a debate. I think we are still far afield from the object of this study, because it was again primarily in the interest of simplification.

Mr. HENDERSON. Unless you are fixing a certain part of a charge that is going to be reflected in your income statement. What you were really determining in the final analysis was something which would be actually assessed against the customers of all of you that were there.

Mr. ADAMS. Repeat that, please. I don't quite understand it.

Mr. HENDERSON. Once you had arrived at this simplification and it had been adopted by your company, it would be the charge which would be made as against the customers of not only your own company but of all the other companies there.

Mr. ADAMS. Providing our competitors, decided to meet those extras or adopt similar ones. Now, as a matter of fact, after we made our announcement there were a number of cases where those extras were not followed by our competitors.

Mr. FELLER. Did you publish a list?

Mr. FAIRLESS. At this point, Mr. Chairman, I offered Mr. Adams' services to explain any questions that might be asked as to what was done and how it was done. Now, if we are going back into policy discussion of this or any other feature I prefer to answer those questions myself.

Mr. HENDERSON. As for what I asked, I would be glad to have you answer them. Let me ask this: You stated that from time to time——

Acting Chairman KING (interposing). Are you directing this to Mr. Fairless?

Mr. HENDERSON. I am directing it to whoever feels competent to answer it. You stated that from time to time in your meetings with others in the business you have had these discussions. Did you encounter much protest against the proposal of adoption of this particular set of new extras?

Mr. FAIRLESS. It just seems that our frankness here in presenting this has created an entirely different aspect of what really happened. We have told the story completely. It was not a case of this industry getting together and agreeing that this plan was going to be adopted and put into effect and agreeing to observe it if it was adopted. It was as a new method and a method of simplification, a method that would help both the producer and the consumer of steel in the flow of business.

If what we are trying to arrive at here was: Was this a price-fixing thing? It wasn't in any respect a price-fixing thing. I can't say that every producer of flat-rolled products was 100 percent satisfied with the results that were finally arrived at through cost studies which were made; I can't say that. My judgment is that there were possibly some anything but satisfied.

Mr. HENDERSON. That is the question I asked, Mr. Fairless.

Mr. FAIRLESS. So we are right back, then, in respect to these extras and this plan where we were before we ever started, or where we are at any time in respect to base prices. If company A doesn't like extras Y or Z, he can do anything about it he chooses; he is under no obligations to me or to the United States Steel Corporation.

Mr. HENDERSON. I know he has no contractual obligations.

Mr. FAIRLESS. Or no moral obligations.

Mr. HENDERSON. He has no moral obligations?

Mr. FAIRLESS. No; neither.

Mr. HENDERSON. Then what I am getting at is, when these were adopted, the other companies did adopt them also, did they not?

Mr. FAIRLESS. They followed them when they saw fit; and Mr. Adams, who has been very close to the details of this business since the adoption, has just testified that there have been cases where this list was not followed—transactions not made on that basis.

Mr. FELLER. May I just get that clear? Were there any published extra lists which did not follow the extra list issued by you in May?

Mr. ADAMS. Not to my knowledge, Mr. Feller. In my previous testimony my reference was specifically to cases where the previous set of extras or the previous price including extras was extended to the balance of 1938 in connection with a few competitive situations. That is what I meant when I said that these extras were not followed in every case.

Mr. FELLER. As far as you know at the present time, the extra books published by the various companies in the industry are identical on those products which the companies manufacture?

Mr. ADAMS. By that, do you mean the extras that are in use in the various extra——

Mr. FELLER (interposing). Extras that are published.

Mr. ADAMS. In this study I can't take my mind away from the real object set forth. You make a realignment of sizes, you have a group of companies involved that make different products. For instance, hot-rolled sheets were generally produced in 16-gage and heavier and in 24 inches to 86 inches wide; hot-rolled strip was produced in gages 16 and heavier, except in some of the narrower widths, where they were produced in 23-gage and in 24 inches and narrower. In this study that we made we extended the range of sizes that was covered by sheets down to 12 inches. There still are a number of strip mills in the country that make strip up to 24 inches wide, and they undoubtedly published an extra list and classified that range of product which falls between 12 and 24 inches as strip, so in that respect their extra book would not coincide with our extra book, because we classify everything down to 12 inches as a sheet. Some of our competitors might call it a strip.

Mr. FELLER. Generally speaking, the extras are the same throughout the various companies which publish extra books.

Mr. ADAMS. As far as my knowledge is concerned, except when competition enters into the picture.

Mr. FELLER. I am talking about publication, published extra rather than the extra explainable on the invoice as the result of trying to make a sale.

Mr. ADAMS. Yes.

Mr. HENDERSON. Mr. Fairless, I gathered you felt there was something unfair in pursuing this line of inquiry.

Mr. FAIRLESS. No; I didn't.

Mr. HENDERSON. You are not under the impression that what was finally arrived at by the adoption of these extras is not a part of the price to the buyer?

Mr. FAIRLESS. Of course, we don't expect to perform extra operations and not charge the customer for it, and, incidentally, he doesn't expect us to; and I might add, if it means anything in the way of clarification, that this new system has been received with open arms by the buying public of steel products—flat-rolled products. Not one but many of them have said to me personally, "That is the finest thing that this steel industry has done in many years. We know now what we are buying and the basis on which we are buying it. It has simplified our problems."

Mr. AVILDSEN. As I understand from your explanation, the whole object of this was to remove confusion that existed in the minds of the buyer and the seller and to save everybody a lot of trouble.

Mr. FAIRLESS. Yes, sir.

Mr. AVILDSEN. A lot of unnecessary work, so a man didn't have to say, "Shall I call this a sheet? Shall I call this a strip?"

Mr. FAIRLESS. And to match a merchandising policy with a new process of manufacturing the products involved.

Mr. AVILDSEN. It is very clear to me.

Mr. FAIRLESS. How could we be expected to go on and merchandise sheets today by the same methods as we used to merchandise sheets manufactured by the old hand-mill method?

Mr. HENDERSON. The answer is obvious, but the point I was driving toward, is that all the others who adopt this identical basis are committed to what you adopt.

Mr. FAIRLESS. No, sir. I know what you have been driving at and I have been trying to disabuse your mind on just that. You are entirely mistaken and have misunderstood me from the beginning of my presentation. There isn't a steel man in this country today that hasn't the opportunity and the recourse to do anything he chooses in respect to any extra that exists in this steel business, and that has to do with this new classification.

Mr. HENDERSON. My question on that is, and I think you have answered it before, Are there many changes made?

Mr. FAIRLESS. Yes.

Mr. HENDERSON. In relation to the total number of extras that are published?

Mr. FAIRLESS. There are constant changes in extras, Mr. Henderson.

Mr. HENDERSON. Are they many in volume?

Mr. FAIRLESS. Sir?

Mr. HENDERSON. Are they many in volume in relation to the total number?

Mr. FAIRLESS. I answered that question, I thought, completely. I told you that there were many changes in respect to extras; they weren't as numerous as in base prices. I made that statement, it is part of the record here in the early part of this discussion. In other words, extras are more constant, if that is the point we are trying to come to, the charging of extras is more constant than base price.

Mr. FELLER. Mr. Fairless, with reference to the attitude of the trade, that is to say the consumers, in the letter which Mr. Adams wrote to all managers of sales, which is in the record, there occurs this paragraph [reading from "Exhibit No. 1396"]:

With a reduction in the base price of $2.00 per ton for cold rolled sheets, this of course, means that our third quarter prices for this product, 20 gage, 24" to 48" wide, represent a net increase of $1.00 per ton; and we will undoubtedly receive numerous complaints concerning this adjustment from our trade, although the average price, when the narrow and wide widths are taken into consideration, is an adjustment downward.

Did you receive numerous complaints from the trade?

Mr. FAIRLESS. Mr. Adams can answer that.

Mr. ADAMS. I wouldn't say that we did. The picture is really this. The costs generally speaking on our type of equipment increase as you go down in width and as you go up in width. In other words, if we had a curve reflecting our costs and by the same token our extras, it would start with the narrow widths and go down for the medium widths and go up for the wider widths. We increased the extra in this intermediate range or in the middle of this theoretically wide sheet, $3 a ton, the extra. The base price was reduced $2 a ton. The difference was an increase in our own net price of $1 a ton. But out here on the wider widths of sheets we reduced the extra considerably there and we reduced the extra considerably on the narrow width sheets. It is natural in selling that you would expect any customer, any man who is paid to do a job of buying, to complain about an increase in the price. An increase in this particular width of sheet was only $1 a ton. We have some customers who only buy that particular width of sheet. We have other customers who buy sheets ranging from the very narrow to the very wide. We anticipated that simply from the standpoint of our own sales department, there might be some questions raised about an increase in a specific size, but by the same token we received thousands of favorable comments because we had simplified this program, improved our trade practices, and we had also reduced the price considerably on the wider width sheets and on the narrow width sheets.

Acting Chairman KING. Would you be willing to give your opinion as to whether advantages to the consumer resulted from the adjustments that were made in these prices upon the——

Mr. ADAMS (interposing). Oh, very definitely. I would say that it was a distinct advantage to the consumer.

Mr. AVILDSEN. On the over-all picture you got less for your product.

Mr. ADAMS. The average price was reduced which in itself is an advantage to the consumer, speaking now only from the price standpoint, and in addition to that we simplified the procedure incidental to the buying and selling of this product. For instance, here is just one little thing that we did. For years there had been an extra for gage, that is the thickness of the sheet, in other words, 20 gage is 0.035, or approximately a thirty-second of an inch thick. There was an extra for gage, an extra for width. Every buyer that is trying to arrive at this net price would take his base price, select the extra for gage, select the extra for width, and add them together. The seller would do the same thing, and those computations would extend through the various departments of each group, and one thing that we did in this program was to add them together, not necessarily change them, but add the gage and width extras together, because whenever you buy a sheet you have to buy a sheet and in that buying there is involved a gage and a width; so it just eliminated one mathematical operation in the interest again of simplification. I can say without fear of challenge that the buying public received this announcement with favor.

Mr. FELLER. Mr. Adams, after the change took place in May 1938, if I understand you correctly, on some specifications the then price taking into account the base price plus the extra, on some specifications the price would be higher, on some it would be lower, and the over-all picture would be generally lower.

Mr. ADAMS. That is right.

Mr. FELLER. Now, have you made a similar calculation with respect to the net effect after June 1938, taking into account the reduction in the base price plus the extra changes which had been made in the preceding month?

Mr. ADAMS. Well, of course, we pointed out here that the new base price plus the new extras resulted in a lower net price.

Mr. FELLER. Yes. Were there some specifications still left on which after June 1938, the base price plus extra would be higher than it had been prior to May 1938?

Mr. ADAMS. Yes.

Mr. FAIRLESS. It might help you in what you are trying to arrive at here if I quote this. Here are actual results. On mill net, cold rolled sheets, June, $3.32; July, $3.12; August, $3.08; September, $2.97; October, $2.78; November, $2.67; December, $2.69. So the price went constantly down there, in spite of the fact that operations generally were on the improving side in the last quarter of '38.

Mr. FELLER. Mr. Chairman, in the exhibit "Pricing of Steel Products, Uniform Extras and Deductions," which was received into the record a while back, we have attempted to make an analysis of these extra changes. We have also attempted to calculate the net effect on specifications in various products of a combination of the base price reduction in June and the extra changes which had been made in May. The number of changes in the various specifications and the net effect of these changes in extras after the reduction of base price, are given in table I. It appears from our calculations which were made for hot rolled sheets and cold rolled sheets, that taking into account the changes in extras and the reduction in base price, in the case of certain specifications an actual increase in the extra diminished the amount of the base price reduction. In a smaller number of cases the actual increase in extra resulted in a net increase in price, despite the base price reduction.

Mr. FAIRLESS. I challenge that statement very severely. That just couldn't be.

Mr. FELLER. You don't—Mr. Adams, I believe, has previously said that that result follows in the case of a number of specifications.

Mr. ADAMS. I have testified that it did follow in a few instances. Now, Mr. Feller——

Mr. FELLER (interposing). That is what we have here. We have 21 instances.

Mr. ADAMS. Just a minute, please. We are talking about numbers in this. My figures were predicated upon volume.

Mr. FELLER. I am about to make a statement about volume, if you will permit me to finish. We are now talking merely on the basis of number of specifications. In 61 cases in the case of hot rolled sheets, an actual decrease in the extra increased the amount of base price reduction. In other words in 61 specifications the price to the customer would be lower than would have been indicated by the base price reduction alone because of the fact that the extra changes had further reduced the price which he would pay. Lastly, in the case of hot rolled sheets in 204 specifications, which seem to be the largest number, there would be no net effect, no net change. That is to say the change in the extra left the base price reduction unaffected. Now the statement which I was going to refer, Mr. Fairless, was this. We have no way of knowing what the general over-all effect of this calculation is.

The specifications which appear among those 21 are to my recollection generally in very narrow sizes or in sizes which vary rather greatly from the base specification. Now we should be very glad if your company could do the following: First, check with respect to the accuracy of these changes in specifications; and secondly, give us some idea of the over-all effect of these extra changes combined with the reduction in the base price, in terms of volume.

Mr. FAIRLESS. Well, the thing that I can't get straight in my mind is why the application of this new set of extras to any base price would have any effect. It is constant; base price fluctuates. In other words, we made up a new set-up of extras, did we not?

Mr. FELLER. Yes.

Mr. FAIRLESS. Now it doesn't make any difference what base price you apply that set of extras to, whether it is higher than the base prices in effect June 24 or lower. What difference would it make, in respect to the net results, except from the standpoint of variables in specifications? Now to get just what you are attempting to get, it would mean a check of every—correct me if I am wrong—it would mean a check of every single invoice of a particular month's business, if you please, in respect to the products involved here.

Mr. ADAMS. Absolutely.

Mr. FELLER. You are able to give us the general over-all picture as applied to the change in May before you made a price reduction?

Mr. FAIRLESS. We did.

Mr. FELLER. Your estimate was then it would result in $1.04 in one case and one-dollar-something in something else?

Mr. FAIRLESS. It was no guess or estimate; it was actual performance as applied to that month.

Mr. FELLER. To the prceeding?

Mr. FAIRLESS. Preceding month; yes.

Mr. FELLER. Would it be possible to offer a similar calculation made with respect to a selected period?

Mr. FAIRLESS. Of course it is possible.

Mr. FELLER. Now with respect to your question as to significance, on the basis of our analysis, we will take a simple case; take one case. In the case of cold rolled sheets, taking gage 9 width 12 and 16 inches.

Mr. FAIRLESS. Gage 9 cold-rolled sheets?

Mr. FELLER. Yes.

Mr. FAIRLESS. Who buys them?

Mr. FELLER. Well, it is in your list; we don't know.

Mr. FAIRLESS. Never heard of it.

Mr. FELLER. But they are in your list.

Mr. FAIRLESS. Why talk about something that isn't used? Why don't we take the usual cold-rolled sheets?

Mr. FELLER. We don't know. That is precisely the point on which we are seeking information.

Mr. FAIRLESS. We advertise many things; possibly they are not bought; they are there; they are available and there is a price for them, but if you want to talk cold-rolled sheets, let's talk cold-rolled sheets in the gages and sizes that cold-rolled sheets move in; the automotive industry and the refrigerating industry are the largest users of cold-rolled sheets, so therefore let's discuss that.

Mr. FELLER. What we are interested in is this: We are interested in two general facts. First, in the case of some specifications is it a fact that a customer who was paying the base price—I am not talking about concessions now—a customer who was paying the base price. Would you say he would, after June 1938, be paying more, taking into account the change in base price and the change in extra, than he would have been paying before? Now, our calculation is to the effect that, for example, in 9-gage sheets, that would have been the result. Your statement is nobody buys it. You never sell it.

Mr. FAIRLESS. That is right.

Mr. FELLER. Now, we have a table prepared here which I don't think need go into the record, but we are perfectly ready to submit it to you.

Mr. FAIRLESS. How about 20 gage? Do you have it in 20 gage?

Mr. FELLER. We have it in all gages.

Mr. ADAMS. You have selected a specification, Mr. Feller, which is not really involved in the business. It is a gage that nobody buys. If I came in with an order for that gage, our operating department would tell me they weren't interested. Now, the cost of making that particular gage is very high, so that in that adjustment of extras, in attempting to relate our extras for that gage to cost we increased the extra, but it doesn't mean anything in our over-all picture because nobody buys that particular gage in any quantities. I don't believe Carnegie-Illinois has had an order for 9 gage in the last—since 1935, when they started to make cold reduced sheets.

Mr. FAIRLESS. What does your study show in respect to 20 gage or 22?

Mr. FELLER. I am about to come to that.

Mr. FAIRLESS. Yes. Now may I tell you our results in connection with 20 gage?

Acting Chairman KING. Twenty or twenty-two, which was it?

Mr. FELLER. Twenty gage was the one Mr. Fairless suggested. I may call the attention of the committee to this point, the reduction in published price, the published base price, was 25 cents. That is correct, is it not, in June 1938?

Mr. ADAMS. Published base price of what?

Mr. FELLER. Of cold-rolled sheets?

Mr. ADAMS. As I recall it, it was $3.35, base.

Mr. FAIRLESS. What month?

Mr. FELLER. June 1938.

Mr. FAIRLESS. $3.35, reduced from $3.50 to $3.35.

Mr. FELLER. What was the amount of the reduction?

Mr. FAIRLESS. Fifteen cents.

Mr. FELLER. Twenty-five cents.

Mr. FAIRLESS. No.

Mr. FELLER. What was the price prior to May?

Mr. FAIRLESS. $3.50; so I have it on my list.

Mr. FELLER. And the price subsequent to June 24, 1938, was what?

Mr. FAIRLESS. Well, the price in May is $3.50 and in June it was $3.35. Now, I assume the June price is the new published price; yes. That is a reduction of 15 cents, $3 a ton.

(At this point there was a conference between interrogating counsel.)

Acting Chairman KING. I think we had better take a recess for 10 minutes and let you gentlemen confer.

(Whereupon, at 4:20 p. m., a short recess was taken.)

(The hearing was resumed at 4:25 p. m.)

Acting Chairman KING. To facilitate matters we will recess at a quarter of 5.

Mr. FELLER. Mr. Chairman, it appears that both Mr. Fairless and I were right on that point, that there were two separate reductions of the price which was made, one in May and the other in June. Combining both, the result was a reduction of 25 cents in the base price.

Mr. FAIRLESS. Instead of my statement of 15 cents.

Mr. ADAMS. There was another about February 1938.

Mr. FELLER. Yes; in February there was a reduction of $4, but our calculations were with respect to what the result was right after the June 1938 change. In other words, what we did was to take into account the May extra change and the June base price change, the May and June base price change.

On this 20-gage, Mr. Fairless, our calculations were to this effect: That though the base price reduction, taking both price changes into account, was 25 cents, a customer paying the base price and the new extra who bought 20-gage sheet in widths from 12 to 16 inches and all the various specifications up to 40-gage would have received a net price reduction of 10 cents rather than 25 cents.

Mr. FAIRLESS. Mr. Adams, could that sort of a specification develop?

Mr. ADAMS. As I picture the specification that Mr. Feller has outlined, that was one place in the chart where the extra was increased $3 a ton and the base price was reduced $2 a ton——

Mr. FELLER (interposing). That is precisely the reason for that effect.

Mr. ADAMS. So the net result was $1 a ton.

Mr. FAIRLESS. I don't believe that we are concerned here in picking out just——

Mr. FELLER (interposing). No, sir; it seems to me that is a little far afield.

Mr. FAIRLESS. If we are not, and I assume we are not, I would just like to give results.

Mr. FELLER. That is not what my question was directed to.

Mr. FAIRLESS. In the month of January 1938—this is the mill net return to us for cold rolled sheets—it was $3.54. Our net return in December of the same year was $2.69. You can pick out, of course, combinations of sizes and gages and get variables; while you are picking out some we could be picking out some that would show just the opposite. I think we are together on that, aren't we?

Mr. FELLER. Yes; as a matter of fact, if we looked at that table we would see we would pick them all out.

Mr. FAIRLESS. I am sure you would. The net result is that there is $3.54 in the month of January 1938 in this particular commodity, taking the overall picture, as against $2.69 in December and as against $3.32 in June, and the trend has been down constantly.

I will give each month: $3.54, January; $3.36, February; $3.35, March; $3.24, April; $3.38, May; $3.32, June; $3.12, July; $3.08, August; $2.97, September; $2.78, October; $2.67, November; and $2.69, December.

By the way, I offer this, Mr. Chairman. It is a chart of the actual performance, and I offer it.

Acting Chaiman KING. It may be received.

(The chart referred to was marked "Exhibit No. 1397" and is included in the appendix on p. 10731.)

Mr. AVILDSEN. That represents the net yield to your company?

Mr. FAIRLESS. It shows the prices, the changes in base prices, and the mill net yield by months.

Mr. ADAMS. Our mill net yield on cold rolled sheets has declined 42 percent from 1926 to November, 1938.

Mr. FELLER. With respect to this chart, I should like to point out that it contains both the information to which Mr. Fairless refers, that is the reported base price and mill net yield, and also contains certain comments of an interpretive nature which, from a casual survey, appear to contain certain conclusions which I cannot go into at this time. I have no objection.

Acting Chairman KING. It has been received; the committee will take into account the conclusions.

Mr. FELLER. May I say that I have no further questions along the topic of extras.

Mr. HENDERSON. Who buys this particular product?

Mr. FAIRLESS. Cold rolled sheets? The automotive industry is the largest single purchaser, but we have other industries—refrigerators and the stove industry.

Mr. HENDERSON. On the matter of that reduction, was that realization due to competition for that particular trade?

Mr. FAIRLESS. Well, well, we have gone all over that, Mr. Henderson, that on June 24 we made a radical reduction in the price.

Mr. HENDERSON. But the realization was different in different months.

Mr. FAIRLESS. That is due to the composite of the product involved. You can have identically the same price, identically the same extras, and you will arrive at a different net price in a month's business.

Mr. HENDERSON. That is what I am getting at.

Mr. FAIRLESS. That is because of our product mix.

Mr. HENDERSON. Is it because of the volume of business you have done in those months?

Mr. FAIRLESS. It is because of the variance in the volume of business in different sizes and gages.

Mr. HENDERSON. That is what I am getting at.

Mr. FAIRLESS. Surely. We refer to that as the mix of products. It is just a short term.

Mr. HENDERSON. Mix of what?

Mr. FAIRLESS. Mix of products—product mix.

Acting Chairman KING. If there is no objection we will stand in recess until 10:15 tomorrow morning.

(Whereupon, at 4:35 p. m., a recess was taken until the following morning, November 8, 1939, at 10:15 a. m.)

(Further testimony of officials of the United States Steel Corp. on November 8, 1939 appears in Hearings, Part 20.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

THURSDAY, NOVEMBER 9, 1939

United States Senate,
Temporary National Economic Committee,
Washington, D. C.

The committee met at 10:25 a. m., pursuant to adjournment on Wednesday. November 8, 1939, in the Caucus Room, Senate Office Building, Representative Clyde Williams presiding.

Present: Representatives Williams (acting chairman); Senator King; Messrs. Henderson, Avildsen, Lubin, O'Connell, and Brackett.

Present also: Frank A. Fetter and Hugh White, representing the Federal Trade Commission; John V. W. Reynders, representing the Department of Commerce; A. H. Feller, Special Assistant to the Attorney General; John W. Porter, Irving B. Glickfeld, Hyman B. Ritchin, Monroe Karasik, and Ward S. Bowman, Department of Justice.

Acting Chairman Williams. The committee will be in order, please. Mr. Feller, are you ready to proceed?

Mr. Feller. I should like to call first Mr. Grace and Mr. Mackall.

Acting Chairman Williams. Will you gentlemen be sworn? Do you solemnly swear that the testimony you are about to give in this proceeding shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. Grace. I do.

Mr. Mackall. I do.

TESTIMONY OF EUGENE G. GRACE, PRESIDENT, BETHLEHEM STEEL CO. AND BETHLEHEM STEEL CORPORATION, BETHLEHEM, PA., AND PAUL MACKALL, VICE PRESIDENT, BETHLEHEM STEEL CO., BETHLEHEM, PA.

Mr. Feller. Mr. Grace, will you give the reporter your full name, please?

Mr. Grace. E. G. Grace, president of the Bethlehem Steel Co. and of the Bethlehem Steel Corporation.

Mr. Feller. Mr. Mackall?

Mr. Mackall. Paul Mackall, vice president, Bethlehem Steel Co.

Mr. Fuller. Mr. Grace, you just stated that you were connected with Bethlehem Steel Corporation and Bethlehem Steel Co. Could you tell the committee the difference between those two organizations?

Mr. Grace. Bethlehem Steel Corporation is what is commonly known as our holding company, holding the securities and investments of our subsidiary companies. Bethlehem Steel Co. is our operating, manufacturing, selling subsidiary of the Bethlehem Steel Corporation, in which we conduct substantially all of our business.

CORPORATE STRUCTURE OF BETHLEHEM STEEL CORPORATION

Mr. FELLER. You will recall that at the outset of Mr. Fairless' testimony he described the corporate structure of the United States Steel Corporation and mentioned various subsidiaries. Could you tell us, Mr. Grace, in a very brief way, how the corporate structure of Bethlehem Steel differs from that of the United States Steel? Perhaps I can help you. Would you prefer that?

Mr. GRACE. Yes; if you would.

Mr. FELLER. As I understood Mr. Fairless' testimony, the United States Steel Corporation, a New Jersey corporation, is a holding company which holds the stock of a rather large number of companies engaged in various types of operation; for example, the Oliver Iron Mining Co. engages in the mining of iron ore, the H. C. Frick Coke Co. engages in the mining of coal, the Carnegie-Illinois Steel Corporation and various other companies engaged in the manufacture of steel, and there is a company called the United States Steel Export Co., which is engaged in the export of steel.

Now, is it correct to say that in your company most of these various operations are carried on by divisions of the Bethlehem Steel Co., rather than separate legal entities?

Mr. GRACE. Yes, I think possibly that is the essential difference to start with; the essential difference would be that our business is conducted substantially in the one subsidiary, under the head, as you have properly and appropriately characterized it, and as a division of it.

Mr. HENDERSON. That means McClintic-Marshall no longer exists.

Mr. GRACE. No longer exists. Pacific Steel Co., our steel operations on the Pacific coast no longer exists. Our shipbuilding company no longer exists as a company. They are all a part of the Bethlehem Steel Co.

Mr. HENDERSON. Did that change take place all at once?

Mr. GRACE. No; not all at once.

Mr. HENDERSON. When did the change take place?

Mr. GRACE. There was one time in our general process toward the end of our consolidating our various interests that what you call maybe a major effort in that direction took place, and that was at the time of the reorganization, at which time we then consolidated a number of them, and a number of others have come along as we have been able to accomplish it. I couldn't give any date, specifically, as to when any one particular situation took place. I think, as a matter of fact, you spoke of McClintic-Marshall; if my memory serves me right, I would say that the McClintic-Marshall interest, when we acquired it, was acquired originally as a part of the Bethlehem Steel Co. and started operating that way, although we maintained the name of McClintic operation simply as a designation of its type of business, and a division in your classification.

Mr. FELLER. Mr. Chairman, this is a little outside of the line of our usual line of questioning, but it is a matter in which Chairman O'Mahoney particularly has evinced considerable interest in other parts of the hearing, and I think it might be helpful if we had just a little something in the record on this.

Could you tell us why the Bethlehem Steel Corporation found it advisable to change its various subsidiaries from separate legal entities to divisions of one operating company?

Mr. GRACE. We thought in its consolidation into one company that it would tend for simplification, easier management, more efficient management, and accomplish a proper consolidation of our operations from, let's say, an earning standpoint. There was one time, I think, as I recall, that the consolidated returns in the tax structure was eliminated, and to the end of having all of our businesses operated as a unit, the simplicity again I repeat for organization purposes and managment, we felt that was a wise way to proceed in the final construction of our business.

(Senator King assumed the Chair.)

Mr. FELLER. Now Mr. Grace, Bethlehem Steel Co., which is your operating company, engages, then, in various stages of operations in the making and selling of steel, does it not?

Mr. GRACE. Correct.

Mr. FELLER. Supposing we start from the beginning. Let us take iron ore. Bethlehem Steel Co. does not itself mine any ore, or perhaps it does, I am not sure.

Mr. GRACE. For all intents and purposes, we do. Yes; we mine ore ourselves and we have representatives mining ore for us, but in the category maybe that you are thinking of it, we own substantially or control our own ore supplies.

Mr. FELLER. Where does most of the ore which the Bethlehem Steel Co. consumes come from?

Mr. GRACE. We have three major sources of supply: That is, our northwestern ores in the United States, central Pennsylvania ores, local ores in and around central Pennsylvania—we have quite a sizeable mining operation there; and then the foreign ores. We have our own foreign ore operations in Cuba and in Chile, and are also in the market purchasing our ores. They are for our eastern plant.

Mr. FELLER. The operations in Cuba and in Chile, are they conducted by the Bethlehem Steel Co.?

Mr. GRACE. They are conducted by the Bethlehem Steel and our Pennsylvania mining operations are conducted by the Bethlehem Steel.

Mr. FELLER. Is it correct to say that in recent years your consumption of imported ores has been about 2,000,000 tons?

Mr. GRACE. That would depend on the ups and downs of business, of course, but I should think that approximately the importations of our own ores, mined in our two foreign countries, that 2,000,000 tons would be a good round figure for it; yes.

Mr. FELLER. Now the Bethlehem Steel Co. also manufactures steel. Could you tell us where your main plants are located?

Mr. GRACE. The steel-manufacturing plants are located in Bethlehem Pa.; Lackawanna, which is just adjacent to New York on the Lakes.

Mr. FELLER. That is adjacent to Buffalo?

Mr. GRACE. That is adjacent to Buffalo, I mean. Cambria plant at Johnstown, Pa.; Steelton, Pa., in the center part of Pennsylvania, adjacent to Harrisburg, Pa.; Sparrows Point plant on the Chesapeake, about 12 miles south of Baltimore; three plants producing steel on the Pacific coast, Seattle, San Francisco, and Los Angeles. I think those, as I roughly run through them, represent our steel producing plants.

Mr. FELLER. Is the Sparrow's Point plant near Baltimore the largest of your plants in terms of capacity, tons of ingot capacity?

Mr. GRACE. Possibly a little larger than the Lackawanna plant not much. The four largest of our steel producing plants, in order named from a steel-producing standpoint would be Sparrow's Point, Lackawanna, Bethlehem and Cambria, at Johnstown.

Mr. FELLER. Now Bethlehem Steel Co. is also engaged, as was pointed out earlier, in the fabrication and erection of various structures.

Mr. GRACE. That is right, and in the field of steel fabrication, both in what we call structural work and plate fabrication, structural steel, buildings, bridges, plate work, tanks, barges, and that class of work. Originally that was part of the McClintic-Marshall situation.

Mr. FELLER. And Bethlehem Steel Co. also has a number of shipbuilding plants, does it not?

Mr. GRACE. A number of shipbuilding and ship-repair plants.

Mr. FELLER. Is it correct to say that Bethlehem Shipbuilding division is the largest single unit in the construction of vessels in this country?

Mr. GRACE. I think I might modestly subscribe to that; yes.

Mr. FELLER. If the committee will look on page 6 of the little booklet which was first introduced,[1] it will see a chart indicating the structure and organization by function of the Bethlehem Steel Corporation, the data being taken from the registration statement of Bethlehem Steel Corporation filed with the Securities and Exchange Commission, merely for the guidance of the committee. Mr. Grace, could you tell us at the present time what the approximate total assets are of Bethlehem Steel Corporation?

Mr. GRACE. You will find it on this chart, $715,800,000 in round figures.

Mr. FELLER. Would you be able to tell us how your ingot capacity compares with the capacity of the entire industry in terms of percentage?

Mr. GRACE. 1938, 13.7 percent; 1937, 14 percent; and I assume that is about the basis today.

Mr. FELLER. Then in terms of ingot capacity you are the second largest producer in the country.

Mr. GRACE. That is right.

Mr. FELLER. After the United States Steel Corporation.

Mr. GRACE. Yes.

Acting Chairman KING. Does ingots include "and castings"?

Mr. GRACE. That is right.

Acting Chairman KING. The reason I ask that is because the chart in that bracket includes steel ingots and castings.

Mr. GRACE. That is right, Mr. Chairman, the steel being made in the same capacity, in the same furnaces, for both ingots and castings, and the capacity is based upon the capacity of the steel-producing furnaces.

Mr. FELLER. Mr. Grace, as you have no doubt seen, of major concern through these hearings has been the question of price.

Mr. HENDERSON. May I ask a question there? Senator O'Mahoney can't be here, which he greatly regrets, on account of a slight illness. He hasn't asked me to do this, but I would like to go a little further than Mr. Feller did. Do you do business in practically all States?

Mr. GRACE. Yes; we undertake to. It is our thought to do so. Our business is national and international.

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[1] Chart II of "Exhibit No. 1349", included in Hearings, Part 18, appendix, facing p. 10393.

Mr. HENDERSON. Do you find it necessary to take out corporate charters in all of these States or any of these States?

Mr. GRACE. Yes; in the process of doing business.

Mr. HENDERSON. For your sales organizations particularly?

Mr. GRACE. That is right, that is right exactly.

Mr. HENDERSON. And in that connection do you have reports to make to the State authorities requiring reports?

Mr. GRACE. I assume that is the case. That is right.

Acting Chairman KING. Are you actually stating that you have to take out a charter?

Mr. GRACE. We have to take out a license.

Acting Chairman KING. Not a charter. Most of the States require domestic as well as corporations outside of the States to obtain a license to do business.

Mr. GRACE. I was speaking in general terms—take out something for the right of doing business in those States, whatever that may be. I assume probably license may be a little better word.

Mr. HENDERSON. Are there some charters and some licenses? In Massachusetts, for example, it might be more advisable, as an instance, to get a charter.

Mr. GRACE. May I ask general counsel or some of my associates?

Mr. HOYT A. MOORE.[1] In some States separate corporations, but as a rule business is done by companies qualified in the States; or as the chairman has stated, licensed for operation in those States.

Acting Chairman KING. That is to say, the parent company has subsidiaries and some of the subsidiaries are organized in various States and they take out charters in those States?

Mr. MOORE. Well, the subsidiaries are organized and chartered in different States; those subsidiaries will be qualified and licensed to do business in various States as they find it necessary to go into those States to do business.

Mr. HENDERSON. But regardless of these requirements, questions of policy as far as those corporations are concerned are determined by the top corporation?

Mr. GRACE. That is right. In our organization, Mr. Henderson, I gave the key to it when I said that I was president of Bethlehem Steel Corporation, of Bethlehem Steel Co., and the other active officers of the management group have similar offices in whatever may be necessary of the companies to do business in our respective States.

Mr. FELLER. As I said before, Mr. Grace, you realize that our primary concern has been the question of price, and so I should like to ask you at the outset a few questions with respect to the manner in which price changes are determined within your organization. It is customary in your organization to have the officials or employees of your various divisions prepare recommendations with respect to price changes?

Mr. GRACE. May I construe your purpose, Mr. Feller, to have me first in a general way state how we proceed in the conduct of our business and the concepts of what responsibilities in management I have with respect to——

Mr. FELLER (interposing). I think perhaps that will come out better at a later point, Mr. Grace, and I will be very glad to have you say

[1] Of Cravath, de Gersdorff, Swaine & Wood, general counsel for Bethlehem Steel Corporation.

that. I think first it would be interesting to the committee to have the, shall we call it, mechanics.

Mr. GRACE. All right, that is what I was alluding to. That is exactly what I wanted to lead to in that manner. I think you will be satisfied. I am not going into a dissertation as to management or anything of that sort.

Mr. FELLER. Go ahead

Mr. GRACE. We have, as we have already testified, the management of our business concentrated in this one group. We have an executive staff, headed by myself, a small group mainly made up of a presi dent and vice presidents, who have control and responsibility for the various activities such as selling, manufacturing, marketing, purchasing, etc. That group I look upon as the management executive group of our institution. They all have offices centered in Bethlehem, Pa. We live in Bethlehem, Pa. We meet daily together as a group when we are at home. That is where we start the process of the managing of our institution. That is where we start giving consideration to all phases of the business. That is where we start considering production and the sales end. That is where we start giving consideration to the conditions of business throughout the country, to guide us in establishing our specific, let us say, prices that govern the sales of our products. We keep in touch, or try to, throughout the country with the steel markets. As and when it comes time for the issuing of instructions for the general guidance of our sales people we do that after we have traced to the best of our ability what the markets for steel are throughout the various sections of the country, the conditions prevailing which make those markets, and one of the principal factors which we have in that process of reaching decisions as to what we will do sales-wise as a rule has been the announcement of the Steel Corporation from time to time periodically as to what their prices are to be. It is a good guide for us as to what we expect to find competitivewise and then after we have reached these conclusions with those studies and the information of that nature, then we issue instructions to guide us in our sales forces, instructions in the form of definite prices which we expect them to obtain if possible for the various products which they sell.

Mr. FELLER. I take it that the process of deciding upon a price is concentrated very largely in a rather small group of men, including yourself and Mr. Mackall and some others.

Mr. GRACE. This chief executive staff that I speak of all have a part in any kind of studies with respect to any part of the business of our corporation. Just because a man happens to be a manufacturing man, an accounting man, a purchasing man, we all feel that the conduct of the business is so closely related that we slop over into each other's baliwick, if I may use that word.

PRICE CHANGES

Mr. FELLER. Now there are a number of matters that you have touched on, Mr. Grace, that perhaps we can look at in somewhat more specific fashion by considering some particular instances of price changes. As the committee has seen, in 1936 there were two increases in the price of steel; in 1937 there was one increase in the early part of the year, which apparently was rather substantial.

In 1938 there was a reduction in the price of steel, and when I speak of price I am referring to the base price.

Now, Mr. Grace, these three price increases and the one price reduction that I have been referring to were first announced by the United States Steel Corporation.

Mr. GRACE. My recollection would be that that was the case in the main, the fundamental base prices.

Mr. FELLER. Yes; that is what I am referring to.

Mr. GRACE. That would be the way I would remember it.

Mr. FELLER. As I understood Mr. Fairless' testimony, the reason for the price increases—well, let me put it this way: The reason for the price increase, according to Mr. Fairless, the price increase early in 1936 was to bring about, to restore, a relationship among various products which had been disrupted by the depression. He then went on to say that the price increase in the latter part of 1936 and the price increase in the early part of 1937 were due to increased costs, the increased costs, I take it, of the United States Steel Corporation.

Mr. Grace, could you tell us the reason why your company decided on the three occasions of the price increase to announce prices which were the same as those announced by the United States Steel Corporation?

Mr. GRACE. Our policy and purpose is to do our business competitively. The return which we were getting for our steel sold in 1935 and the early part of 1936, leading up to the time when the first adjustment of prices started to take effect, was not on a basis that gave sufficient spread between the cost of producing our products and the amount realized on the sale of them to give a profit to the business. We welcomed the opportunity to obtain a larger return through the increase of selling prices, and we found that the market, competitive-wise, would permit us to obtain higher prices. We needed it and we followed it, just the same as you have to go the other way, but fundamentally in our processes there is that of meeting the competitive situation.

Since you spoke of Mr. Fairless' testimony, I am sure he would have no objection to my using his name in this manner, and on costs—we had naturally the same experiences as the subsidiaries of United States Steel Corporation had in gradually increasing costs due, in one main instance, as Mr. Fairless clearly put before the committee, to increase of labor rates, increasing of materials; but the big one, largest outstanding factor in the increasing of costs was naturally the increasing of labor rates beginning at that period.

I looked over our statement last night, and as between 1929 and the present time our labor rates have increased about 32 to 33 percent.

Mr. FELLER. Your cost increases——

Mr. HENDERSON (interposing). May I ask a question there? Your rates in Bethlehem are not as high as the rates that Mr. Fairless recited, are they?

Mr. GRACE. Our labor rates? Yes; just as high as the Steel Corporation rates. Our base rates range from 56½ cents an hour to 62½ cents an hour. depending upon the location of our mill, and specifically on your question, the average earnings, since you have put the question to me, again I will quote the Steel Corporation because it is published property as appearing in their annual reports and ours, the average earnings per hour of our employees comparable with the Steel

Corporation employees, I believe on an exactly comparable basis, in 1936 the average per hour of Bethlehem employees was 73.6 cents, United States Steel, 73.7 cents; 1937, Bethlehem Steel, 87.7; United States Steel, 86.4; 1938, Bethlehem Steel 89.5; United States Steel, 90.2. You will notice they are substantially the same.

Mr. HENDERSON. They are the average earnings for your wage-earning force.

Mr. GRACE. That is the complete earning for all wages paid in the two corporations.

Mr. FELLER. Now, Mr. Grace, your common labor rate in your plants at Sparrows Point, Cambria—I will leave out Cambria, I am not sure but your common labor rate in the plants at Johnstown, Bethlehem, and Sparrows Point, that is what?

Mr. GRACE. The common labor rate at Sparrows Point is 56½ cents; at Cambria, 58½ cents; at Pittsburgh, 62½ cents; and Chicago, 62½ cents; Bethlehem, 56½ cents. At Buffalo—at our Lackawanna plant, 59½.

Acting Chairman KING. For what year was that, Mr. Grace?

Mr. GRACE. They are the rates in effect now. I understood that is what Mr. Feller was asking, Mr. Chairman.

Mr. FELLER. Now, am I correct in saying that United States Steel Corporation pays 62½ cents at all of its plants with the exception of the plants on the west coast, where the rate may be somewhat higher or lower?

Mr. GRACE. You are asking me about the Steel Corporation—no; that is not the case. The Steel Corporation's rate, as an example, in a small plant——

Mr. FELLER (interposing). I am wrong, of course, because the Corporation has a plant at Birmingham where the rate is lower.

Mr. GRACE. That is right, and they have varying rates on the Pacific coast the same as we have. The Pacific coast rates, if you like them, I have them here, and I think these are alike, possibly, with the Steel Corporation. In San Francisco the rate is 60 cents an hour, Los Angeles, it is 58 cents. We have a plant in Seattle producing steel, which is 60 cents. I don't want to be held to the fact that that is the Steel Corporation rate.

Mr. FELLER. Now I should like the record to be clear on this point. The largest plants of the Steel Corporation are at Pittsburgh and Chicago, are they not?

Mr. GRACE. And Birmingham.

Mr. FELLER. The Birmingham plant is somewhat smaller.

Mr. GRACE. It is smaller than those centers, yes, certainly.

Mr. FELLER. At the two largest plants of the Corporation the common-labor rate is 62½ cents. Which are your two largest plants?

Mr. GRACE. Our two largest plants would be Sparrows Point and Lackawanna.

Mr. FELLER. Your rate at Sparrows Point is 56½, and what is your rate at Lackawanna?

Mr. GRACE. At Lackawanna it is 59½. In that particular direction, Mr. Chairman, our base labor rates as established at our various plants and centers, are as high, if not the highest, of rates for similar work in our respective territories.

This question of rates is historical throughout the United States. I know of no industry but what has fluctuating district wage rates, depending on the rates prevailing in their respective locations. I can say for our rates that they are as high as or higher than and the resulting of all of our rates is as high as those of the Steel Corporation.

Now this isn't any matter of competition between the Steel Corporation and Bethlehem, and I am sure they would have no objection to my citing this instance, purely in the theory of this historical relationship that has existed in all industry throughout the country at all times.

Mr. FELLER. Now Mr. Grace, just a few minutes more on this matter of comparative costs. The Steel Corporation derives the bulk of its iron ore from properties in the Lake Superior district, Minnesota, and Michigan. And I understand that during the period of 1936 and 1937, there were increases in wage rates, and there were also certain added obligations of Government, such as Social Security taxes. Did your costs of operation in your Chilean and Cuban ore properties rise similarly during that period?

Mr. GRACE. They did.

Mr. FELLER. There were wage increases there?

Mr. GRACE. Wage increases, tax increases.

Mr. FELLER. Did they rise as much?

Mr. GRACE. That I couldn't tell you, but I assume they did. I don't think they would miss that opportunity.

Mr. FELLER. By "they" you mean?

Mr. GRACE. By "they" I mean the Governments of Cuba and Chile. They had a good example set.

Mr. FELLER. Are the wage levels in Cuba and Chile generally lower in the iron-ore mines in wage levels than the Lake Superior district?

Mr. GRACE. Yes.

Mr. FELLER. Mr. Grace, passing to the period between the early part of 1937 and the first half of 1938, did your corporation find during that period that it was difficult to secure the published base price?

Mr. GRACE. Yes.

Mr. FELLER. And you were selling then below the published base price for much of that period?

Mr. GRACE. We sold at quite varying prices during that period, fluctuating from base price downward to whatever competition might have required. I am sorry I haven't a statement that I could show you our realization prices against our base price, as the Steel Corporation has. We don't have that statement.

Mr. HENDERSON. You don't make that kind of a computation for yourself?

Mr. GRACE. Yes; I think we have that information but we just didn't have it in chart form.

Mr. HENDERSON. Have you any idea—you have looked at what has been put in the record, comparing for United States Steel base price as against realization, have you not?

Mr. GRACE. Yes.

Mr. HENDERSON. Have you compared that with your own?

Mr. GRACE. No; I haven't had the opportunity. Our experience would be, I am sure, of a similar character. As to detail, I wasn't clear whether the Steel Corporation had interpreted in what they call their realization prices against the base price, whether that included only the item of selling below base prices, or some other items, let's say shipping against the basing points as an example.

Mr. HENDERSON. I think it did.

Mr. GRACE. That wasn't brought out.

Mr. HENDERSON. I think there was one part of the testimony that indicated that. Would it be proper, Mr. Chairman, to ask Mr. Fairless, who is in the room, to answer that?

Acting Chairman KING. No objection.

Mr. HENDERSON. Mr. Fairless, will you just come forward to answer this question.

TESTIMONY OF BENJAMIN F. FAIRLESS, PRESIDENT, UNITED STATES STEEL CORPORATION, NEW YORK, N. Y.—Resumed

Mr. HENDERSON. You are on the right side of the table this morning.[1] [Laughter].

The question is, in that table which you put into the record the other day on your realizations as against the base price, that included all your business, did it not?

Mr. FAIRLESS. Yes.

Mr. HENDERSON. And it also included the item of freight absorption, did it not?

Mr. FAIRLESS. Yes, it did.

Mr. HENDERSON. And that would run, oh, as high in some of those periods as what, three or four dollars a ton?

Mr. FAIRLESS. I really don't know. Not that much, I don't think. Not as an average. I really don't know the figure, but answering your question, it did include any freight absorptions that we might have had in the transaction of our business.

Mr. HENDERSON. Mr. Chairman, since we are not going to take this up until January 1, this is an incident that I am proud of; I know that figure better than Mr. Fairless.

Mr. FAIRLESS. You probably do. I admit I don't know.

Mr. HENDERSON. I will let it rest, not on of the amount, but as to the fact that it did include freight absorption.

Mr. GRACE. Obviously, we did not net during that period our selling prices, our published selling prices. Now to what extent we didn't net them, I haven't got it in the form that I can present it to you, but we did not net our published base prices, and I would expect——

Mr. HENDERSON (interposing). But over the period of years, does your realization as against the price Steel generally follow about the same contour as the Corporation's?

Mr. GRACE. That I couldn't say, Mr. Henderson, I really couldn't because we are operating in distinctly different territory. We operate very largely in the eastern territory. We are not important producers, say, nothing like as important producers in the central western territory, as the Corporation. Now that would change due to our transportation charges and points of delivery of our steel.

Mr. HENDERSON. That answers my question. I wanted to know, Mr. Chairman, whether they have any comparison of their realization. Thank you.

Acting Chairman KING. Mr. Fairless, when you return in January, for my own information and not for the rest of the committee, I should be glad if you would furnish a statement showing the taxes,

[1] Mr. Fairless had been sitting with the staff of the Department of Justice.

Federal,. State, local, including social security, and all taxes, all obligations, all charges——

Mr. HENDERSON (interposing). That has been done. That is available in this information.[1] It is part of your confidential copy.

Acting Chairman KING. Is it confidential?

Mr. HENDERSON. It is confidential until January 2, but I suggest that you do what I did, have a good index made of it.

Acting Chairman KING. And I would ask Mr. Grace also to furnish, if you have not done so——

Mr. GRACE (interposing). No; we haven't.

Acting Chairman KING. A full and complete statement of your taxes for each year during the last 10 or 12 years, local, Federal, State, Social Security.

Mr. GRACE. We will prepare it and submit it to the committee.[2]

Mr. FELLER. I wonder if you could also include in that the taxes which you pay on your Chilean and Cuban properties. That might be of some interest.

Mr. GRACE. I will see if we can.

Mr. FELLER. Mr. Grace, during this, and I think it would be perfectly proper to say, difficult period, the latter part of 1937 and the early part of 1938, when the rate of steel operations and the demand for steel was declining so precipitously, did your company consider at any time the advisability of reducing the base price on its own initiative?

Mr. GRACE. We were in effect reducing the base price in our daily activities.

Mr. FELLER. You mean, you were in effect selling at a price below the base price.

Mr. GRACE. As to the question of going out and making public, or attempting to establish a public new base price, no; I can't say that we did. We possibly thought of it, we undoubtedly discussed it, but we didn't see it as a feasible thing to do.

Mr. FELLER. Why didn't you think it was feasible.

Mr. GRACE. The drop was so rapid and so uncertain that it would have been difficult at that time to put out any price list that would have been regarded as representative of the situation. It was rather a matter of waiting to see what might take place. You recall that we built up to a substantial operation through the increased demand in the early part of '37, and you recall there was then a dip. That caught itself, and the demand again reappeared. That was very encouraging, naturally, and then for no better expression, almost over a very short period, the bottom just fell right out and the market goes like this, according to the charts that we were looking at here the other day. Where to catch ourselves, we started, as I recall it now, I know, we built up a very large order-book the early part of '37, running close to capacity, and by the end of the year that order book had shrunk, just from memory I should say certainly 75 percent of the backlog. That is a good picture of the radical, erratic performance of business at that time.

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1 "Exhibit No. 1416" included in Hearings, Part 26.

2 In response to Senator King's request Mr. F. A. Shick, comptroller of Bethlehem Steel Corporation submitted a consolidated aggregate tax accrual statement for that corporation and its subsidiary companies in a letter dated January 20, 1940. The letter and statement are included in the appendix on p. 10741–10742.

Mr. FELLER. Mr. Grace, do I understand from what you have just said that the reason why you thought it not feasible to reduce the base price was because you didn't know where to put it?

Mr. GRACE. I certainly wouldn't have known where to put it.

Mr. FELLER. If you had seen in that period some indications of stability of the price, or stability of operation, would you have thought it advisable to lower the price at that point?

Mr. GRACE. That is eventually what did take place in the early part, or around the middle part of '38. That is exactly what took place. It became so definitely established and so apparent that we were not obtaining anything like our published prices, base prices for steel, they weren't representative, business had reached another point where it looked as if it might stay for a while, I was very glad then of the opportunity to follow the Corporation's lead in the publishing of new base prices, which they did. I was glad to see that take place. I thought then it was constructive and a good thing to do.

Acting Chairman KING. From a realistic standpoint, can you have, where the market changes with such variations as occurred during the period referred to, a stabilization of base price and have a base price?

Mr. GRACE. Not a stable base price. You can have a base price but——

Acting Chairman KING (interposing). It is meaningless.

Mr. GRACE. It is a mark, that is all, purely a mark.

Acting Chairman KING. I recall a few years ago, if I may institute a comparison, when the so-called base price for wool, established by the Boston buyers, was, say, 18 cents per pound, and the fluctuations were so great that it went down to 4 or 5 or 6 or 7 cents per pound and finally you couldn't sell it at all. That fluctuation is the same with some of the mining products—lead, copper. Copper when it was up to 23 cents a pound fluctuated and got down to 5 or 6 cents a pound and we finally had to put a tariff of 4 cents a pound on it in order to find a market at all and keep out the competition.

Mr. GRACE. Mr. Chairman, I am a bit old-fashioned but I think I see still operating in industry that old law of supply and demand.

Mr. HENDERSON. You said, right along that line, that you were glad to follow the lead of the Corporation in June of 1938. You thought it was an excellent thing. Did you mean you thought it would stimulate business?

Mr. GRACE. No; I thought it would create more of a definite understanding and a picture of the actual condition which existed in the industry. Our published prices had become so fictitious, not representative of all the markets, that when the time arrived where they could be reasonably established or could be established on a basis that would reasonably represent then what was going on, I frankly was glad to see it come. I thought it was a good, constructive thing to do.

Mr. HENDERSON. So you might say there was no misunderstanding from the standpoint of your leading customers about the departure from the base?

Mr. GRACE. No.

Mr. HENDERSON. But you thought it was healthy, perhaps, for the public to understand that also.

Mr. GRACE. Understand it and get away from the erratic situation which was in the industry that the public didn't, it seemed to me, have a proper realization of.

Mr. HENDERSON. During this period, did you get the base price for any part of your deliveries?

Mr. GRACE. Yes; we would be getting some.

Mr. HENDERSON. Where would you get that principally, on the small orders?

Mr. GRACE. On the smaller type of order, possibly, and some contractual situations may have given them to us, but we were netting, and some products were naturally not as disturbed as other products. The demand was holding in certain lines. Take the consumers lines, like the canning industry and that sort of thing. There was reasonably good demand.

But when it came to capital goods, it was just all over the map.

Mr. FELLER. Mr. Grace, I think we have come to a somewhat important point here. The base price remained at the high level. So far as the operation of your company and of United States Steel Corporation were concerned, you weren't getting that price. Your realization was substantially lower, and yet some purchasers were paying that price and they included certain types of consumption and also small buyers.

Now, by keeping that base price at that fictitious level, to use your own words, weren't the small buyers in effect being penalized?

Mr. GRACE. No; not on an average more than the large buyers. I used the term "small buyers," spoke of the small buyers as being an instance. Some of the large buyers may have been paying a price, too. It was general throughout the industry to have price decreases and there was no particular class of buyer that wasn't involved in it and getting lower prices under it.

Acting Chairman KING. I suppose some products, and probably some of the specials, so-called, or extras, maintained a reasonably stable base price, or rather the departures from base price were not as great as departures in many other commodities.

Mr. GRACE. Exactly, sir.

Acting Chairman KING. In other words, there was no continuous line for all products. The base line would be departed from in some products but not in others, and where there was no very great departure in the base line it is because the demand kept up.

Mr. GRACE. And different degrees of departure where departure did take place.

Acting Chairman KING. I suppose from your statement that the capital goods during this period to which you have referred sustained a greater departure from the base line than some of the other commodities and some of the specialties?

Mr. GRACE. That might be true. I wouldn't know, offhand, but I would assume that it might be—some of the capital goods.

Acting Chairman KING. But if there were consistent demand for certain of the commodities or products of the mills, consistent with years past, I presume there would be a greater adherence to the base line.

Mr. GRACE. Yes; as your demand increases your ability to maintain your published prices is naturally easier than it is in low demand, where competition is keener. It is all controlled, substantially, by competition in the industry.

Acting Chairman KING. Are you sufficiently familiar with other commodities in other lines of industry than the steel industry, with the woolen industry and all of the cotton fabrications, wheat markets and all of the other agricultural commodities, to state that there was a variation there from what might be denominated a base line?

Mr. GRACE. I don't think I had better try to go afield, Mr. Chairman.

Acting Chairman KING. You want to stick to your own last, do you? You want to be a good shoemaker and stick to your own last?

Mr. GRACE. I think we had better stick, from my standpoint, to the steel business.

Mr. FELLER. You wouldn't care to say, Mr. Grace, that the price of steel should behave the way the price of wheat behaves?

Mr. GRACE. No, I wouldn't want to compare the two, but I do know that the steel industry is no different than any other basic industry in our whole bag of tricks of our industrial and economic structure. It goes and comes with the conditions of business.

GOVERNMENT BIDS

Mr. HENDERSON. Mr. Grace, I have examined a number of the contracts for Government purchasing during that period, and most of them I have seen show that your company and all other companies bid the base price and the identical price. Was that your policy during that period?

Mr. GRACE. Our policy was, during that period, to get our published prices if we could.

Mr. HENDERSON. And your bidding on government contracts was at that price.

Mr. GRACE. That is right. We were trying to get it, it was appropriate and proper to get it in our commercial activities, if the demand and conditions were such that we could get it.

Mr. HENDERSON. What I am getting at is, it wasn't always just the small buyer that paid it. Sometimes the powerful buyer, one supposedly powerful, paid the base price.

Mr. GRACE. That is right.

Acting Chairman KING. Was there competition for those purchases by the Government? Were there more bids, in other words, than bids submitted by your company?

Mr. GRACE. Oh yes; many bids.

Mr. O'CONNELL. On that question of competition for government purchases, I take it from your earlier statement that since you all adhered to the posted price, that whatever basis the competition was on, it was not strictly on the price basis.

Mr. GRACE. I couldn't say what the bidding of other companies were to government inquiries. I didn't think Mr. Henderson asked me to say whether they were all alike or not. He asked me what our company did. Our company substantially bid to the Government largely our published prices. What other companies bid, that I wouldn't have knowledge of. I know we didn't by any means get all the business. I am sure of that.

Mr. HENDERSON. I think we will have some material on that, Mr. O'Connell, at a later date when we take up the question of Government purchases.

Mr. FELLER. The fact as I understand it is substantially as Commissioner Henderson has stated it, that during that period generally speaking the bids submitted to the Government by various steel companies were identical, substantially identical.

Mr. HENDERSON. And were base price.

Mr. FELLER. Base price plus the extras as set down in the extra book. Now I am trying to get at the significance of this base price. Didn't the base price although not adhered to over the average because of the conditions of the market, didn't the base price have this significance: That it resulted in some purchasers who perhaps because of inferior knowledge with respect to market conditions or perhaps because of insufficient buying power, didn't it result in a discrimination between purchasers so placed and purchasers who knew more about the market and who could buy more?

Mr. GRACE. I shouldn't have thought so. I think you have varying degrees of differences on the base prices. I think when you are in a market of that nature, it is operating daily; the selling of steel and similar projects at a specific time would have been done on a similar and like basis. That basis may have been quite different tomorrow from what it was today as we would obtain knowledge of our competition.

Mr. FELLER. Yes; but the base price was at any rate the ceiling, was it not? Nobody paid more than the base price plus extras.

Mr. GRACE. I think that is fair to assume. We weren't getting any premium prices.

Mr. FELLER. By virtue of the base price being where it was at this relatively high level, some purchasers, those purchasers who were paying the base price, and because the price was at that level, were paying more than if you had reduced the base price in that period.

Mr. GRACE. In the operation of our own activities we wouldn't knowingly discriminate to our like respective trades for respective services. When a condition arises from a competitive field that somebody else should have gotten from some other steel company a lower price than we gave them and that constitutes discrimination or a hardship, let us say, in the trade, that is a result purely of competitive activities over which we couldn't have any control.

Mr. FELLER. I am not suggesting that there was any deliberate or calculated discrimination. What I am concerned with is whether or not the fact that the base price remained where it was at this relatively high level, whether that did not increase the area within which discrimination would result from the market conditions.

Mr. GRACE. Well, if a period of greater competition that resulted in differing prices would constitute discrimination, I don't know that it does. I shouldn't think it did, because as you are doing business currently, the trade is getting the benefit of what you are doing currently and accepting it.

Mr. FELLER. Was the Government getting the benefit of that?

Mr. GRACE. The Government was getting the benefit, from our company's standpoint; the Government was getting our official published price. It was our effort at all times to try to obtain them and I think we lost a lot of Government business, a lot of it, because our prices were not low.

Mr. FELLER. With respect to the market——

Mr. O'CONNELL (interposing). Just a minute. You wouldn't care to indicate that you lost the business because your prices were too high?

Mr. GRACE. That might be the case; yes.

Mr. O'CONNELL. You wouldn't say that necessarily followed?

Mr. GRACE. Yes; because our prices were higher than some other prices the Government had.

Mr. O'CONNELL. Do you understand you lost any sales of material to the Government on that basis?

Mr. GRACE. Because our prices were high?

Mr. O'CONNELL. Because there were prices lower than yours.

Mr. GRACE. Yes; undoubtedly we did, just the same as we lost a great deal of business because our prices were competitively high in the commercial field.

Mr. O'CONNELL. May I interpose there? It doesn't seem to me the situation is exactly comparable, at least you didn't treat the situation exactly the same as I understand you in other areas to meet competition.

Mr. GRACE. In the main we tried to get our published prices for what we sold the Government.

Mr. O'CONNELL. Of course, but in other areas because of competitive forces you found it impossible to get business on that basis.

Mr. GRACE. Certain places and then we varied it.

Mr. O'CONNELL. You reduced it so your net realization during this period was substantially less than the posted price.

Mr. GRACE. In certain areas that might be true, if it was comparable business.

Mr. O'CONNELL. It is also the fact that you didn't use that same policy in your Government transactions, that is, attempting to reduce your price in order to get the business.

Mr. GRACE. Not as aggessively, no; I think that is true.

Mr. HENDERSON. You know, Mr. Grace, how a contract is awarded on a Government contract when all of the bids are tied.

Mr. GRACE. I don't know that I do, Mr. Henderson.

Mr. HENDERSON. That surprises me quite a bit.

Mr. GRACE. I don't know that I do.

Mr. HENDERSON. Then maybe I had better wait until we get into the Government method of coin pitching.

Mr. FELLER. Mr. Commissioner, perhaps you can tell us what your understanding is of Government contracts.

Acting Chairman KING. That is a matter to be presented later after the evidence.

Mr. O'CONNELL. I would be perfectly willing to enlighten Mr. Grace on what ordinarily happens in the purchase of steel by the Government. The bids are ordinarily ties, as I understand it, and they put a number of slips in the hat, one slip representing each bidder, and the lucky man gets the job.

Mr. GRACE. I think we have been unlucky.

Acting Chairman KING. There were lots of contracts upon which you bid you didn't get?

Mr. GRACE. Lots of them.

Mr. HENDERSON. If he had cut his price on some of those other contracts he certainly would have got it.

Mr. GRACE. I think that statement is correct.

Mr. FELLER. Is it correct, then, Mr. Grace, to say that during this period when the base price was fictitious as far as the trade was concerned, that it was not fictitious as far as the United States Government was concerned?

Mr. GRACE. I have told you what our policy was in quoting to the United States Government. That is as far as I can go.

Mr. FELLER. Your policy was that the published base price was a real price?

Mr. GRACE. That is the basis upon which we quoted and undertook to get Government business.

Mr. FELLER. Mr. Grace, I should like to return just for a moment to the question as to which you testified previously with respect to your views on whether or not the price should have been reduced during this period, and I have here an extremely interesting letter which you wrote to the official of a steel fabricating concern. The letter which you wrote is dated May 15, 1938, and it is in reply to a letter from A. Katchen of the Irvington Steel & Iron Works, which letter was dated May 10, 1938. Would you mind identifying it?

Mr. GRACE. I take it that is the same letter. Yes.

Mr. FELLER. I should like to offer these for the record.

Acting Chairman KING. No objection.

(The letters referred to were marked "Exhibits Nos. 1419 and 1420," respectively, and are included in the appendix on p. 10733.)

Mr. FELLER. I shall read just part of Mr. Katchen's letter to which yours is a reply, to get the drift of it, but I can't omit the first paragraph, Mr. Grace, which is a decided compliment to you.

Mr. GRACE. I don't see any objection to reading the whole letter.

Mr. FELLER (reading from "Exhibit No. 1419"):

> I have always been an admirer of yours, and still have the highest regard for your initiative and good judgment.

Mr. GRACE. I'd like to get that in the record. [Laughter.]

Mr. FELLER (reading further from "Exhibit No. 1419"):

> I wonder if I, a small-business man, engaged in the steel industry, may give my viewpoint to you, hoping that by this measure, you as a leader in industry can make the start to bring back recovery, and dispel this present recession.

This letter was dated May 10, 1938.

> Reports show that your company, working only 32% of capacity, for the first quarter of this year, was able to make a profit of over Nine Hundred Thousand Dollars. Now, if such is true, why can't the steel companies reduce the selling price of steel.
>
> The lower cost will increase, I am certain, production. This lower price will be an incentive for the automobile manufacturer to buy; the building industry to wake up from its lethargy, a number of other industries, too numerous to mention here to wake up, and create jobs for millions of jobless, which in turn creates added business for you, and still give you a profit because of the increased production.
>
> If less time were spent in Washington, and in the Courts, but more time at our desks; the workers problems our problems, our problems the workers; and Mutual Co-operation with Government, Bankers, Other businesses, and with Labor; we can soon rid ourselves of the Dreaded Old Man of the Sea, who hangs so tenaciously from our shoulders.
>
> Can't we give it a try?

Your reply was as follows [reading from "Exhibit No. 1420"]:

> I have your letter of May 10th suggesting, in view of our first-quarter showing, the possibility of aiding recovery through a price reduction for steel products.
>
> You are somewhat in error as to our figures, as the operation on which we showed a profit was somewhat higher than the 32% you mention, and today's operation, both with us and others, is below first-quarter operations.
>
> To comment specifically on your suggestion, I think the opportunities for stimulating business through price reduction should be looked at from the point of view of the steel industry as a whole rather than the case of a single company.

As a matter of fact, during the first quarter Bethlehem was one of only two or three companies in the entire industry that showed any earnings on preferred stock. Inasmuch as our preferred stock is cumulative and we earned only a part of it in the first quarter, even in our case, though our showing was satisfactory under existing conditions, we failed to earn our full preferred dividend, which we really look upon as a fixed charge. In the case of the industry as a whole it is all the more true that the first-quarter operations were not such as to make a price reduction feasible. Moreover, even if it were feasible, it is a serious question whether that is the proper course to pursue, since with such narrow margins in the industry today reductions in prices would inevitably entail readjustments in wage rates, which starts the whole structure of buying power downward.

I appreciate the spirit in which you have written, but I personally do not feel that the cure for our troubles lies in that direction.

Mr. Grace, it would appear that about 5 weeks before the price reduction took place you were of the opinion that it was not feasible and even if it were feasible that it should not be done.

Mr. GRACE. In this particular case, Mr. Feller, bear in mind that we were dealing with conditions that existed at that time in the industry. Our published prices were not prevailing nor obtainable nor controlling. In speaking of the price situation that existed at that time, I naturally would have in mind the prices currently which we were obtaining for our product. They didn't tie into the published prices which you call official prices in any sense of the word.

Acting Chairman KING. Mr. Feller read from your statement that announced lower prices would call for readjustment of wages.

Mr. GRACE. Lower prices, because the steel industry as a whole wasn't in position to further decrease its revenue.

Acting Chairman KING. Was your company losing money?

Mr. GRACE. Our company made a little money at that time.

Acting Chairman KING. Did it make enough to pay the dividends on preferred stock?

Mr. GRACE. It did not.

Acting Chairman KING. Did you earn anything to pay on common stock?

Mr. GRACE. Not at all.

Acting Chairman KING. How long since you paid any dividends on common stock?

Mr. GRACE. On our common stock since the last time that we paid dividends in '37 we paid dividends this year; we have declared $1.50; on two occasions, 50 cents at one time, and a dollar.

Mr. FELLER. Mr. Grace, the gentleman who wrote you this letter was apparently concerned with a price which he felt was too high. It isn't clear from this letter whether he is referring to the base price or the actual price, but at any rate, as far as he was concerned he thought the price was too high.

Mr. GRACE. He is propounding an apparent theory of his own; yes. I in kind replied as to my thoughts in that direction. I can't say what inspired his letter; I assume they were proper motives in every respect.

Mr. FELLER. In your reply you indicated on May 15 that you thought the reduction of the base price would not be a feasible or an advisable thing to do.

Mr. GRACE. Reduction of prices; I didn't use the words "base price."

Mr. FELLER. Reduction of prices. Would you have welcomed the action of the United States Steel Corporation in reducing the base price if it had occurred 5 weeks earlier?

Mr. GRACE. I have said that only a few weeks after this I welcomed the opportunity to establish before the public a set of base prices which were then certainly more representative of the conditions of prices currently then existing in the trade.

Mr. FELLER. Then you take the view that the price reduction in June 1938 was in effect a confirmation of the actual price.

Mr. GRACE. To a great extent; to a great extent it certainly represented then the obtainable prices, the prices that were being obtained.

Mr. FELLER. Was the realization per ton of your company lower in July than it had been in May, or substantially the same?

Mr. GRACE. I suspect it would be substantially the same because you don't fluctuate in such a narrow cycle in the industry.

Mr. FELLER. Take a few months later. Let us take November. Would you know?

Mr. GRACE. November in 1938, what our realizing prices would be?

Mr. FELLER. Yes.

Mr. GRACE. No; I couldn't without looking it up.

Mr. HENDERSON. Would your assistants have that?

Mr. GRACE. Let's get clearly what you ask and I will try to get it for you if we have it.

Mr. FELLER. The question I am addressing myself to at the moment is this: Whether or not the base price reduction in June 1938 represented a real cut in prices as far as your company was concerned.

Mr. GRACE. Yes; it would represent a cut in prices as against the prices that we were obtaining, I should think.

Mr. FELLER. In other words, the base-price reduction did something more than confirm preexisting prices. Did you have something on that, Mr. Mackall?

Mr. MACKALL. If I would have it he would have it. I don't know whether this answers the question or not.

Mr. GRACE. Let's see if I get clearly what we are talking about; whether the effect of the new official price schedule which went into effect or was published to go into effect in June 1938 represented a cut in prices which we were currently obtaining at that time. Is that right?

Mr. FELLER. That is right.

Mr. GRACE. Whether the effect of those prices would represent a net less selling price to us.

Mr. FELLER. That is right.

Mr. GRACE. That would be very difficult to obtain, very difficult. What is your impression, Mr. Mackall, without going over a period with your tonnage on the books, the new business which would subsequently be booked after we established the new prices, let's say, and the effect then of the demand currently existing against them, picking up now. I think it is fair to assume that eventually in this demand—I couldn't make a supposition, I just wouldn't know.

Mr. FELLER. You wouldn't know whether your net mill realization after these announced reductions in base prices was lower than——

Mr. GRACE (interposing). Attached to those base prices, a part of those base prices, no, I couldn't tell you, because I think the cycle would have to be quite a long one and then whether you could attribute it to that cause, again I don't know, because now, since that period we have gone from that time of 1938 and a very low rate of operations to a substantial hundred percent operation in this industry, in that short period. Those factors would have to come into this picture.

Mr. FELLER. Let us take it on the basis of a year; a year after the price change, in June 1938 would it be possible to say that on the average the consumer of steel was paying less for steel than he was in May 1938?

Mr. GRACE. May I refer to our comptroller? Have you anything there that would give us a line on that without just picking out individual commodities? Have you anything that would show what Mr. Feller is trying to obtain for the committee, that is what has transpired in the price structure since the establishment of new price schedules in June 1938, say up to now?

Mr. FELLER. Let me ask you about a specific consumer, an important consumer, one we are all interested in. Is the United States Government today being quoted lower prices for the steel which it buys than you were quoting it in May of 1938?

Mr. GRACE. To the extent that the new price schedules that went into effect changed commodities which they buy; yes. Our policy has been, as I have said, to quote the United States Government official published prices. Now there was a reduction in the official published schedule generally in the new schedules put out in 1938, and that became then our new schedule for quoting to the United States Government.

Mr. FELLER. We have established this point, then, I take it, that the base price is significant at least to the United States Government and when you reduced the base price in June of 1938 the United States Government on those products where you reduced the price, and that included most products, was being quoted less for steel.

Mr. GRACE. In respect to the Bethlehem Steel Co.

Mr. FELLER. Later on I think the matters which Commissioner Henderson refers to will give us some light on what the United States Government relations were with respect to other steel companies.

Mr. HENDERSON. Let me ask this: The finished steel composite price before the 1938 reduction was nearly 105, as shown by the chart already introduced in the record, and the drop took the finished composite down to about 95, so that if it bought in the same relationship to the construction of this average it would be somewhere in the neighborhood of 10 percent; but it would be, if it were buying some products from you, $5 or $6 a ton more on account of the establishment of Sparrows Point as the basing point, would it not?

Mr. GRACE. That would again depend on the point of delivery, wouldn't it?

Mr. HENDERSON. If it were buying in the area comprehended by the establishment of that basing point, which was substantial, was it not?

Mr. GRACE. Where we changed our basing points in June 1938? Yes.

Mr. HENDERSON. Something like $5 or $6 a ton on sheets?

Mr. GRACE. Take an item, let's say, of plates, which the Government would be large buyers of. We decreased our basing point price at Sparrows Point, as a basing point $3 at that time.

Mr. FELLER. I am going to come back to that.

Mr. HENDERSON. I think there were some that ran as high as $6, too, on sheets, perhaps.

Mr. Grace. Probably so, because at that period there was a basing point established for sheets at Sparrows Point.

Mr. Feller. I will come back to that very shortly. I should like to ask you this: In your letter of May 15, 1938, you said, "I think the opportunity for stimulating business through price reductions should be looked at from the point of view of the steel industry as a whole, rather than the case of a single company."

Mr. Grace, if at that moment, in May 1938, the Bethlehem Steel Co. had, on its own initiative, announced the reduction in the base price of steel, is it not a fact that at that time that would have become the base price for the industry?

Mr. Grace. I don't know whether the others would follow it or not.

Mr. Feller. As a steel man, looking back on the thing now, is it conceivable that it would have been possible for other members of the industry to have a higher base price when you had a reduction?

Mr. Grace. You asked me whether I thought they would have announced a revision of the schedules. That I don't know. But I am quite sure they would have met the prices if it amounted to lower prices, but what they would have done to their schedules, that I don't know. I feel sure if it resulted in any other lower prices, I believe we would have found other fellows after business with us.

BETHLEHEM'S PRICE ANNOUNCEMENT POLICY

Mr. Henderson. Mr. Feller, are you going to ask Mr. Grace an obvious line of questions that derive from this statement having to do with what they have historically done concerning the announcement of prices?

Mr. Feller. I am about to come to that.

Mr. Grace, do you recall any occasions on which your company took the initiative in announcing a lower price on any steel commodity?

Mr. Grace. I can't recall whether we have or whether we haven't. I know generally we haven't.

Mr. Feller. Then I take it——

Mr. Grace (interposing). I know—I am telling you what the general practice is from our company standpoint. Whether we have ever initiated any I just couldn't say, but in the main we would normally await the schedules as published by the Steel Corporation.

Mr. Henderson. That went back as far as you can remember the policy of the Bethlehem?

Mr. Grace. Yes.

Mr. Feller. Were those schedules announced by the United States Steel Corporation at any time unsatisfactory to you? Did you ever feel that you ought to publish a different price?

Mr. Grace. I should say it would be impossible for the Steel Corporation officials and Bethlehem officials to have a meeting of minds on the great question of prices, as to whether they would suit us or not. I should say it would be an unusual job if we could believe in everything they do.

Mr. Feller. And yet, Mr. Grace, despite that I take it your general policy is to do what the Steel Corporation does.

Mr. Grace. Our general policy as to prices is to be competitive, and when the Steel Corporation announces a set of prices it is the best guide that we have as to what our competition may be. I am sure we can't get any prices higher than the Steel Corporation gets.

Mr. FELLER. Do you ever take the initiative in selling below the published base price as announced by the Steel Corporation?

Mr. GRACE. That I couldn't tell. You have to sell a lot of steel under very trying conditions. I say that we sell steel competitively. Purchasing agents are quite resourceful. Whether we take the initiative in making a lower price against base prices, I have never felt from our company when we had a set of list prices, if we could realize the full benefit of those list prices that we would be making anything but a moderately fair profit, and in most cases not that, and our ambitions are at all times to obtain the prices which we finally put out as our official prices, and I would like competition to be such that that could be realized, but I am sorry to say that in many instances it is not.

Mr. FELLER. And you have historically taken the view that a fair price for you is what is a fair price for the Steel Corporation.

Mr. GRACE. Not necessarily. I haven't subscribed to your suggestion that the Steel Corporation's prices represented at all times my view of what were fair prices.

Mr. FELLER. But they represent to you what you think you can get in the market.

Mr. GRACE. They are one of the factors that tell me what competition is in the market, and an important factor.

Mr. FELLER. You say "one of the factors." Are there any others?

Mr. GRACE. We may find some other competitor with different ideas of prices than the Steel Corporation.

Mr. FELLER. You mean some other competitor may announce a lower base price or a higher base price?

Mr. GRACE. They may either announce a lower base price—they have freedom of action—or they may quote lower prices without any public announcement. Bear in mind the Steel Corporation is not the only competitor in the steel business.

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. Now it wouldn't 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.

Mr. FELLER. You would also revise your schedule to fit the new published price?

Mr. GRACE. We would be pretty likely to, or I would continue our policy of meeting competition, if I wanted the business created at those prices.

Mr. FELLER. By meeting competition, you mean going as high as the Corporation or as low as any person who is quoting on steel.

Mr. GRACE. I mean going as low. The word competition in my ordinary interpretation of it is to meet a price, if we want the business, that we find the purchaser has from some other interest trying to sell that same bill of goods to him.

Mr. FELLER. Let's take such a situation as 1936. In the early part of 1936 you were getting a price which was lower than the price you were getting in the latter part of 1936, wasn't it?

Mr. GRACE. In 1936 we were getting a lower price?

Mr. FELLER. Yes; you remember there were two price increases in 1936 and when the Steel Corporation published a new price list in the early part of 1936, and another one in the latter part of 1936, your policy was to also announce prices as high as those which had been announced.

Mr. GRACE. That is right. It was very encouraging to find them doing that.

Mr. FELLER. Then you follow them up and you follow them down?

Mr. GRACE. I would follow them up in that instance.

Mr. FELLER. Do you remember any instance where you didn't follow them up?

Mr. GRACE. No; and I certainly remember no instances when we didn't follow them down.

Mr. HENDERSON. Does that apply also to the extra list?

Mr. GRACE. Yes; to the extra list as presented I think quite ably by Mr. Fairless. You can go to any extent that you want.

Mr. FELLER. I would just like to ask this question. Have you ever felt that the prices published by the Corporation were too high?

Mr. GRACE. Never, and results, earnings in the industry, would seem to me to support that view.

Mr. FELLER. How about the situation during the last war?

Mr. GRACE. Prices were for all intents and purposes, I think, substantially controlled by the Government in that period.

Mr. FELLER. Let me put it this way: How about the year 1916, before we entered the war?

Mr. GRACE. I wouldn't know.

Mr. FELLER. Prices were pretty high, weren't they?

Mr. GRACE. I can't remember offhand what prices were back in 1916. As I recall—I don't know, I would have to look to see.

Acting Chairman KING. I suppose generally in 1916, by reason of the torpedoing of boats and assaults which were made upon the general standards of business and prices, there would be an increase in the price of commodities that were shipped overseas.

Mr. GRACE. Oh, there was great demand, great demand.

Mr. HENDERSON. Your company was one of the first in foreseeing that demand was it not, due to the activities of Mr. Schwab?

Mr. GRACE. In obtaining war orders, if we get into that category—I guess we were "war baby" No. 1, if you understand or know what that may be; I guess we were probably that fellow, and properly so because our business was in ordnance lines.

THE BIRMINGHAM PRICE DIFFERENTIAL

Mr. FELLER. Mr. Grace, reference has already been made to the matter of establishing additional basing points in June 1938. Before we go into that, I should like to get a little of the background. Prior to June 1938, as has been testified to here earlier, there existed a number of differentials in the basing point method of quoting prices, and the chief differentials which were discussed were those between Chicago and Pittsburgh and Birmingham and Pittsburgh, and you may recall that under that system of quotations, prices at Birmingham were quoted by the Steel Corporation at $3 higher than prices at Pittsburgh. Was it your practice, Mr. Grace, at that time to publish the Birmingham price as $3 higher than the Pittsburgh price?

Mr. GRACE. We were not a producer in the Birmingham territory.

Mr. FELLER. But you were a seller, were you not?

Mr. GRACE. We were a seller in the Birmingham territory and to the extent that that basing point price would control, and we put out a complete list to govern our sales activities, I should assume that we would have published our prices in that territory on that base price, it being a competitively established price let's say at that point.

Mr. FELLER. Now, the representatives of the Steel Corporation testified the other day that in their view, the differential of $3 was put on because they were developing the works at Birmingham. Now, you were not a producer at Birmingham. May I ask why you felt that you could not announce a lower price for the southern territory in view of the fact that you did not have what the Steel Corporation considered to be the burden of development of works in that territory?

Mr. GRACE. We could have published and announced any base price we chose at Birmingham. The base price that the Steel Corporation announced in Birmingham resulted in quite as low a selling price to us as we would be willing to take on our products shipped in competition with Birmingham production.

Mr. FELLER. Quite as low as you would be willing to take?

Mr. GRACE. Yes.

Mr. FELLER. At the present time, however, you are selling into the Birmingham area on the same basis as you sell at Pittsburgh.

Mr. GRACE. That is the competitive situation, to the extent that we sell in Birmingham area we have to meet competitive prices in that area. If the business is sufficiently attractive we take it if we can get it. If it isn't, we don't.

Mr. FELLER. You hope to get it at that price that the Steel Corporation puts on it?

Mr. GRACE. We try to. Again the Steel Corporation is not the only seller of steel in that territory.

Mr. FELLER. No; I understand that. Was it the practice, to the best of your recollection, of all the companies in the industry selling in that territory, to publish prices which included the $3 differential?

Mr. GRACE. I wouldn't know, Mr. Feller. I wouldn't know what other companies put their prices at; I wouldn't know what their official instructions to their selling department were.

Mr. FELLER. Wouldn't it have been at times to your advantage to have quoted the prices at Birmingham on the same level as the prices at Pittsburgh? Couldn't you have gotten more business?

Mr. GRACE. I shouldn't expect to.

Mr. FELLER. You should not?

Mr. GRACE. I wouldn't think so.

Mr. FELLER. Why not?

Mr. GRACE. Because I think our competition would be met.

Mr. FELLER. You mean somebody else would go after the business, too?

Mr. GRACE. I should think so.

Mr. FELLER. You talk about meeting competitive conditions. I am interested in seeing just how those conditions arise. Here we have the situation in the Birmingham territory where the price of steel was $3 higher than it was in the Pittsburgh territory. Now, when you speak of meeting competitive conditions, I take it you mean that if the Steel Corporation charges $3 more, you also will charge $3 more.

Mr. GRACE. If the competitive conditions in that territory create prices, as I said before, that are satisfactory to us to take business on, we try to get it. We try to take the business. I repeat again that I don't find the prices any too remunerative in the southern territory, any more than other places, in obtaining business competitively.

Acting Chairman KING. Can you produce and sell steel in and about Pittsburgh, Bethlehem, and Chicago, cheaper than you could produce steel and ship it down to the Birmingham district?

Mr. GRACE. We are not a producer in the Birmingham district and I don't know the relative costs.

Acting Chairman KING. But your freight rates would be larger from Pittsburgh and Bethlehem to Birmingham than from Pittsburgh and Bethlehem into the immediate field.

Mr. GRACE. That is right. There is a neutral field where you will pick up the product out of Alabama, say, and our Sparrows Point plant which is a highly competitive plant in that territory.

Acting Chairman KING. Is the freight rate from Pittsburgh and Sparrows Point to Birmingham considerable?

Mr. GRACE. Very great. There is a natural meeting point where from a transportation cost standpoint it would be equal, and that is what Mr. Henderson and I almost got on, as to when you get plus and when you get minus.

Mr. FELLER. Mr. Grace, what was your feeling with respect to the elimination of the Birmingham differential in 1938? Did you welcome that as you welcomed the reduction in base price?

Mr. GRACE. I don't know that I had any particular thoughts about it.

Mr. FELLER .Would you like to see it reestablished?

Mr. GRACE. That was a matter for the Steel Corporation to decide in respect to their methods of selling steel. You must bear in mind that the question of a basing point doesn't make prices. The basing point is only a convenient medium for the quoting of prices. If the Steel Corporation, at the time that they took their $3 differential off of Birmingham had raised the base price $3 at Birmingham, the results would be the same and you would have been operating on the same price.

Mr. FELLER. But they didn't raise it. They both lowered the base price and eliminated the differential.

Mr. GRACE. That is right, but not because they eliminated the differential in anyway did that control them in setting whatever competitive price they cared to for their products at Alabama.

Mr. FELLER. But was not the effect this, that you were getting $3 a ton less for your steel in the Birmingham area than you were before?

Mr GRACE. That you could tell only by tabulation. I may be wrong in remembering what Mr. Gregg said in that respect, but I think Mr. Gregg said that they were not obtaining the full benefit, let's say, of the $3 differential in the steels they were selling out of Birmingham. They had been gradually losing the effect of it. I think he said that.

Mr. FELLER. Let's take the situation today, just now. If a $3 differential were in effect, is it not a fact you would be getting $3 more for your steel in the South than you are now?

Mr. GRACE. That I don't know; it would depend entirely on the competitive condition.

Mr. FELLER. What is the competitive condition today with the industry operating at nearly 100-percent capacity? Aren't you getting more or less your full prices?

Mr. GRACE. We know today what the base price of steel charged by the Corporation is in Birmingham. That base price today is X dollars flat, and that price is the same as it is for the same commodity, as I understand it, produced in Pittsburgh.

Mr. FELLER. You stated earlier that you welcomed the base-price reduction in June 1938. If the Corporation were today to announce again its $3 differential in Birmingham, would you welcome that?

Mr. GRACE. If the Corporation would announce an increase of price in the Birmingham district, whether through the reestablishing of the differential or a similar increase in the base price, I, naturally, would welcome it, provided that controlled the competition in that territory. To the extent we shipped steel in there we would be getting $3 more a ton and we need it.

Mr. HENDERSON. I believe Mr. Gregg's testimony was of the nature that by the elimination of the differential southern buyers were getting an advantage. Does it not, therefore, follow that if it were reestablished, the buyers in that territory would be paying $3 more?

Mr. GRACE. If it were established and made effective, yes; but, of course, it could be obtained just as easily the other way, just increase the base price a similar amount.

Mr. FELLER. May I just make this clear? The differential was on the base price. In other words, the base price at Birmingham was different from the base price at Pittsburgh, was it not?

Mr. GRACE. They had a base price at Birmingham, if I understand how this business operates.

Mr. FELLER. Which was so many dollars a ton?

Mr. GRACE. And they have a base price at Pittsburgh. And before this change, and for the same product, manufactured at Birmingham at that time, before any changes, they asked the Pittsburgh base price for that same commodity plus $3 more, right?

Mr. FELLER. As I understand it, the method of quotation was, for deliveries at Birmingham the base price is so many dollars. For deliveries at Pittsburgh the base price is so many dollars and the difference was always $3.

Mr. GRACE. That is right, if I understand it correctly.

Mr. HENDERSON. Some of your testimony—although most of it is very clear—doesn't quite clear me up on whether you are entirely indifferent as to whether the base prices are low or high. It does make a difference, does it not, Mr. Grace, as to your sales realization?

Mr. GRACE. I think it is a very good guide and certainly has an influence, a great influence, because we don't just out of the hat pull a list of base prices and put them out to the trade. It is all a study, a complete study of what we would like to obtain and believe we are entitled to, and our effort is to get it.

Mr. HENDERSON. And in the getting of it, the establishment of a higher base price is very helpful.

Mr. GRACE. We would expect it or we wouldn't put out higher base prices if we didn't believe they were fair and we had an opportunity to get them.

Mr. HENDERSON. That is the clearing up I wanted.

Mr. GRACE. Oh, I am sorry if I haven't been clear on that.

Mr. O'CONNELL. Mr. Grace, if I understand the position of your company correctly, it is that competition to you means meeting whatever prices are established, either by posting or by the operation of the market.

Mr. GRACE. Whatever we find, right.

Mr. O'CONNELL. And I understood you also to say that you were sufficiently old-fashioned to believe that supply and demand still operated in the steel industry. Would it be also fair to say that within the price structure of the industry the extent to which supply and demand operates is evidenced by the extent to which there are deviations from concessions made from the posted price, price reductions, competitive price reductions to get business?

Mr. GRACE. Well, of course, in my old-fashioned way, as I tried to indicate, I believe the law of supply and demand has a major part to play in the conduct of any industry. I think it is only demonstrated in common sense, in a period of great demand your competition would be less acute than it would be in a period of less demand. It is easier without a doubt to get your published prices, the prices you would like to have, in a season of great demand, because the other fellow feels the same way. He would like to get it if he can.

Mr. O'CONNELL. Let me put it this way. We have heard a great deal about competitive conditions; every witness we have had has discussed them. Is it fair to say, when you are discussing competitive conditions as relating to price, you are discussing the condition as is evidenced by the extent to which your actual prices relate to the posted prices?

Mr. GRACE. Not necessarily, because I think the posted prices represent the actual conditions——

Mr. FELLER. (interposing). Let me interpolate at this point. The posted price, then, on the basis of what has been set up until now, represents the judgment of the officials of the United States Steel Corporation as to what the present conditions are. Is that correct?

Mr. GRACE. I can't interpret the minds of the Steel Corporation.

Mr. FELLER. That is what you take into account. You take that into account as a major factor in determining what competitive conditions are.

Mr. GRACE. Because it is an important factor. In our industry the Steel Corporation is a very important factor.

Mr. O'CONNELL. As your answers indicate, I don't want to discuss whether or not the posted price is really a result of a competitive situation——

Mr. GRACE (interposing). It may not be; I don't know.

Mr. O'CONNELL. I don't know either. At least it would be fair to say that the price competition that exists within the industry, and which is evidenced by concessions from the posted price, from the established price, is a result of a competitive situation.

Mr. GRACE. That would be one of the factors. Other factors would be service, quality of products, and things of that kind, but definitely it would be evidence of the price movement.

Mr. O'CONNELL. During the last year or two we have heard quite a bit of discussion about the extent of that type of competition, the extent to which actual prices have been less, concessions have been made from the posted price, and it has been indicated to us that that was evidence that competition was existing in the industry. From your standpoint is that situation a desirable one, from the standpoint of the industry, for the Bethlehem Steel Corporation?

Mr. GRACE. I still believe, Mr. O'Connell, in the fundamental law of competition in business, yes. I thoroughly believe in that.

Mr. O'CONNELL. I have yet to hear anyone that does not believe in that before this committee.

Mr. GRACE. Doesn't that answer your question?

Mr. O'CONNELL. No; it does not.

Mr. GRACE. Well, then, I'm sorry.

Mr. O'CONNELL. I was inquiring as to whether you thought competitive conditions of the sort evidenced by concessions and reductions from the posted price is, from your standpoint, a desirable type of price competition.

Mr. GRACE. It seems to me that is pretty difficult to answer; whether we like it or not, it is there. I can't volunteer the fact that I would like to see a price structure destroyed. No; of course I don't.

Mr. O'CONNELL. That is what I thought. The reason why I am inquiring, frankly, is that before the committee, in this hearing, we have been offered this situation of price concessions, reductions from the posted price, as evidence of the fact that a competitive situation exists in the industry, and I am wondering whether you take comfort in that situation or whether you expect us to take comfort in that situation. It seems to me it is given to us as a desirable thing from our standpoint. I want to know whether you think it is desirable.

Mr. GRACE. I think it is wholesome; yes, I think it is wholesome. But I think this, Mr. O'Connell. Let's say just what takes place in our industry when we have been talking about this reestablishment of new base prices. Competition in the price movement made it necessary to establish those newer low base prices. Now that could go to extremes. It can be wholesome, it can be unwholesome, but whether we like it or whether we don't, I believe the precepts of this country, and its economic structure and its industrial development, have fundamentally been based upon the competitive system.

Mr. O'CONNELL. Well, let me ask this. Wouldn't it be fair to say that the price concession situation, or competitive forces compelling, or which result in, deviations from the posted price are in and of themselves inconsistent with the ideal of the posted price system?

Mr. GRACE. That might be true; that might be true, yes.

Mr. O'CONNELL. From my standpoint, I am a little bit on the horns of a dilemma. I am given a situation, told that competitive forces require deviations or in certain situations result in reductions in the price level in the steel industry, and it is given to me as something I should take comfort in; but I can't help but think that from the point of view of your industry that situation is one which is evidence of breaking down, partially breaking down, of the very price structure which you and the industry think is a good price structure and something to be maintained.

Mr. GRACE. The reason it is so hard to answer specifically, it seems to me this would help us: We have, in effect, published a set of prices. We endeavor to obtain those prices. As we have seen it through this period we have been discussing, that price structure failed. Eventually we drift to another set of prices. Now we have in front of us another published set of prices.

I claim the factor of competition has played a great part in establishing that new set of prices, and for any set of prices which is put out reasonable and fair for any industry it can't be devoid of the competition which has taken place in creating same.

Mr. O'CONNELL. My difficulty is that I am expected to take some comfort out of the forces of competition which result in the change in the price structure on the one hand, and I am to be expected to be comforted by the fact that you are trying to maintain the price structure on the other.

Mr. GRACE. And we poor fellows are suffering.

Mr. O'CONNELL. Isn't it somewhat of an anomalous situation?

Mr. GRACE. It would seem so, stated that way.

Acting Chairman KING. Is it possible to project from current conditions into the future for 1 year, even, a price structure, a datum line, which even under the law of competition would maintain the same regularity?

Mr. GRACE. Certainly not. We couldn't in our industry.

Acting Chairman KING. For instance, you project a line today upon the theory that there will be no shipbuilding. A situation may arise within a limited time which calls for an enormous demand for steel in the construction of ships.

Mr. GRACE. Correct.

Acting Chairman KING. The line which you have projected would have to be deviated from. Or upon the other hand, there is a boom in building. I am invited out today, this afternoon, to see what new buildings must be constructed in the District of Columbia, and whether or not a considerable amount of steel is to be required in the construction of those buildings. Probably when the line was projected for this coming year no provision was made for a very large augmentation of iron production or steel production for buildings.

Mr. GRACE. Entirely sound, Mr. Chairman. That observation is fair and proper, in my judgment.

Acting Chairman KING. And is it not true that frequently during a year, so-called extras—when the line was projected it was contemplated there would be a large demand for certain kinds of extras, using a term which has heretofore been used, and the trade and development, technological or otherwise, ruled those so-called extras out of the——

Mr. GRACE (interposing). Out of date. They can well be out of date.

Acting Chairman KING. So there would be a tremendous drop, then, in the demand, and necessarily you would have to deviate from your datum line in order to sell the output, have to revise your rates entirely.

Mr. GRACE. I know of no better example than what took place in our industry from the railroad situation. The railroads for many years were the biggest customers of the steel industry. In the immediate past they have been very poor customers of the steel industry, for reasons that we all know. There starts a pick-up in business in the industry. It isn't long before the railroads, using your own example, come in to us with an unexpected demand for new equipment, repairs and maintenance of old equipment, and they throw into our industry a demand which we hadn't had for years, and that is a fair sample of just what you are saying.

Acting Chairman KING. While it is desirable that there should be a datum line, if I may use that expression again, and have no deviations from it, in a dynamic industrial situation, or in an economy such as we have in this capitalistic system, there are bound to be, are there not, changes from day to day or from month to month or certainly from year to year in any plans which you project for the future to deal with your economic condition which calls for the production of steel and other commodities.

Mr. GRACE. There always has been.

Acting Chairman KING. If we were a static nation, we might be standardized. If we had a Hitler to tell us what to do, what to think, and how to act and what to produce, you might have a datum line from which you would not need to deviate.

Mr. GRACE. But we certainly don't want him.

Acting Chairman KING. But where you have intuition and where you have initiative, new industries are being developed, departures from new industries are daily perceived. there are bound to be changes in your datum line.

Mr. GRACE. Mr. Chairman, that is a very able presentation of the situation, in the broad sense of industry, not only of our line.

Acting Chairman KING. I am speaking of the broad sense, particularly the manufacturing industry.

Mr. GRACE. That is very well expressed.

Acting Chairman KING. Any other questions, Mr. Feller?

Mr. FELLER. Yes; I have quite a number of other questions. I suggest this would be a good time for a recess. It is 12:25.

Acting Chairman KING. We will take a recess until 2:30.

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

AFTERNOON SESSION

The hearing was resumed at 2:35 p. m., upon the expiration of the recess, Representative Williams presiding.

Acting Chairman WILLIAMS. The committee will be in order, please.

Mr. FELLER. Mr. Chairman, earlier this morning reference was made to various basing point differentials, and I should like to touch very briefly, before going on to another topic, on one or two of the matters relating to the change in pricing which took place after June 24, 1938.

You will recall that on June 24, 1938, the United States Steel Corporation announced both a reduction in the base price and the elimination of these various basing point differentials.

Mr. Grace, following the announcement of the Corporation on June 24, 1938, Bethlehem Steel also issued a price announcement in which its base prices were brought down to the level of the previous announcement of the Corporation. That is correct?

Mr. GRACE. Yes.

Mr. FELLER. In addition to that, did you not on your own initiative make certain other price changes?

Mr. GRACE. We made some other price changes in the form of eliminating certain differentials which we had against our basing point prices, and in addition the creation of some additional basing points.

Mr. FELLER. And one of the more important ones was the creation of a basing point on certain products at Sparrows Point?

Mr. GRACE. There were four products giving new basing points on our part at Sparrows Point and three at Lackawanna.

ESTABLISHMENT OF NEW BASING POINTS BY BETHLEHEM

Mr. FELLER. Mr. Grace, can you tell us why Bethlehem decided to establish these new basing points?

Mr. GRACE. As a part of our simplification and method of pricing we decided that it was right, better, and proper for us to have basing points, those additional basing points, as I have enumerated them, at the Lackawanna plant, a basing point on hot rolled sheets, cold rolled sheets, and galvanized sheets; and at Sparrows Point on hot rolled sheets, galvanized sheets, concrete bars, and semifinished.

Mr. FELLER. Why did you not establish those basing points earlier?

Mr. GRACE. The development of the sheet production, to treat it in a general way, at the Lackawanna and the Sparrows Point plants had only just recently been completed and a substantial production based upon the development in the building of those new mills was part of our construction program that we were going through at that time—developing the sheet production at Lackawanna under the continuous rolling process. Lackawanna had not been any important producer of sheets up to that time, and the same condition obtained for Sparrows Point.

Mr. FELLER. Up till that time had Sparrows Point become significant in sheet production?

Mr. GRACE. It had been growingly so, but not by the continuous roll process, by the old hot hand mill process, and when we constructed the increased capacity obtained through the continuous roll product, then it became an important tonnage product with us at that plant.

Mr. FELLER. Was it an important producer of sheets by the continuous process in the latter part of 1937?

Mr. GRACE. I couldn't tell you offhand just when that plant went in operation at Sparrows Point. Could you give me that, Mr. Shick?[1]

[1] Mr. F. A. Shick, comptroller, Bethlehem Steel Corp.

When did the continuous mill go into operation? My memory is that it went into operation in the latter part of that year.

Mr. FELLER. The latter part of 1937?

Mr. GRACE. I should think so—certainly during the year, and I think the latter part of it.

Mr. FELLER. Is there any particular reason why you didn't establish Sparrows Point as a basing point on these products at the time your plant went in operation then?

Mr. GRACE. Shortly after we did. The first month a plant starts in operation it isn't in real productive operation. When we made our first price announcement, our first general price list, after that mill had been in operation, then we made Sparrows Point a basing point.

Mr. FELLER. Do you remember the date on which you announced the Sparrows Point differential, the Sparrows Point basing point?

Mr. GRACE. June 27, '38.

Mr. FELLER. Four days after the announcement of price reduction.

Mr. GRACE. As part of our general new price schedule; right.

Mr. FELLER.. Was there any connection between the announcement by the Steel Corporation of this new price schedule and your announcement of Sparrows Point as a basing point?

Mr. GRACE. No; it was a convenient time to deal with it, that was all; it was just a convenient time to deal with it.

The basing point is only a method of quoting price. It doesn't in any way control the price itself or the making of the price. It is only a convenient method of quoting prices. It of necessity would have no definite connection with what the Steel Corporation did. We are talking now of the new basing point.

Mr. FELLER. Let me see if the committee can understand what the effect of that was. Perhaps a few questions will bring that out. Prior to June 27, 1938, when you sold sheets in Baltimore what price did the purchaser pay?

Mr. GRACE. The method of quoting prices?

Mr. FELLER. What price did you quote?

Mr. GRACE. The quoting method was on the Pittsburgh base; I think I am right.

Mr. FELLER. Yes; was on the Pittsburgh base.

Mr. GRACE. That is right.

Mr. FELLER. And after June 27, 1938, the purchaser at Baltimore was quoted by you on the Sparrows Point base.

Mr. GRACE. That would be the normal operation of that basing point system. Consumer at Baltimore, you asked me.

Mr. FELLER. Yes.

Mr. GRACE. That is right.

Mr. FELLER. And similarly before June 27, 1938, it was the custom of all sellers of sheets to quote in Baltimore the Pittsburgh price.

Mr. GRACE. I should think so.

Mr. FELLER. Now; assuming that the quoted price was adhered to prior to June 27, 1938, the purchaser of sheets at Baltimore would have paid the price at Pittsburgh plus the freight from Pittsburgh.

Mr. GRACE. Right.

Mr. FELLER. Could you tell us, then, what the amount of saving was to the consumer at Baltimore in consequence of the establishment of a Sparrows Point differential?

Mr. GRACE. I can tell you the effect of establishing a Sparrows Point basing price. I can't give you the exact figures. If in establishing Sparrows Point as a base for sheets, we priced at that basing point sheets at the same price as they were being quoted on the Pittsburgh base, then the natural saving would be to the Baltimore consumer the difference in cost of transporting the plate from our Sparrows Point plant to Baltimore, and the cost of transporting that same plate from Pittsburgh to Baltimore, starting with base prices being the same.

Mr. FELLER. Now; prior to the change, prior to the institution of this basing point at Sparrows Point, if you sold to a customer at Baltimore and he paid you the quoted price, which was the Pittsburgh price plus the freight, your company would have received as part of its profit margin an amount equivalent to the charge, the freight charge from Pittsburgh to Baltimore.

Mr. GRACE. Starting with the same price, I have said, we would have net more for our sheets in Baltimore, net price to that extent than the Pittsburgh producer would have netted.

Mr. FELLER. Yes. Now; subsequent to the change, the Pittsburgh producer selling to a consumer at Baltimore would have to absorb the amount of the freight between Pittsburgh and Baltimore.

Mr. GRACE. I wouldn't state it that way. I would have stated that I think it is the practice for a Pittsburgh producer to quote a delivered price on sheets at Baltimore; whether he absorbs it out of his freight or his cost of producing sheets, or what not, we are talking about a delivered price of the commodity at Baltimore.

Mr. FELLER. Do you recall offhand what the price of sheets is today at Sparrows Point?

Mr. GRACE. Sheets at Sparrows Point today—I can give you that; yes. I think I can.

Mr. FELLER. It is about $2 a hundred?

Mr. GRACE. That is right. It is the same price that is published at Pittsburgh base.

Mr. FELLER. When you sell sheets in Baltimore, you receive $2, from which you pay the cost of operation plus the cost of transporting that hundred pounds of sheet from Sparrows Point to Baltimore.

Mr. GRACE. We quote a delivered price, and our price would be our Sparrows Point base of $2 plus the cost of transportation. Our price would be just that.

Mr. FELLER. Just that. The cost of transportation is how much?

Mr. GRACE. I don't know.

Mr. FELLER. It is a very small amount.

Mr. GRACE. It is very small as compared to Pittsburgh.

Mr. FELLER. Sparrows Point is——

Mr. GRACE (interposing). Twelve miles, just on the Chesapeake Bay, as I said this morning.

Mr. FELLER. And the Pittsburgh producer, assuming that the quoted price was adhered to, would sell his 100 pounds of sheets in Baltimore for $2 also.

Mr. GRACE. If he wanted to compete with us.

Mr. FELLER. That is right.

Mr. GRACE. If he wanted to compete with us—I am not sure whether that would be a good example where we lowered the price of the product of the Steel Corporation. If he wanted to compete with us, unless he is a better salesman than we are, if he had to get his business competing with us on price, he would have to quote that price, he would have to quote our price.

Mr. FELLER. He would have to quote your price?

Mr. GRACE. Or less.

Mr. FELLER. His cost then would be not only the cost of operation but the cost of transporting that steel from Pittsburgh to Sparrows Point.

Mr. GRACE. Where he takes it off. It doesn't make any difference to me. It would be the cost to him of delivering his sheet at Baltimore. Transportation is one element of cost, production is an element of cost, taxes are an element of cost, so I don't know whether he weighs particularly what it is but I take it he would view the market the same as we would view it. That is, the price of sheets delivered in Baltimore.

Mr. FELLER. Unless his costs were very much lower than yours, he would have to absorb some freight.

Mr. GRACE. He would have to reduce his price to meet ours if he wanted the business.

Mr. FELLER. He couldn't possible sell any higher.

Mr. GRACE. No matter where he is taking it or how he is doing it.

Mr. FELLER. When you established the Sparrows Point basing point on sheets were you not on your own initiative reducing the price to the consumer at Baltimore?

Mr. GRACE. In effect that is exactly what took place.

Mr. FELLER. There we have an instance, then, where you did take the initiative in reducing the price.

Mr. GRACE. I was dumb in not referring to it this morning.

Mr. FELLER. I take it that the reason why you took the initiative in that one specific case was because you had established your mills and they were getting into production at that time.

Mr. GRACE. We had become an important producer of sheets at that plant.

Mr. FELLER. Were you an important producer of those sheets at that plant prior to 1926 when the continuous rolling mills had not yet been installed?

Mr. GRACE. We had a moderate hand-mill production of sheets. It wasn't important in the total picture of sheet production.

Mr. FELLER. Were there any products on which you were an important producer at Sparrows Point prior to 1926?

Mr. GRACE. Yes, sir; plates. Take plates as an example.

Mr. FELLOWS. Was Sparrows Point a basing point for plates?

Mr. GRACE. Sparrows Point was a basing point with a differential of $3 up from Pittsburgh.

Mr. FELLER. With a differential?

Mr. GRACE. Yes. The basing point had a price of $3 over Pittsburgh.

Mr. FELLER. Could you give us a reason why they wanted that differential?

Mr. GRACE. Yes.

Mr. FELLER. What was the reason?

Mr. GRACE. When we established a basing point there we were developing the production of plates, and it wasn't necessary, competitively, with the plate capacity that we had there for the obtaining of markets against that production at a fair profit, to go to the full extreme of putting that price, in our judgment, as low as the Pittsburgh base price. That was all.

Mr. FELLER. When did you eliminate that differential?

Mr. GRACE. In those prices in June '38.

Mr. FELLER. For how many years had the Sparrows Point plant been an important producer?

Mr. GRACE. I couldn't say, but Sparrows Point was a recently modern development. It was gradually developed. Just when we had that present capacity at Sparrows Point I couldn't tell you.

Mr. FELLER. Was your Lackawanna plant or Buffalo, which is adjacent to it, basing point on any of the products produced at the Lackawanna plant prior to June 1936?

Mr. GRACE. Yes; structural shapes, bars, and sheet piling.

Mr. FELLER. Were you a substantial producer at Lackawanna of any other products?

Mr. GRACE. Rails, and the new capacity that had just gone into operation on sheets.

Mr. FELLER. The new sheet mills in both Lackawanna and Sparrows Point went in operation about the same time?

Mr. GRACE. No; Lackawanna went in sometime ahead of Sparrows Point.

Mr. FELLER. Do you remember just when that was?

Mr. GRACE. No; I wouldn't remember.

Mr. FELLER. If the basis for establishing a new basing point is the fact that it would go into substantial operation on a product, I wonder if you could tell us why Lackawanna wasn't made a basing point earlier.

Mr. GRACE. Lackawanna must establish itself in the sheet market, and it isn't a long period after we get into substantial production of sheets that we deem it advisable to reach the point where we thought we would have a basing point at Lackawanna. When you bear in mind, it doesn't make any difference whether you have a basing point or not, you can always keep in mind the thought that basing point is only a method of making price.

Mr. FELLER. Yes; but it makes a substantial difference, does it not, to the customer? It made a substantial difference to your customer in Baltimore.

Mr. GRACE. Yes; certainly.

Mr. FELLER. And it may make a substantial difference to you?

Mr. GRACE. It may make a substantial difference to us? Yes, if we didn't consider it had been good judgment to create that price situation, that basing point condition, and make the price on that basing point the same as at Pittsburgh, let's say, or at Chicago, let's say, we had reached a point in the conducting of our business that we deemed it desirable, competitive wise, to establish the same price on our basing points for those commodities at Lackawanna, let us say, as it was in Chicago, as it was in Pittsburgh.

Mr. FELLER. Then, am I correct in saying that your policy on the establishment of new basing points is this, that shortly after you get into substantial production at any particular plant with respect to any product, you establish a basing point.

Mr. GRACE. Not necessarily. It depends upon conditions of the business.

Mr. FELLER. What I am trying to get at is just exactly what are the considerations which lead you to establish a new basing point. Sparrows Point was an example in June 1938, and Lackawanna was an example in June 1938, and I understood you, up to this point, to say that the reason for the establishment was that it was not very long after substantial sheet production began.

Mr. GRACE. That was certainly one of the important reasons.

Mr. FELLER. Will you tell us what the other reasons were?

Mr. GRACE. To extend our competitive ability.

Mr. FELLER. Extending your competitive ability is something that I should presume every businessman would want to do at all times.

Mr. GRACE. That has the effect.

Mr. FELLER. Then wouldn't that lead to using every one of your plants as a basing point on every one of your products at all times?

Mr. GRACE. Not necessarily, because you might not want your ability extended to that extent.

Mr. FELLER. Why not? As a businessman——

Mr. GRACE (interposing). The business might not be attractive.

Mr. FELLER. That I don't quite understand.

Mr. GRACE. It might not be attractive from a profitable standpoint, that is all. Again, whether you have your basing points or whether you don't, it is only a method of quoting prices.

Mr. FELLER. Let us go back to this question of Sparrows Point and its relation to Baltimore. Is there any reason why, prior to 1938, you should have found the sale of sheets in Baltimore unattractive from a business standpoint?

Mr. GRACE. Prior to that time, prior to 1938?

Mr. FELLER. Yes.

Mr. GRACE. Is there any reason why we should find the sale of sheets unattractive?

Mr. FELLER. Right at your back door? You would certainly want to accept all the business you could for the sale of sheets in Baltimore.

Mr. GRACE. The price was such that it was satisfactory to us, and if it were to be satisfactory any place you would think it would be nearer our plant in Baltimore, certainly.

Mr. FELLER. What I am trying to find out is, what other considerations were there besides the fact that you had gotten into substantial production, which led you to establish the basing point at Sparrows Point on sheets? What were these other considerations?

Mr. GRACE. I said, to meet competitive conditions, take more of the business, possibly.

Mr. FELLER. But you are always presented with that possibility.

Mr. GRACE. Maybe we didn't have the capacity, so that it was difficult to sell against the consumption. Maybe as our capacity was increased we would have more sales effort, wouldn't we? I am sorry to use the word "maybe"—that is exactly what takes place.

Mr. FELLER. I take it if you had established a basing point at Sparrows Point some years earlier you would have been in an exceptionally favorable position with respect to quoting of prices in Baltimore as compared to Pittsburgh producers, would you not?

Mr. GRACE. I should expect, as has taken place since we established that basing point, that the competitive producers would still seek business and obtain business in Baltimore. They do.

Mr. FELLER. Yes; but would you not have been in a much better position to get that business because of your distance advantage?

Mr. GRACE. Provided we didn't have a big enough market to absorb that production, because it was only a small, not important production against the consumption. We naturally wouldn't be a particular factor in that product until our production increased, and as it increased the problem of its distribution and sales became greater.

Mr. FELLER. And therefore you establish a basing point which has the effect of lowering the price?

Mr. GRACE. Has the effect of lowering the price; let's say, if you want to put it the other way, making the business in that territory to that extent less attractive to our competitor who has to deliver his materials there.

Mr. FELLER. Yes; but the attraction of the business for you is just the same whether you are operating a small mill or a large mill.

Mr. GRACE. No, it isn't; not if you can sell your capacity against a higher yield price. It is much easier to sell 10,000 tons of a commodity a month than it is 100,000 tons. It is all part of the problem of distribution against competition.

Mr. FELLER. Let me go back to a specific example. In the last part, in the last few months of 1937, the last quarter, your mills at Sparrows Point weren't running at anything near capacity; were they?

Mr. GRACE. In the latter part of '37? Let's just assume that they were. I don't know what it is.

Mr. FELLER. They were probably well below capacity; wouldn't you say that, Mr. Mackall?

Mr. GRACE. Let's assume they were somewhat below capacity, anyway.

Mr. FELLER. At that time, by establishing Sparrows Point as a basing point, you would have been in a position, would you not, to get a good deal more business out of the territory near your Sparrows Point mill, the eastern seaboard?

Mr. GRACE. The lower we made the price adjacent to our point of production, I would assume that we would capture, let's say, or obtain, more of that business—the lower we would make that price, making the price less attractive to our competitors, the more pressure or more desire there would be on our part to take our business close to home.

Mr. FELLER. Well, now, you have told us that one of the reasons for establishing the basing point is the desire to get more business.

Mr. GRACE. The necessity, in our process of distribution, of obtaining broader and bigger markets; yes.

Mr. FELLER. Couldn't you have obtained that when your operations were at a relatively low rate at Sparrows Point by establishing a Sparrows Point base earlier?

Mr. GRACE. Again I repeat that our production of sheets at that time was rather small, relatively, to what it was after we put in our continuous process.

Mr. FELLER. Yes; but the mills that were operating there were not running at capacity, were they?

Mr. GRACE. I couldn't say, without looking. We have had a pretty good operating performance at our Sparrows Point plant.

Mr. FELLER. I would like to go on now to another topic. I don't know whether the Committee has any questions on this.

Mr. O'CONNELL. I should like to ask one. I am not entirely clear, Mr. Grace, just exactly what you mean when you say the basing point is merely a method of quoting prices.

Mr. GRACE. That is right. It is simply a method of quoting prices.

Mr. O'CONNELL. The basing-point price is an integral part of the price under the basing-point system?

Mr. GRACE. It is the price, it establishes the method by which you make your price. I am afraid that isn't well selected. You have to tell your trade what your prices will be. Now, you can tell them it will be so much at this point or so much at that point, or so much at another point. It is just a medium used for quoting prices, that is all.

Mr. O'CONNELL. To the extent that the system as a system operates, I would have understood that the basing-point price at Sparrows Point, let us say, of a given piece of steel, is an integral part of the price of the steel.

Mr. GRACE. It is the way of telling what the price of steel is.

Mr. O'CONNELL. It is part of the price too, is it not?

Mr. GRACE. No; the basing point—I don't want to get too technical with you, and I am sure you know I don't want to. A basing point as such is not a cost. It has nothing to do with the production of steel.

Mr. O'CONNELL. The price of steel doesn't necessarily have anything to do with the cost of steel, either, does it?

Mr. GRACE. No; but it is not a cost. Let me see if I can get it clear that way. It is only a method of expressing what price we charge for our steel. You can charge it all on one basing point if you want, you can have any number of basing points, as you know.

Mr. O'CONNELL. One time you only had one.

Mr. GRACE. In the old days it was all Pittsburgh base. As the industry grew up country-wide, important productions grew in different locations and they became important and other basing points came, all as a method and a convenience for quoting prices. That is all.

Mr. O'CONNELL. That is all, but maybe we mean the same thing.

Mr. GRACE. I believe we do.

Mr. O'CONNELL. And it is merely a matter of emphasis. I take it that the basing-point system is the essence of the pricing system in the industry.

Mr. GRACE. It is the system, I think that is a good word. It is a system used for the quoting of prices, right.

Mr. O'CONNELL. And being specific, the base price at Sparrows Point for any given product is an integral part, one part of the quoted price, the selling price, of steel in Baltimore and in the area adjacent to the basing point.

Mr. GRACE. It is certainly the way of telling a customer—if we say that product is $2 f. o. b. Sparrows Point, then that basing point becomes significant to him, and tells him exactly what price he has to pay for his steel, doesn't it?

Mr. O'CONNELL. Sure; to the extent that it works the basing point in any given area is very significant to every purchaser.

Mr. GRACE. That is right, very.

Mr. O'CONNELL. And to the extent the system works the basing price is an integral part of the final price, the price being made up as I understand it by the basing price, extras, and so on.

Mr. GRACE. And if we would quote that way, a customer would know exactly what his goods at his plant would cost him.

Mr. O'CONNELL. And you do quote that way to the extent that it is possible to do so and get buiness.

Mr. GRACE. I think our method of quoting is usually the delivered price, but he knows what makes up the delivered price, that is right.

Mr. O'CONNELL. Base price plus extras plus freight, all of which if the system works are known not only to you but to your customers, to your competitors and everyone else.

Mr. GRACE. Everybody; that is right. That is a good development of it; exactly so. It isn't any mystery.

Mr. O'CONNELL. No; I don't think it is any mystery, either.

Mr. GRACE. But it has been confusing in its everyday use in many instances.

Mr. HENDERSON. That confusion extends, does it not, Mr. Grace, to the trade journals as well as to the general public? For example, on this question of whether or not the July changes meant dealer reduction in price or, as you suggested this morning and the witnesses for the Corporation suggested yesterday, to bring it more in line with reality, I would like to quote from *Steel* of July 4, 1938 [reading]:

> In the important Detroit district price action was less drastic but nevertheless important. Hot rolled bars formerly sold at an arbitrary Detroit delivered price of $3.00 over Pittsburgh base and flat rolled steel commanded a $4.00 differential. These were reduced to $2.00 a ton for both products, giving the automotive industry a total saving of $5.00 a ton on practically the greater majority of steel it buys.

Skipping a paragraph or so:

> The fact that the widespread reduction in iron and steel prices may serve to stimulate activity in the metal working industry to a certain extent has been overshadowed by speculation among producers and consumers as to what effect the new price relationship between various mill districts will have upon competition and customers.

I suppose that confusion arises somewhat, does it not, Mr. Grace, from the fact that the trade journals do not have the information on realization?

Mr. GRACE. Yes; and plus this fact, I should think, it wouldn't be confusion, it would only be a question of getting accustomed to what the creation of a new basing point would do to the delivered price at this fellow sitting over here. He would be like this—let's take as an example, the producer at Pittsburgh has been accustomed to buy his bars over here at X town, based on a Pittsburgh base. That is the cheapest source of supply he has. On June 22, Bethlehem Steel Co. at its Lackawanna plant reduced its base price of bars produced at Lackawanna by eliminating a differential and putting it on exactly the same base price as Pittsburgh. That fellow immediately has to say: "Well, I may have a cheaper cost of transportation from Lackawanna than I used to have from Pittsburgh. If so, there is my normal low-priced supply as compared with Pittsburgh." Therefore, you can see that when a number of these things took place, and at this particular time there were a number of new basing points made, a number of differential changes, and it took some time for the trade to get their bearings as to the effect it was going to have at all these many consuming points throughout the country.

Mr. HENDERSON. I know it took me a long time.

Mr. GRACE. And it took us a long time.

Mr. HENDERSON. But my point is that the trade journals do look upon any change upward or downward in the base price as a change in price. They are accustomed to that.

Mr. GRACE. Naturally.

Mr. HENDERSON. Because perhaps as I indicated, they have no knowledge of the realization.

Mr. GRACE. No; they wouldn't.

Mr. HENDERSON. They don't know what the actual sales realization is.

Mr. GRACE That is the point. They would definitely know what a bill of goods made at our Lackawanna plant and sold on a 2-cent base would net us if delivered at a certain point. They don't know the volume of the business, they can't equate it; you are quite right.

Mr. HENDERSON. Isn't it true—and this is along the lines you have indicated as to what the base price is—that to the extent that any producing center goes outside its natural area and absorbs freight, it will have a realization which is less than the base price?

Mr. GRACE. Yes; if it is sold as against a consumer in its neighborhood location.

Mr. HENDERSON. That means, of course, that even if you have, as we had yesterday, I think it was, information as to the difference between the base price and the realization to the Corporation, there are probably two things in that. One of them is the extent of their freight absorption, and the other is the extent to which they made concessions to customers.

Mr. GRACE. I said I didn't know on what basis, if you recall, that chart was made, whether it reflected both of those instances or not. Now, of course, a realization of a price against your published price is not affected, because you have to take less than your basing point price. You still get your full price. You still get your full published price. Do you see?

Mr. HENDERSON. No.

Mr. GRACE. Yes; sure you do. We publish a price——

Mr. HENDERSON (interposing). Maybe I missed something in there.

Mr. GRACE. Now I can give you an example, I think, which will clear that up.

Mr. HENDERSON. I probably missed something in your statement, Mr. Grace.

Mr. GRACE. Yes; because I know you would get it. The published price of bars at Pittsburgh, as an example, say, is $2, or 2 cents a pound. The published price of bars at Lackawanna, Buffalo, is 2 cents a pound. If I sell a customer in Pittsburgh bars at 2 cents a pound and it costs me X cents a pound to get it there, my net is below the base price but I am still getting the official published price on bar.

Mr. HENDERSON. That is right.

Mr. GRACE. You would know that as well as I would.

Mr. HENDERSON. If, however, in order to get that Pittsburgh order, you have to go below the base price, make a concession, you wouldn't get your base price.

Mr. GRACE. Then that is the extent that you are not realizing the published prices; that is right.

EXTRAS

Mr. FELLER. Mr. Grace, you are familiar, I take it, with the testimony which was given day before yesterday with respect to the matter of extras.[1] May I ask you first whether it is a fact that the extras published in the extra book of Bethlehem Steel Co. are the same, are identical with the extras published in the extra book of Carnegie-Illinois Steel Corporation?

Mr. GRACE. I would expect they would be the same.

Mr. FELLER. And do you agree with Mr. Fairless' statement that the extras are based upon cost?

Mr. GRACE. On cost studies of performing those extra operations. We have no system developed in its detail in our cost accounting that could definitely tell us that this is what it costs this month to do that particular job, and what it costs next month to do the same job. They have to be based on what we call cost studies, and I think that is what Mr. Fairless means.

Mr. FELLER. Whose costs do they use?

Mr. GRACE. In our case, it is appraising what we would call an extra effort. In appraisal, we have to appraise it ourselves. We have to study it, our operating men, primarily, to see if a man wants, instead of the standard product of steel, something a little different from that standard—we have to stop and see and estimate what it would cost us to make it in the form that he would want it rather than our standard.

Mr. FELLER. Now are these costs of performing the extra operations as expressed by the extra list your own cost of performance or your own cost estimate of the cost of performing those operations by the Bethlehem Steel?

Mr. GRACE. They would be; yes; comparable to our own because we take them into consideration. When they are put out by us, we haven't done it just blindly; we have endeavored to see that that extra cost to do that extra job is reflected and specified as an extra.

Mr. FELLER. What I am trying to get at is the question as to whose cost experience is reflected here. Is it the cost experience of your company, of the United States Steel Corporation subsidiaries, or is it some other cost experience?

Mr. GRACE. I would say it is a cost which has been from time to time appraised generally in the industry.

Mr. FELLER. Mr. Fairless' term was a cross-section of the costs of the industry.

Mr. GRACE. I would say that is appraised in the industry. His language is possibly better than mine. But I think we mean the same thing.

Mr. FELLER. You mean the same thing.

Mr. GRACE. Yes; I think so.

Mr. FELLER. And you support the testimony of Mr. Adams with respect to the manner in which that cross-section of cost is arrived at.

Mr. GRACE. I don't know just how Mr. Adams went at his job, but as I heard Mr. Adams reciting it, I should think that that is about what took place there; yes.

[1] Supra, pp. 10459 et seq. and 10557 et seq.

Mr. FELLER. Could you tell us who were the officials of your corporation who take part in these discussions on which the cross-section of cost is arrived at?

Mr. GRACE. Oh, there would be different people, depending on the project that you were appraising.

Mr. FELLER. Have you ever taken part in those, Mr. Mackall?

Mr. MACKALL. No. They would be specialty men on the product involved and I wouldn't be involved.

Mr. GRACE. Mr. Adams was dealing with sheet, and therefore our sheet people would be interested in that.

Mr. FELLER. Mr. Grace, you told us a moment ago that you were interested in seeing before these extras were put out whether they conformed to your own cost experience, is that correct?

Mr. GRACE. That is right.

Mr. FELLER. You make some appraisal of your own costs. Now I presume that before these extra lists are issued to the trade, there is some review by responsible officials of the corporation, and recommendations to the special products group.

Mr. GRACE. Our people, the people who pass the product, people working on any specific project, any specific extra for a project they would be interested in, would certainly report back home to our organization.

Mr. FELLER. To you or Mr. Mackall?

Mr. GRACE. They wouldn't report to me.

Mr. FELLER. Do you recall whether they reported back to you specifically with respect to the extra changes in May of 1938?

Mr. GRACE. No; I know they didn't.

Mr. FELLER. Did they report to you, Mr. Mackall?

Mr. MACKALL. They discussed the matter with me; yes.

Mr. FELLER. Now, Mr. Mackall, when they came to you with their recommendations or their report, the extras which they recommended included, did they not, both the specifications themselves and the amounts the extras were to be charged?

Mr. MACKALL. Yes; their discussion with me just was the general principle of simplification, and the policy as to whether it was good business to do that. I didn't go into the details of that, I didn't know anything about it, whether this was a justified extra or not because it was more or less the effect the whole situation would have on properly pricing the same commodity in the same way. As I got that particular situation, you could take the same piece of steel and using four or five methods as applied to sheet or plate, get four or five different prices. They explained what this was going to bring out and I said that is a good thing. Now the studies depended on the specialists who were doing that job.

Mr. FELLER. And these specialists were concerned, then, not only with the specifications themselves, but with the various charges which were to be made on the basis of that list of specifications?

Mr. MACKALL. I would say that was true. By charges I would mean the cost of each specification they were interested in.

Mr. FELLER. Cost to the customer.

Mr. MACKALL. And cost of manufacture, cost of making that change from a mill point of view.

Mr. GRACE. Cost plus or minus.

Mr. MACKALL. Cost plus or minus against the base price.

Mr. GRACE. Just as Mr. Fairless presented it.

Mr. FELLER. According to the figure which is expressed in the extras book, if I may just take an example on plain cutting extras, the extra book says, on hot rolled carbon steel plates: Thickness in inches, 1 inch or under 16 cents; 1½ inches 18 cents; 1¼ inches 20 cents, and they would then discuss and study both the question of how you arranged these various thickness and the exact number of cents of charge that would be set alongside of it. Is that correct?

Mr. MACKALL. They would study what the cost of that thing was and then those were published by someone else and we would study that to see if it was our costs.

Mr. GRACE. A reclassification of those.

Mr. LUBIN. May I ask Mr. Grace a question on that point? Mr. Grace, what happens when you find that these rates don't coincide with your costs they are either too much or too little?

Mr. GRACE. The tendency would be to have them changed, to have them corrected, to have that recognized after you have had experiences with them. If they didn't reflect the proper effort in cost to do that specific extra thing, if practice indicated that it wasn't right, either high or low, it would be eventually corrected and modified.

Mr. LUBIN. Have you ever modified your extra rates without at the same time having the extra rates of your competitors modified?

Mr. GRACE. I couldn't say that, I couldn't say that. We certainly have been a part many times in the adjustments, the studies for adjustments, of out of line rates for extra.

Mr. LUBIN. Do you ever find that your own opinion, the judgment of your own experts, doesn't coincide with those of your competitors?

Mr. GRACE. You would have a difference of opinion but when you think of the type of thing which is classified as an extra, it can't be much difference in the end as a cost to our mills or somebody else's mills.

Mr. REYNDERS. For the sake of the record, if I may state, I don't think that the cost of the extras, Mr. Lubin, show up in the course of a month's work. They are more or less continual with the general operation. For instance you may have a plate of a certain width, there are plates of different widths, and they all go into the same total cost. I think as a matter of necessity these costs of extras must be constructed costs rather than actual. I think for the sake of our record here we ought to understand that these costs don't appear in the cost sheets as a separate item but they are rather bunched up in the total operation for the month.

Mr. LUBIN. Which means in effect it is an arbitrary decision as to whether you add 5, 6, or 7, or 10 percent.

Mr. REYNDERS. It is a matter of generalizing.

Mr. GRACE. It isn't a process of attempting, to use a bad term, to sweeten the base price. It isn't for that purpose at all. It is definitely attempting to be appraised for the cost of doing that extra performance, that extra work against your base price. It may be minus, it may be plus.

Mr. HENDERSON. That would depend somewhat, Mr. Grace, on the volume of operations you had for that particular product, would it not?

Mr. GRACE. It would, and at many times a product is started as an extra and as it has been developed and gotten to a tonnage where it becomes important, where it can be definitely classified as a product on its own, then it takes a base price.

Mr. HENDERSON. One thing we missed. Dr. Lubin wasn't here. He will find in the record an excellent discussion of the making of extras and the changes, but it wasn't clear—and this is partly due to my neglect—as to what rate of operation was taken as the basis for the cost of an extra.

Mr. GRACE. It wouldn't be anything. You couldn't definitely classify on a rate of operation basis. You just couldn't.

Mr. REYNDERS. You are quite correct, Mr. Henderson, that it affects the cost of the extra very materially. The extra may be high in one month and may be too low the next. It depends upon rate of operation as well as the particular extra.

Mr. HENDERSON. I understand that, but what I didn't understand when we had Mr. Adams here—I am sorry I didn't ask him, I guess he is gone—was this, and I was wondering whether any of your staff could answer——

Mr. GRACE. No; we couldn't.

Mr. HENDERSON. As to what rate of operation is generally assumed when the extras which have certain constructed costs in them.

Mr. GRACE. I never heard of any, and I don't know whether Mr. Adams had any in mind in his particular study of the sheet situation.

Mr. REYNDERS. Wouldn't you necessarily take the average rate of operation to try to get a correct figure?

Mr. HENDERSON. I would gather, Mr. Reynders, from what work I have done with costs that that would be it. Maybe we can get some information later as to that.

Mr. GRACE. You take an extra like this, a plain rolled piece of material, the standard material, carrying a base price and ship it to the trade, cut it standard length, suppose they wanted that same material sheared into shorter and half a dozen lengths rather than the one length, it costs us more to perform those extra shearing operations.

Mr. HENDERSON. And if you only had a small run the actual cost to you would likely be higher than you would receive by the charging of the special extra.

Mr. GRACE. Maybe. It may be too high, it may be too low, depending on the volume of that particular extra job you have to do at that time.

Mr. HENDERSON. In this response you gave Dr. Lubin, let's see if I get it clearly. Although extras may be 10 percent of the total price quoted to a customer, the difference between what your cost is and what might have been the cost, say, of the Corporation in establishing that extra, would be so small that it wouldn't make an important difference in the actual quoted price.

Mr. GRACE. I couldn't see how there could be much difference.

Mr. HENDERSON. Was I correct in my statement?

Mr. GRACE. Yes; I think you are entirely correct.

Mr. HENDERSON. But the general level of extras, if there was at any time a general increase in the extra list, would make a difference, would it not? If you made an increase, say, of 10 percent in the extras that would make about a 1-percent difference in the——

Mr. GRACE (interposing). Yes; but it is never dealt with that way, it is always trying to appraise the cost of doing that extra thing above base.

Mr. FELLER. Just to complete this, Mr. Grace, the variations in cost of doing this extra service may depend not only on the rate of operation but also on the particular character of equipment used, isn't that true?

Mr. GRACE. Yes; but it is assumed that we would all have economic, efficient machinery if we were called upon to do the same thing. I don't think you can get anybody to admit they are not as efficient as we are, although in some instances I don't think they are.

Mr. FELLER. Isn't it a fact that some plants have more modern and efficient equipment for doing a particular operation than other plants?

Mr. GRACE. Oh, yes; yes.

TIN PLATE PRICES

Mr. FELLER. Mr. Grace, reverting again to some of the matters discussed yesterday, you may recall that the record shows that tin plate is sold on the basis of the officially announced price at Carnegie-Illinois, at least insofar as the sale is made on contracts. The record, I believe, showed one exception to that in connection with contracts of the Continental Can Corporation, but that is the only exception I happen to know of. As I understand it, your company has a contract with the American Can Co. under which it sells tin plate on the basis of the officially announced price of Carnegie-Illinois. Is that correct?

Mr. GRACE. Yes.

Mr. FELLER. Do you have such a contract with Continental Can Corporation?

Mr. GRACE. I think we do.

Mr. MACKALL. Yes.

Mr. FELLER. Mr. Grace, can you tell us why your corporation has adopted a policy of using the officially announced price of Carnegie-Illinois as the standard for the sale of its tin plate?

Mr. GRACE. That in our judgment sets the competitive price for us for tin plate. It is no more significant in that product, maybe, than any other because that is the competitive situation which we accept and must sell at no higher price than that price to get the business.

Mr. O'CONNELL. You speak of that as being a competitive price. I also understood from the testimony yesterday that the other major suppliers of tin plate had contracts based upon the same officially announced price of Carnegie-Illinois Steel. When you speak of the competitive price, are you thinking of a price which is arrived at by competition between a seller and a buyer? Certainly it doesn't sound to me like a price arrived at by competition between sellers.

Mr. GRACE. I mean that is a price we have to meet. We consider that to be the competitive situation there, when the American Can Co. and United States Steel Corporation have announced the official price for tin plate we immediately adopt that price and endeavor to sell our product against it.

Mr. O'CONNELL. But if I understand you correctly, the competitive situation which you accept is a situation brought about not by competition between sellers but by bargaining between one strong seller and a major buyer. Is that so?

Mr. GRACE. It was very evident from yesterday's testimony that that is the way the price of tin plate is made. Then that is our price which we must meet, isn't it?

Mr. O'CONNELL. It is what you do; don't ask me.

Mr. GRACE. I speak in the sense of our obtaining tin-plate business. I take that to be the price which we have to meet.

Mr. FELLER. Would you go lower?

Mr. GRACE. Yes.

Mr. FELLER. To get more tonnage?

Mr. GRACE. I don't know whether it gets more tonnage or not, but we go lower.

Mr. FELLER. One of the ways of getting more tonnage is to go low. Isn't that competition, to make a lower price than somebody else and get more business?

Mr. GRACE. Somebody else might make a lower price than we have and we would lose that business.

Mr. O'CONNELL. There is one school of thought at least that feels that when you are thinking about the competitive price and a price made by competition you are thinking of a price made by competition between those who are striving to sell that particular product, and it seems to me perfectly clear from your explanation of what you do in the tin-plate business you are talking about a different type of competition altogether.

Mr. GRACE. I think that is true.

Mr. O'CONNELL. If you want to call it competition, between a buyer and a seller as distinguished from competition between sellers for business.

Mr. GRACE. I think that is right. That price has been established as we heard it yesterday, and I say that looks as if that is the price that we have got to meet if we want to get tin-plate orders.

Mr. O'CONNELL. I was to some extent objecting to your use of it as a competitive price because the competitive price as you understand it in this situation is not a competitive price in my parlance.

Mr. GRACE. I see what you mean. It is a quite proper distinction.

Mr. HENDERSON. But getting now to the actual prices, getting away from the theory in the case, haven't you got business within the last few years by underquoting that published price?

Mr. GRACE. Do you mean in the tin plate?

Mr. HENDERSON. Yes.

Mr. GRACE. I should expect we have in tin plate and lesser products.

Mr. HENDERSON. I am referring now to this letter of Mr. Pfeltz to Dr. Baker.[1] I presume you read that. Did you read the letter in full?

Mr. GRACE. I heard extracts read from it.

Mr. HENDERSON. Did you read the letter in full?

Mr. GRACE. Yes; I have read the letter.

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[1] "Exhibit No. 1407," included in Hearings, Part 20, appendix, p. 10992.

Mr. HENDERSON. It seemed to indicate that you did walk out and get some business that way. Is that so?

Mr. GRACE. If you are talking in that letter—I would just like to know, Mr. Henderson, what phase of the letter you are talking of. I am not accepting what was stated in that letter as a rumor as being a fact, if that is what you mean.

Mr. HENDERSON. Getting away from the paragraph that was read, I find that all through Mr. Pfeltz's letter he feels quite sure that Inland and Bethlehem have been quoting lower prices, and he goes so far as to bring up the question of the validity of their contracts with you because of the Robinson-Patman Act, which would mean, of course, a very definite feeling on his part that you had discriminated against him.

Mr. GRACE. Based upon information given to him by Mr. Block, of the Inland Steel Co., he was meeting our competition. I don't know how Mr. Block had any authority for making any such statement. He may have had. I don't know what Mr. Block's price is in the sense that he speaks of, but I do know this: That for this particular customer that Mr. Block is talking about we have never sold a ton of tin plate to that customer for his Chicago operations, so we couldn't have been the competitor that Mr. Block thought existed.

Mr. FELLER. There may be some misapprehension. I think Mr. Henderson is referring also to other parts of the letter. If you will notice, one of the paragraphs of the letter reads as follows [reading from "Exhibit No. 1407"]:

> There is no doubt in my mind but that Crown and Continental are both buying from Bethelehem at prices lower than we are paying, and the same is undoubtedly true with respect to their purchases from Weirton.

Is that what you referred to?

Mr. HENDERSON. I was going to come to that next. I don't want to inquire into the names of the companies to whom you might have quoted lower than the official price, but I would be interested to know along the lines of the interchange with Mr. O'Connell on competition, whether or not in this period you did get any substantial volume of business by beating the official price.

Mr. GRACE. We have had tin-plate business, we have had tin-plate business at times, we have taken tin-plate business at times less than the official price, just the same as we have sold other steel products at less than the published price.

Mr. HENDERSON. You use the phraseology "taken business," and that has a special meaning to you. That doesn't preclude the idea that you went out and got business?

Mr. GRACE. No; I mean the same thing, we have booked business, we have sold tin-plate in competition, we have sold tin-plate in competition at prices less than the official price announced for tin-plate, the same as we have sold other products.

Mr. O'CONNELL. That is what I had in mind when I said competition.

Mr. HENDERSON. That is what I am getting at.

Mr. GRACE. The issuing of our official price now again, then that is competition in the sense that we both believe in it, isn't it?

Mr. O'CONNELL. Referring for just a minute to what we said this morning, you contrast the reality of the situation in a given period with the ideal from your standpoint or the standpoint of industry.

Mr. GRACE. Entirely right.

Mr. O'CONNELL. You wouldn't have price competition in my words if the ideal of the price structure in your industry were attained.

Mr. GRACE. That wouldn't constitute competition, as you picture it.

Mr. HENDERSON. And maybe Mr. O'Connell would accept this, that in the main the major activities, the mechanics of quoting, tend toward standardizations and stabilizations which very definitely run contrary to market competition.

Mr. O'CONNELL. I am not testifying, but certainly that is my view.

Mr. HENDERSON. That is my view also. I think Mr. Grace recognizes the distinction that we are making, that the mechanics, the means, the procedures, do lead away from market competition in the sense that it is generally known in competitive theory.

Mr. FELLER. Mr. Grace, while we are on the subject of that letter, I would like to recall to your mind again the statement which you just mentioned which I will read:

> The same situation which confronted them in 1937 again confronted them in 1938, and regardless as to the promise made by Mr. Grace at the time the conference was held by leading officials of all the steel companies, regarding the price for tin plate for 1938, Bethlehem again name a price below the official and as Inland was like the others badly in need of tonnage they found it necessary to meet the situation.

Mr. Grace, I think you were about to make some statement with respect to that.

Mr. GRACE. Are you asking me a question, is that true? Is that the question?

Mr. FELLER. That is the question.

Mr. GRACE. It is in no sense true.

Mr. FELLER. I should like to ask you, then, this: Under the system of contracts which we have discussed now, which was more fully brought out yesterday, what particular method have you for seeing that the price which you get for tin plate is a fair price from your standpoint?

Mr. GRACE. What particular method?

Mr. FELLER. Do you go to the American Can Co. and say, "We think the price is too low; we would like to have a higher price"?

Mr. GRACE. We can express our views to the American Can Co. or any other consumer of tin plate as to the fairness of the tin-plate price; of course we can.

Mr. FELLER. But you can't say, "This price is all out of line, and consequently we will have to charge you a higher price"?

Mr. GRACE. Not if there is somebody selling at a lower price. I shouldn't expect we would get any business.

Mr. FELLER. You, in your bargaining with American Can Co., can do nothing more than merely express your feelings about this matter, because you have no way at all under your contract of seeing to it that the price you get is one which was in line with your own operations and your own profit expectations.

Mr. GRACE. We certainly can't get any more; we certainly can't get any greater price from the American Can Co. than our competitors are selling the American Can Co. tin plate for.

Mr. FELLER. Would you be apt to say to the Carnegie-Illinois Steel Corporation, "Look here, you fellows set the price here under this contract system in the business. Why don't you ask for a higher price for it?"

Mr. GRACE. I would be very likely to say it if I didn't like the price they made.

Mr. FELLER. Would you be apt to say to them, "What price are you going to set this year?"

Mr. GRACE. I would be likely to say, "Why in the devil don't you get the right price for tin plate?" Don't put that in the record that way; I thought I was in a steel plant.

Mr. HENDERSON. I think it is quite proper that way. I think we appreciate it more.

Mr. GRACE. Thank you.

Mr. FELLER. Wouldn't you also be apt to say, "So far as my business is concerned, such and such a figure would be a price that would be right from my standpoint?"

Mr. GRACE. I would feel free to tell any of my tin-plate competitors at any time if I thought the price of tin plate was too low, and try to encourage them in some way or other to get a higher price for it; of course I would. I would be foolish if I didn't.

Mr. HENDERSON. Do you recall, in 1937 or '38, anything that looked like this conference that Mr. Pfeltz refers to so emphatically?

Mr. GRACE. I certainly do not, Mr. Henderson; no.

Mr. HENDERSON. Nothing that would be more than one or two people, you might say?

Mr. GRACE. Nothing more than just the kind of conversation we are talking about.

Mr. HENDERSON. He said something to the effect that perhaps it had to do with the Steel Institute meetings.

Mr. GRACE. Only as you might, as we always do, meet some of our associates at these meetings; but as a part of any procedure or business of the American Iron and Steel Institute, it couldn't in any way come up for discussion.

Mr. HENDERSON. Did you have any knowledge before this letter was put into the record that Mr. Pfeltz was under that kind of misapprehension?

Mr. GRACE. Well, Mr. Pfeltz, as I remember, testified finally that it was purely hearsay.

Mr. HENDERSON. Did he communicate his hearsay to you at any time at that period or since?

Mr. GRACE. Not that I can remember, he didn't.

Mr. HENDERSON. So you can't remember anything now that Mr. Pfeltz may have said to you which would have let you know that he felt you were getting together?

Mr. GRACE. No. Mr. Pfeltz has never, to my knowledge, accused me of sitting down with other steel people for the purpose of making a tin-plate price, nor did he ever specifically—you have got a specific instance here in which he quotes a conversation he had with Mr. Block, one of our chief competitors in this business—Mr. Pfeltz never suggested to me that he had had any such talk with Mr. Block.

Mr. HENDERSON. It is so definite—it cites the time and it cites a conference and it cites the fact that again Bethlehem made a price below the official, you see.

Mr. GRACE. I can't be connected with it in any manner, officially. I really don't know. Mr. Pfeltz has got to make his own explanations.

Mr. HENDERSON. He made an explanation yesterday,[1] and I think I indicated that it wasn't completely satisfactory to me. It would seem to me, as I indicated yesterday, that if it is only as far back as March 1938, and it had to do with such an important matter as the price for all my tonnage, I could have remembered something quite as specific as that.

Mr. GRACE. That is a matter you wouldn't expect me to comment on, of course.

Mr. HENDERSON. No. That was——

Mr. GRACE (interposing). Only to the extent I have indicated. I wasn't the person that he talked to. If he did, I would have remembered it.

Mr. HENDERSON. And you would probably have had something to say about it, also.

Mr. GRACE. Yes, sir; I should have; I promise you that, too.

Mr. FELLER. Mr. Grace, I should like to just inquire a bit further with respect to these contracts or conversations that you might have with respect to the tin-plate price. You have told us that after the tin-plate price is announced you might meet an official of the United States Steel Corporation and say, "Why didn't you name a higher price?" Now, before the tin-plate price is announced, at around the period when you expect that price announcement to come out, isn't that something that you are vitally interested in?

Mr. GRACE. Definitely interested in.

Mr. FELLER. Do you ever indicate to officials of the United States Steel Corporation what you think would be satisfactory to you from that standpoint?

Mr. GRACE. Never specifically discuss the situation only in the sense I am telling you now. If I was to meet Mr. Fairless and I thought Mr. Fairless was going to be in the relative capacity—not going to be, but he is in the relative capacity I am in our company—and we were approaching the tin-plate season, it would be a perfectly natural thing for me to say, "Well, Mr. Fairless, I would like to see tin plate raised somewhat for this next year's business," or "Conditions have changed in such a way that the present price would be entirely satisfactory." I wouldn't hesitate to talk about it at all with him. That is all there is to it. And the first time I would know about it would be when the United States Steel Corporation has announced a price of tin plate, and it hasn't been as I hoped it would be on many occasions.

Mr. O'CONNELL. The answer to this question may be very obvious, but I would like to get your reaction to it. You have been very careful and frank to say that you did nothing and you would have nothing to do with the sort of concerted action which was indicated by Mr. Pfeltz's letter. May I ask whether that is because, and solely because, you understand that concerted action by you and your competitors is illegal under the Sherman Act?

Mr. GRACE. I should say that I have a definite feeling, and believe that I could not sit down with my competitors and agree upon a price schedule for the steel industry, definitely agree on it, and see that it was kept in effect. I should say that that is going into realms of illegality against the Clayton Act or whatever it may be. I have at

[1] Mr. Pfeltz's testimony appears in Hearings, Part 20.

least been talked to and instructed, and my experience in business would be that that is not the thing to do.

Mr. O'CONNELL. Supposing that we had no Sherman Act or Clayton Act, would you think it an improper thing to do?

Mr. GRACE. Think it a proper thing to do? I hadn't thought along those lines. I am in no sense——

Mr. O'CONNELL (interposing). It would be a very natural thing to do.

Mr. GRACE. I am in no sense indicating that I think the Sherman or Clayton Acts have been good or not.

Mr. O'CONNELL. It may not be a fair question. I wanted to get your reaction.

Mr. HENDERSON. Let me ask you this: During the period of the N. R. A. your organization and Judge Moore,[1] whom I happen to know, worked very faithfully to try to make the code work during that period. Did you feel that if, under proper sanctions, you could discuss costs and all the things which supposedly go into the making of price, it would be a good thing?

Mr. GRACE. You are asking my opinion whether the N. R. A. method, let's say, of running a business, codified, and so forth, plus and minuses, and I should say "No."

Mr. HENDERSON. You should say "No."

Mr. GRACE. I would say "No."

Mr. HENDERSON. You feel, then——

Mr. GRACE (interposing). I believe it was wise—this is only personal with me—to abandon that thought for the control of business.

Mr. HENDERSON. The control features of it, you mean?

Mr. GRACE. Yes. I have always contemplated what could be done under it. I think probably the Steel Code was one of the well-prepared codes and well-administered codes, and I believe in our whole industrial and economic structure that we are better off without that kind of control and administration of business.

Mr. HENDERSON. You have a tendency to agree, then, with what Mr. Fairless said at the conclusion of the hearing yesterday, I gather.

Mr. GRACE. I didn't know that he talked along that line.

Mr. HENDERSON. I think he did.

Mr. GRACE. I may not have heard that.

Mr. HENDERSON. He said: "I cannot recommend following any untried theory in this important and complex business in attempting to accomplish this result." He had reference there to regularization of employment, and he said finally: "We have spent our business lives in the industry. I think we are fully qualified to deal with the problems of the United States Steel Corporation." Those were the things which the press picked out, I think.

Mr. GRACE. I didn't at the time recognize it as referring to the N. R. A. conditions. I didn't infer that Mr. Fairless was in any way against normal improvement of conducting of business, but as I look back, you are asking me for my personal opinion and I don't believe the N. R. A. scheme of affairs fit this country's general picture. We have done as a whole a pretty good job in this country in the development of its industries.

Mr. HENDERSON. I would take it, then, that you mean you wouldn't preclude the possibility of a normal amount of setting of

[1] Hoyt A. Moore, Counsel.

standards by governmental authorities because of the increasing complexity of business.

Mr. GRACE. Well, I always believe in government having a certain function to play in its, let's say, policing of business, that is probably not a good word, but if we would start on this subject I am sure you and I would keep at it for a while, but there is a part that government can and should play and has played in our whole industrial activities.

Mr. HENDERSON. Some of those things when they were suggested were untried theories. For example, the reduction in the workday and also Pittsburgh plus. If it hadn't been for some untried theories the reduction in hours and the increase in the number of basing points probably would not have taken place so fast.

Mr. GRACE. I don't visualize those sorts of processes and developments as coming about through government activities in it. If you go back to the days when I went into the steel industry we were working two shifts. I worked weeks about 12 hours in the daytime and 13 hours at night, taking an apprenticeship in the industry. I have seen you go from that point gradually to the processes of the 10-hour day, the processes of the 6-day week, then to the 8-hour day, the 40-hour week—all progress, that has developed substantially, yes wholly, within industry itself. The picture's development is a picture of progress. I am glad we are there. I don't want to see it go to the point where we are not going to use a constructive amount of effort, manually and mechanically, in industry in this country. If it does, then I think we are going to go down the other side.

Mr. HENDERSON. Your organization has had, over a period of time, if I remember correctly, some relation with the cartel system necessarily in your foreign business.

Mr. GRACE. Yes.

Mr. HENDERSON. And probably you, and I think Mr. Schwab before you, are fairly familiar with the general cartel provisions—allocation of production, agreement on price, and contracts to keep out of certain markets, and the like. I take it what you were saying previously would mean that you would not favor that kind of a system for this country.

Mr. GRACE. I know I wouldn't favor it for our domestic business. I am sure of it.

Mr. HENDERSON. It is a necessary incident to trying to do business in a foreign market but it isn't something that you would want——

Mr. GRACE (interposing). I don't think it can be constructively adapted to our domestic life and activities. That is my personal judgment.

Mr. HENDERSON. I have one other question along the line that I was taking up with Mr. Fairless. That is, not what the posting of the next quarter's price or the quarter's price after that is likely to be, but what the general level of prices for steel products is likely to be in the future as compared with, say, the 1929 level. Did you hear the colloquy between Mr. Fairless and myself the other day?

Mr. GRACE. Yes, I heard some of that. Your 1929 comparable to today.

Mr. HENDERSON. And to the future.

Mr. GRACE. Now, as you encounter increasing costs, if there are not other types of developments to offset definite increased cost which you experience, I believe it is good business, and must be good business, to recognize for the good of everybody, the good of the employees, the good of the public, and for the necessary protection of our stockholders, that we run a business on a profitable basis.

Mr. HENDERSON. I think I can subscribe to that.

Mr. GRACE. I am still old-fashioned enough to believe that business should and must make money if we are to progress and live.

Mr. HENDERSON. I am old-fashioned enough to agree with you.

Mr. GRACE. I am sure you are. I know you are. I don't have to argue that with you, sir.

Now, as to what the future trends will be in our own industry, as Mr. Fairless very ably pictured it, we have experienced substantial increase in labor costs. There has been, on the other hand, coincident with that some developments, technological, mechanical, improvement of processes, which is tending to the lowering of labor costs. I think you must take those conditions, probably amalgamate them, and continue to run a business on the profit motive. You must, on the other hand, have equated with that the necessity that those tools that you are working with are efficient, modern, up-to-date in every respect, and there isn't a workman in the world, in my estimation, who compares with the efficiency of the American workingman. Give him the tools to work with, give him as high compensation as you can give him in the ordinary economic conditions that exist at current times, always looking to a better scale of living, and as we progress, maintaining a profit, maintaining efficiency, maintaining our scale of life and living in this country—and that has been the progress of this country.

I have been in the steel industry 40 years and I can come right through and see how we have grown, to the service of the public, to the character of products in every way, to the improvement of the working man, and you ask me a definite comparison between '29 and '39 and I find that labor has been improved, if it is to be measured by the rates of pay it is paid—substantially 33 percent improvement in wages—and I find that today the selling prices of our commodities are quite close to those that existed in '29. At the present moment the steel industry is beginning to make a little money, and I claim that is a very fine accomplishment for this industry—for any industry—and I don't think it is all just the steel industry. I think that is generally the development of improvement of industry in this country.

Now if that statement is true, we must be reasonably right in our economic policy and in our industrial policies, which go hand in hand.

Mr. HENDERSON. In order to maintain those admirable advantages, do you think that you have to get back to the 1937 level of prices sometime in the next few years?

Mr. GRACE. I think we can only appraise that, Mr. Henderson, as time goes on and we get experience. I am satisfied——

Mr. HENDERSON (interposing). That isn't quite so good an answer as you have been giving to our questions, Mr. Grace, and I share with Mr. O'Connell——

Mr. GRACE (interposing). Do we think we would have to get back to 1937 prices, is that right?

Mr. HENDERSON. Yes. I share with Mr. O'Connell his appreciation of the way in which you have testified today concerning certain practices.

Mr. Grace. I didn't mean at all not to be frank but you are asking me now to deal with theories and beliefs. Therefore, I have to think of it a bit. I don't just know offhand the comparison between '37 prices and our present scheduel of prices, but this is the way I feel about our present schedule of prices. If those present schedules of prices return to us a reasonable profit, I don't want those prices raised. If there are factors beyond which we do not have control and our costs rise to a point where our profits are vanishing, then I say, if we are economic, if we are efficient, then we must ask some more for our products.

Mr. Henderson. Let me ask you this, then. As for this future period with which I am intensely concerned, and I know you are also, what would be the effect on the price level if your company and the industry stayed for a reasonably long period above the break-even level? Would there be likely to be a reduction in the price of steel?

Mr. Grace. In my estimation there would be no question about there being a reduction, a disposition and definite action toward giving to the public the benefit of anything which would be regarded above a normal, proper, fair profit to this industry.

Mr. Henderson. I take it you mean that getting out of the feast and famine line of existence and having a reasonable stability, very probably you would have economies that could be passed along to the public.

Mr. Grace. Yes, and one of the greatest things which affect our economy is our volume of production. We are a great big, enormous-volume institution.

QUESTION OF STABILIZATION

Mr. Henderson. Let me ask you this: Is it more important as far as your costs are concerned, and therefore in relation to your price, to have the kind of high volume you have now at certain periods, and then radical slumps, or to have a volume of business which for a continuous period would be above your break-even line?

Mr. Grace. I think it is unquestionably to get as near an average curve, an ironed-out curve, as we can. Nothing is more injurious than these peaks, down or up.

Mr. Henderson. You must have enormous expenses when you have to delimit your operations drastically, and you must have enormous expenses when you have to put a blast furnace back in operation, do you not?

Mr. Grace. We do. But you take the element of speculation in our business, it is very ruinous, in my judgment. We don't want a speculative period, we don't want a period of inflation, people judging that the market is now low and we will buy the future.

Mr. Henderson. Does it often happen that people stock up on steel when the market is low?

Mr. Grace. Not to any great extent, but there is some element of that kind in it. But I want to say this: The business is not being best conducted when we as a basic industry are producing products that are not going reasonably into consumption. As those products start in accumulation, we are robbing tomorrow.

Mr. Henderson. That is the kind of a situation that happened in late 1936, for example, when it was well known that not only was there a prospect of a December price increase, but that it probably would be followed by a higher posting in the following period.

Mr. GRACE. You combine a bit of a panic, let's say, in the buyer's mind with a little element of speculation in it, and the first thing you know, we get an entirely out-of-line demand and we will see our properties required to run 100 percent in order to satisfy that demand, and in a few months time, bang! we come down through the processes you speak of, we take off these very important units, expensive to put into operation, expensive to take off. There isn't any industry I know of that has anything like the requirements of investment in units in order to produce its product that the steel industry has.

Mr. HENDERSON. Another important element is the relation of turnover to your assets, is it not?

Mr. GRACE. Right.

Mr. HENDERSON. Did most of that backlog you spoke of as continuing through 1937 get put on your books in late 1936?

Mr. GRACE. In late 1936 and early 1937, and now, wouldn't it have been a great deal better if at the beginning of '36 we had had a reasonable demand, if possible. A basic industry is definitely in the hands of the purchasing public, just definitely there. We are at the mercy of their whim. We can't help it.

Mr. HENDERSON. Isn't there anything you can do about assuring your customers when they get to a position like that? Take the condition we have been in with a change taking place, do you have any positive selling policy with relation to your customers tending to smooth out this curve?

Mr. GRACE. We definitely say to our trade, yes; and everybody is saying it now over this period when things have become sort of excitable, people feeling that they weren't going to get the service maybe because of war conditions or other conditions, because all inventories were down to bone, there just wasn't anything in Mother Hubbard's cupboard in many cases. It was ridiculous in a way, but a large number of our customers, large consumers of steel, were working on too low an amount of inventory. A lot of them didn't have any inventory and they got caught because they didn't have; they were just working from hand to mouth. They saw the possibility that maybe with a repetition of war conditions, they were going to have difficulty being serviced.

We have said to our customers, "You are going to get all the service we can give you. Please don't get stampeded. We are not going to take any opportune business that would replace the service that we are indebted to you to give. Now just don't get foolish and inflate your ideas for protection purposes. Sure, you have been running too low in inventories, you always should have normal working inventories." We believe it is bad business not to have.

Mr. REYNDERS. Mr. Grace, may I ask this question? Isn't this matter of inventories frequently overemphasized? There are a great many lines of steel where I don't see how inventories can be accumulated. Now there are some, but take the matter of rolled structural sections, that is out entirely.

Mr. GRACE. That is right, but Mr. Reynders, I was thinking along the line of the definite user of steel for his line of product, his established line of product. He got entirely too low in his normal supplies to take care of himself. He was depending on getting service from the steel mills overnight.

Well now, that is not the best business—that is not the best business tactics, if we are going to get a reasonably ironed-out operation.

Mr. REYNDERS. In the matter of volume it couldn't represent a tremendous lot. Go through your various products and you don't accumulate inventories in rails, you can't accumulate inventories in those sheet products that go into automobiles, because the models may change overnight.

Mr. GRACE. Your point is a good one. We cannot as a basic industry, the way we operate and the tonnages we operate, accumulate any important inventories to take care of the peaks and the valleys, no; certainly we cannot do it.

Mr. REYNDERS. I think it will add to our correct understanding of that problem if we analyzed these products, because I do think the question of inventory, to my mind, is rather misunderstood as far as the steel industry is concerned. There are a few items on which you can accumulate inventory, but by and large, I hardly think that is always true.

Mr. GRACE. But at the same time, I am not going to let some of our trade, some of the purchasers of steel commodities, for their ordinary standard production of their commodity, get away from the thought that in my estimation they were running entirely too low for normal inventory purposes.

Mr. HENDERSON. Do you make a special effort, Mr. Grace, in those periods to try to get your customers to carry the normal inventory?

Mr. GRACE. We always encourage them, of course.

Mr. LUBIN. Mr. Grace, would it help any to encourage that attitude on the part of the buyers if you could assure them in advance there would be no price increase the next quarter?

Mr. GRACE. That would have a certain factor in it. I agree it would have a certain part to play in it. You wouldn't want to get so-called high price inventories, but I think as well that we can get to an average, as Mr. Henderson has properly portrayed to us, also we get to a reliability in pricing as well.

Dr. LUBIN. Isn't the experience of the industry in the past in itself a deterrent to rational judgment on the part of the purchaser? In other words, he has known that every time volume has gone up in the industry prices have gone up. When I say every time, there are exceptions of course, but in recent years he knows that as volume goes up his costs have gone up for those steel products. Has your company, for example, ever said, "We'll give you the service we can and we'll assure you too the chances are the price isn't going up."

Mr. GRACE. Naturally, we have talked to them in that language all the time, and we do now in our current operations protect our purchasing trade, let's say, 3 to 4 months ahead of time. Normally, we price the steel requirement for a quarter about a month or 6 weeks before that quarter and that gives them a definite idea of what their prices will be. As we can develop more Mr. Henderson's line here, more steadying influence in all phases of the law of supply and demand, the better we can appraise the situation and the better job we can all do as to service, prices, and everything else.

Dr. LUBIN. The reason I raise this question is because I think it has a very definite bearing upon the immediate future. I have had a shipbuilder tell me within the past month, and he is rather an important shipbuilder, a big consumer of steel products, I don't know whether he buys from you or one of your competitors, that he has ordered his vice president to buy a year's supply of such steel as he knows he is going to need, assuming his ways are going to be full; I think he has enough orders on hand now for ships to know what he is going to need. That buyer isn't going to be on the market next spring as I can see it. He has bought for delivery at this quarter at prices to be assured of his price structure, and if that is a common attitude on the part of buyers, isn't the inventory situation that is now developing a threat to a continued demand in the spring, and would he have gone into the market and purchased in such quantities had he been assured that there is no advantage in doing it because the price next quarter wouldn't be any higher than at present?

Mr. GRACE. Mr. Lubin, here is what actually takes place in the particular instance that you have referred to. I take it that that shipbuilder—it is our experience in selling steel to shipbuilders that when that particular man contracts for his ships—and a lot of it has been done, it is one of the factors which has put demand on the steel industry—he contracts at that time for his ships, his steel supply, but that steel supply doesn't go on our mills today, that steel supply goes on our mills to meet his requirement of consumption, and to that extent we will take that steel and price it throughout the time when he will need it for the building of that ship.

Dr. LUBIN. In other words, you are willing to quote prices more than a quarter in advance.

Mr. GRACE. On that type of business that we call—you weren't here the other day—identified-structure business; yes. We go out and build the Golden Gate Bridge in San Francisco. It is a 2-year or more operation and we have to tell the contractor the price for his steel to do that project, to be delivered as he requires it in construction. That is what we do in the ships. That is what you do in big office buildings.

Dr. LUBIN. What percentage of the total output of your company would you say is that sort of business?

Mr. GRACE. I just wouldn't want to make even a wild guess at it.

Dr. LUBIN. Is it an important factor in the total steel business?

Mr. GRACE. Oh yes; yes, indeed. You take our Navy program as an example today, a shipbuilder building Navy ships, it takes a bit longer to build a ship of that type. He buys his steel today. We price it. We have to take it going and coming. We carry the bag, if you want to put it that way, but there is a lot of business which is taken that way.

Mr. HENDERSON. Mr Grace, it wouldn't be possible in the existing price leadership we have been going over today, for you to do what Dr. Lubin has suggested about the future of prices and stability unless you had a lot of identified structures, would it?

Mr. GRACE. We always have to bear in mind fluctuations which are likely to take place in our costs. There are a great many things that enter the costs of making steel over which we have no control.

Mr. HENDERSON. But on the basic question, you are the second largest producer of steel, and the testimony today indicates in the main you follow Carnegie-Illinois.

Mr. GRACE. In the price structure.

Mr. HENDERSON. In the price structure; and since by your own terms of reference, your own explanation of what you think is a healthy way of conducting your business, it is impossible for you to discuss prices, particularly for any long period with Carnegie and other companies. Because of this method of pricing, you are more or less unable to do what Dr. Lubin suggests.

Mr. GRACE. Yes; we are; and the largest percentage, without a doubt, of our business goes into what you would call current consumption.

Mr. HENDERSON. It leads to the kind of a pricing policy reflected in the tin-plate contracts, where although it is for the current year it is based upon the official posted price of Carnegie. In other words, to do what Dr. Lubin says, you, with perhaps a substantial number of others in the industry, would have to adopt almost an independent pricing policy, would you not?

Mr. GRACE. Or sit down together legally and be permitted to develop for the industry a price policy.

Mr. HENDERSON. I was coming to that because I was wondering whether you had given any thought to that. I had that in mind when I asked you about N. R. A.—something similar to the English system as far as price announcement is concerned. You are familiar with that.

Mr. GRACE. Oh, yes.

Mr. HENDERSON. As I read the economic journals, they have pretty generally felt that to be able to know for a longer period than a current quarter that prices were not going to be raised was a tremendous stabilizing factor in the England of today. It did lead in England to an ability on the part of the consuming industry to make some plans knowing that a component in their cost was not going to be any higher. We get back to that point that I was leading up to—in this I am not suggesting anything, I have no mental reservations or secret evasions to the contrary notwithstanding——

Mr. GRACE. You needn't even add "notwithstanding."

Mr. HENDERSON. I am wondering whether or not, if there were more adequate information about inventories, which is important, or less uncertainty about price policy, or a volume of guaranteed business by the Government—for example if the Government should distribute all of its business on a scale adapted to the amount of capacity each producer has, and do its planning of its buying so that each manufacturer knew that he had a certain backlog—or any other considerations that may suggest themselves to you, it would be possible to get this desideratum of a fairly reasonably sustained volume of production over a period of time?

Mr. GRACE. It seems to me that that would be a very new order. It would go, as I see it, a bit further even then the N. R. A. in the definite rationing and controlling of business within business and with business in its relation to Government.

Mr. HENDERSON. But as far as the Government is concerned, Mr. Grace, business doesn't pass on the competition, as we know; I know that and you know that.

Mr. GRACE. I am talking now about a new order of controlling industry in the doing of business. I thought that is what you were getting at.

Mr. HENDERSON. I am not suggesting it as a control, I am not advancing it as an idea of mine, but let me go back again. You and I agree that a continuously good level of operation over a period of time would be highly advantageous, not only to the companies but to the consuming public, and certainly as to price.

Mr. GRACE. I certainly agree on that.

Mr. HENDERSON. And we have examined here some suggestions as to how that stability might be obtained. You introduced the question of the "or" in which you evidently have in mind a control feature. I am asking you, entirely apart from exercising any regimentation or control over the steel industry, what has occurred to you and your associates as to how that stability could be attained, whether there is something the Government could do which would be helpful and not in the nature of control.

Mr. GRACE. I am not being bothered about the Government control in the discussion which you and I are having. That is something I can't deal with nor influence one way or the other.

Mr. HENDERSON. You probably know I lean more toward laissez faire than I do toward control.

Mr. GRACE. It seems to me we get into a realm of a situation like this: If we could appraise how many automobiles are going to be bought next June, if we could appraise how many new cars the railroads are going to buy, how much new rail the railroads are going to lay; if we could appraise the construction operations throughout next year in the use of steel, if we could have some ways or means of knowing what the law of supply and demand is going to give us, what our average economics is going to result in, where we could have knowledge of those things and have them ironed out, let us say, to create more and more an average demand, it certainly would be useful toward the economic end of running any business, it seems to me. But how to get there I don't know.

I don't know whether the conditions in this country are going to be that the automobile industry is going to build 2,000,000 cars or 4,000,000 cars. I speak of the automobile industry because today they are the biggest consumer of steel in the country. Probably mechanically 20 percent of the steel we produce goes today in the construction of automobiles. Think of the factor it is. The Government buying factor isn't anything like as important as all of our industrial activities. It is really a flea bite.

Mr. HENDERSON. Some of the public would like to get bitten by a flea.

Mr. GRACE. Positively, but I don't like to be bitten by the flea that requires us to build battleships. I don't like that bite. I wish this country never had to build another one. I don't want that kind of business. I don't want prosperity dependent upon that kind of business. If there is anything false, that is what is built for destructive purposes. Let's put that money and effort into constructive purposes and the world would seem to be in better condition.

However, we are getting off now. How to do what you are suggesting, because it would be helpful. Goodness knows, it is too big a problem for me.

Mr. HENDERSON. Well, as I see it, the import of your testimony is, then, that you don't see any stabilizing factors, either, so far as your industry is concerned, which would bring about a sustained level of operation.

Mr. GRACE. No. We are always looking for it, we are always striving for it.

Mr. HENDERSON. You don't see anything that could be done to achieve stability of which you would be willing to approve?

Mr. GRACE. No, I haven't reached that. If I had I would have done it, Mr. Henderson.

Mr. HENDERSON. You see where it leaves this committee.

Mr. GRACE. Oh, certainly.

Mr. HENDERSON. Here is an industry that has, in its best times, more than half a million people in it, and then swings down to half that number in almost no time.

Mr. GRACE. And take the industries dependent on it and collateral to it, you see.

Mr. HENDERSON. Yes.

I think, Mr. Chairman, I have finished.

Acting Chairman WILLIAMS. Have you any further questions, Mr. Feller?

Mr. FELLER. I have no further questions.

Acting Chairman WILLIAMS. Anyone else?

Dr. LUBIN. May I ask Mr. Grace one question? Unfortunately I have been away, and I wasn't here this morning. I understand that the record states that this morning you made a statement to the effect that despite the fact that there is a differential in the minimum wage paid between your corporation and some of your competitors, your average hourly earnings are identical with theirs, or approximately that. Will you tell us how you arrive at that figure? Do you take the total pay roll and divide it by the number of man-hours worked?

Mr. GRACE. The total pay roll against the number of man-hours worked. I am referring to my comptroller.

Dr. LUBIN. Total man-hours worked by all employees?

Mr. GRACE. All employees that we pay wages to.

Dr. LUBIN. It omits your office workers?

Mr. GRACE. That is the complete pay roll, put in that way because that is the only way we have to compare it with the Steel Corporation's pay roll.

Dr. LUBIN. Did you include your officers?

Mr. GRACE. That is our complete pay roll.

Dr. LUBIN. Everything paid out in wages or salaries.

Mr. GRACE. The complete pay roll, that is right, and it is put in that form, as I say again, because that is the only figure we had to compare with the Steel Corporation, and that is the reason we set it up that way.

Acting Chairman WILLIAMS. Are there any other questions? Are you through now with Mr. Grace? All right, we thank you very much. We have enjoyed your presentation.

Have you any further statement to make?

Mr. GRACE. No, Mr. Williams, I haven't. If the committee doesn't want any more of my philosophy, I want to thank you for this courteous treatment and the opportunity; and if the committee ever wants to see me again, they won't have any trouble finding me.

Acting Chairman WILLIAMS. I am sure we have been very much instructed by your presentation and we enjoyed it very much.

Mr. GRACE. I can say this: For once it has been a pleasure to be here. [Laughter.]

Acting Chairman WILLIAMS. The committee will be in order, please. Are you through for the day, Mr. Feller?

Mr. FELLER. I suggest we adjourn for today.

Acting Chairman WILLIAMS. The committee will stand in recess until 10:15 tomorrow.

(Whereupon, at 4:40 p. m., a recess was taken until the following day, November 10, 1939, at 10:15 a. m.)

INVESTIGATION OF CONCENTRATION OF ECONOMIC POWER

FRIDAY, NOVEMBER 10, 1939

UNITED STATES SENATE,
TEMPORARY NATIONAL ECONOMIC COMMITTEE,
Washington, D. C.

The committee met at 10:20 a. m., pursuant to adjournment on Thursday, November 9, 1939, in the Caucus Room, Senate Office Building, Senator William H. King presiding.

Present: Senator King (acting chairman); Representative Williams; Messrs. Henderson, Avildsen, O'Connell, and Brackett.

Present also: Hugh White, representing the Federal Trade Commission; John V. W. Reynders, representing the Department of Commerce; A. H. Feller, special assistant to the Attorney General; John W. Porter, Irving B. Glickfeld, Hyman B. Ritchin, Monroe Karasik, and Ward S. Bowman, Department of Justice.

Acting Chairman KING. The committee will be in order.

Mr. FELLER. I would like to call Mr. Ernest T. Weir.

TESTIMONY OF ERNEST T. WEIR, CHAIRMAN, NATIONAL STEEL CORPORATION, AND PRESIDENT, AMERICAN IRON & STEEL INSTITUTE, PITTSBURGH, PA.

Acting Chairman KING. Hold up your right hand. Do you solemnly swear the testimony you shall give in this hearing shall be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WEIR. I do.

Mr. FELLER. Give you name to the reporter.

Mr. WEIR. E. T. Weir, Chairman of the National Steel Corporation, Pittsburgh, Pa.

Mr. FELLER. In addition to your connection with the National Steel Corporation, you are also at present president of the American Iron and Steel Institute.

Mr. WEIR. Yes; I have that honor.

OPERATIONS OF NATIONAL STEEL CORPORATION

Mr. FELLER. Mr. Weir, it would be useful for the record if you could very briefly tell us something about the National Steel Corporation. It has two main subsidiaries, has it not?

Mr. WEIR. Yes; the Weirton Steel Co., of Weirton, W. Va., and the Great Lakes Steel Corporation of Detroit, Mich. Those are the steel-producing subsidiaries.

Mr. FELLER. Earlier in the testimony we had references made to your connection with the M. A. Hanna Co., which, in effect, manages your ore properties. Is that true?

Mr. WEIR. Yes.

Mr. FELLER. Could you tell us what the relative standing in the industry is of National Steel in terms of total assets?

Mr. WEIR. I think it is fourth in size in the industry.

Mr. FELLER. Do you recall approximately what the total assets of National Steel are?

Mr. WEIR. I think it is about $225,000,000.

Mr. FELLER. Perhaps the committee might want to have some notion of the kind of products which you manufacture. You manufacture—you are extensively engaged, are you not—in the manufacture of light flat-rolled products?

Mr. WEIR. Yes.

Acting Chairman KING. Did he state the principal places of where his industry is active?

Mr. FELLER. I believe the principal plants are at Weirton, W. Va., and at Detroit. The Weirton, W. Va., plants are operated by the Weirton Steel Co., and the Detroit plants by the Great Lakes Steel Corporation.

Mr. WEIR. Then we have a manufacturing plant in Buffalo, N. Y., making merchant pig iron.

Mr. FELLER. Is it correct that the National Steel Corporation has recently erected a mill to manufacture structural steels?

Mr. WEIR. That is correct.

Mr. FELLER. Where is that plant?

Mr. WEIR. At Weirton.

Mr. FELLER. Has that come into production yet?

Mr. WEIR. Yes; that started operation on July 1, of this year.

Mr. FELLER. Do you manufacture, aside from structural steels which have just come into production, principally sheets?

Mr. WEIR. We manufacture sheets of all grades, strip steel, merchant bars, tin plate, structural steel was mentioned, and miscellaneous materials for railroads.

Mr. FELLER. In contradistinction to the two corporations which have been described in the previous days' testimony, it is true, is it not, that National Steel Corporation does not engage in the fabrication and erection of structures?

Mr. WEIR. That is correct; we do not.

Mr. FELLER. And you also do not engage in the manufacture of ships?

Mr. WEIR. No, we do not.

Mr. FELLER. Would it be correct to say, then, that the National Steel Corporation is primarily a producer of steel?

Mr. WEIR. That is correct.

Mr. FELLER. Rather than of finished articles?

Mr. WEIR. We do no fabricating of any kind.

Mr FELLER. Would you say that the National Steel Corporation is what is known in the industry as an integrated company?

Mr. WEIR. It is; yes, sir.

Mr. FELLER. The word "integrated" has been the subject of some doubt here. The term integrated, as used in the industry as you understand it, is a company which mines its own ore, makes its own pig iron, makes its own steel, and makes a product from steel.

Mr. WEIR. That is correct.

Acting Chairman KING. For my own information, you state that your company does not do any fabricating. In just what form does the highest finished product, if you may call it a finished product, emanate from your organization?

Mr. WEIR. Well, tin plate; then it goes on to the consumer, who manufactures it into cans; and structural steel—that goes out to the fabricator, who puts it in the buildings or bridges or whatever it may be required for. We make the steel which is used in fabrication.

Acting Chairman KING. Would that include steel bars?

Mr. WEIR. Yes, sir; we make steel bars.

Representative WILLIAMS. As I understand now, you don't make any products that are finally—in a finally finished state.

Mr. WEIR. You mean that go to the ultimate consumer? No; we do not.

Mr. FELLER. Such as railroad ties and wire.

Mr. WEIR. No; we don't manufacture wire. We manufacture railroad supplies such as tie plates, on which the rails are set, and spikes—railroad spikes.

Representative WILLIAMS. Then there are a few finished products that are manufactured by you?

Mr. WEIR. Everything we produce are finished products in the term as it is understood in the steel industry.

Representative WILLIAMS. What I mean is in the shape that it finally reaches the ultimate consumer, like railroad spikes and railroad plates, as you have described, and railroad rails—do you manufacture those?

Mr. WEIR. No; we do not.

Representative WILLIAMS. You don't manufacture those or wire in any shape, which is ultimately consumed?

Mr. WEIR. That is correct.

Mr. REYNDERS. Your demand results from the requirements of industries that carry the product to the ultimate consumer?

Mr. WEIR. That is right; the fabricators in different lines.

PRICE POLICY FOR STEEL INDUSTRY SUGGESTED BY MR. WEIR

Mr. FELLER. Mr. Chairman, some weeks ago Mr. Weir delivered an address at the annual meeting of the American Institute of Steel Construction. The address was delivered on October 17, 1939, in New York City. We have prepared mimeographed copies of the address, and they are available before the members of the committee.

In this address Mr. Weir deals with the question of the price policy, the matter which has concerned the committee for the last 5 days, the question of general price policy for the steel industry to follow, and it is one of the questions of high moment for this committee to consider the price policy suggested by Mr. Weir in his address.

I should like the whole of the address placed in the record; but of course, I can only read parts of it here, otherwise I shall be taking up much too much time. I shall read the parts which are concerned with the matter of a price policy for the steel industry. I think the committee would be very much interested in having an elaboration of Mr. Weir's views with respect to that price policy.

Acting Chairman KING. May I ask one question, Mr. Weir? Of course, you are familiar with the address which you delivered.

Mr. WEIR. Oh, yes.

Acting Chairman KING. Now that it is to go into the record, do you desire to make any modifications of the statements therein contained?

Mr. WEIR. No.

Acting Chairman KING. Further reflection has not led you to desire to modify statements therein contained?

Mr. WEIR. It represents my views, Mr. Chairman.

Acting Chairman KING. It may be received.

(The manuscript of the address referred to was marked "Exhibit No. 1421" and is included in the appendix on p. 10734.)

Mr. FELLER. For the record, I think perhaps Mr. Weir would prefer to have it all printed, since I shall only read parts of it.

Mr. WEIR. I would think so; yes. I would like to have it distributed.

Mr. FELLER. It has been.

Mr. Weir deals in this speech with the problem presented by the losses which the steel industry has suffered at various times during the last decade, particularly the period of the depression and the subsequent depression which began in 1937 and extended through the early part of 1938. And he goes on to say as follows [reading from "Exhibit No. 1421"]:

> Assuming constant efficiency, I can see only three methods by which our industries can convert their loss position to a profit position. Increased income could be realized from increased volume, from reduced costs resulting from reduced capacity, or from increased return on existing volume.

Mr. Weir then goes on to discuss, in turn, each of these first three methods. He examines the possibility of increasing income from increasing volume, and I am correct, am I not, in saying, Mr. Weir, that you assume, that you reach the conclusion that that cannot be done by the action of the steel industry itself, because you consider the demand for steel to be inelastic, and not to respond—well, I don't think you put it quite that way. Your point is that the steel industry can do nothing which can influence the demand for steel itself. That is correct?

Mr. WEIR. Correct.

Mr. FELLER. You then go on to consider whether reducing capacity is a cure for this condition, and you reach a conclusion which I think many members of the committee, and I hope all members of the committee, will be in agreement with, that the destruction of capacity is not a solution which would be in accord with the best interests of the country.

Mr. WEIR. Right.

Acting Chairman KING. You don't believe in the philosophy of scarcity?

Mr. WEIR. No; I do not, Mr. Chairman.

Mr. FELLER. Mr. Weir then examines the third method for curing this situation—increased return on existing volume. And these are his words at the bottom of page 7 [reading]: [1]

> In the light of this, let us go back to the first method suggested as a means by which loss can be converted to profit. That is, to increase the return from the

[1] Appendix, p. 10737.

prevailing volume. This means getting better prices. I realize that this is what has been condemned as "maintenance of a rigid price structure" by the long-on-theory, short-on-experience economists in the bureaus down in Washington and in other places. The proposition is a very simple one. It means only that you must charge a price, under any given condition, which covers all of your costs—including the cost of carrying unused capacity—and returns a reasonable profit. If you fail to charge such a price, you must give something away. And in business, if you continue to give something away for very long, you eventually give the business away. No one is justified in asking business to do this. I can see nothing wrong—morally or economically—in business asking prices for its products and services that cover costs and yield a reasonable profit.

Yet in many branches of industry, and in the steel industry particularly, the price policy, if it can be so called, has been a total failure.

Acting Chairman KING. By what I assume you mean that you have not realized what you have stated as the goal, namely, such re-returns from the sale of your commodities as would meet your costs and give you a reasonable profit.

Mr. WEIR. That is correct, Senator.

Mr. FELLER. Now, turning over to page 9,[1] the first full paragraph at the top of the page continues the discussion of this point. [Reading:]

Yet the cure for this condition—in your industry, in mine and in all others not controlled by government—is in the hands of management. Management simply has to determine now and at all other times that it will not accept business at a price which does not include costs and a reasonable profit. In saying this, I am not suggesting that companies in an industry get together and agree on prices. There are many phases of business on which companies can cooperate through their trade associations to their own and the public benefit. Price is not one of them. A price policy is one that must be established by each individual company in accordance with cost and other factors peculiar to that company. The job of each individual company is to see that its prices cover its own costs, not empirically established average costs of its industry.

Acting Chairman KING. That is, each company is a unit by itself.

Mr. WEIR. Yes.

Acting Chairman KING. And must determine its policy based upon its own demands.

Mr. FELLER. I think one more sentence at the top of the page is significant. On the top of page 10, the last two sentences in the top paragraph [reading]:

Each of us must find its solution in our own back yard. Know our costs, see that our efficiency is at least as high as our competitors, then determine that regardless of volume, regardless of the practice of any other company, we will do business only at prices that include costs and a reasonable profit.

Mr. Chairman, this suggested price policy for industry is one that the committee would be interested in considering in view of the testimony which we have had in the last 3 or 4 days. The committee will recall that yesterday, particularly, Mr. Grace characterized the policy of his company, which was the second largest company in the industry, as meeting the competition of the United States Steel Corporation, and that that policy included publishing those prices, after the United States Steel Co. announced prices the Bethlehem Steel Co. would announce the same prices and would attempt to secure those same prices that it had announced, and members of the committee characterized that, I believe, as following the leader.

Acting Chairman KING. I didn't so characterize it.

[1] Appendix p. 10737.

Mr. FELLER. Some members of the committee did.

Mr. O'CONNELL. I think, Mr. Chairman, Mr. Grace didn't say follow the leader but he did say they would attempt to follow the corporation, which would indicate a follow-the-leader policy. I don't think they saw anything wrong about it.

Acting Chairman KING. The observation I just made was not intended as any criticism or any comment as to the weight of the testimony or its tendencies. I do recall, however, that Mr. Grace did testify that there were constant departures from what I called the datum line or from the published prices, the posted prices, the departures resulting from going down in various phases of the industry or increased demand, a multitude of causes which would result in departure from the datum line.

Mr. FELLER. Mr. Weir, is it fair to summarize the price policy which you suggest in this speech in these words: That each company could sell its product on the basis of its own cost plus a reasonable profit from its own standpoint and insist on selling on that basis at all times.

Mr. WEIR. Well, to begin with, among the leading companies there is a very small difference in cost of production. The prices in the steel industry are made in the competitive market from day to day, irrespective of what the Steel Corporaion may put out as their prices for the quarter. Prices are actually made, as I say, in the competitive market from day to day. The criticism comes from allowing those prices, the prices made in the competitive market, to get below the cost of production, selling on a basis that nets the individual company a loss.

Mr. FELLER. And in your own words, Mr. Weir, how do you think that could be avoided?

Mr. WEIR. By determination on the part of each company that they will not sell their product at a loss.

Mr. FELLER. At any time?

Mr. WEIR. At any time, that they will set prices that will cover all costs of production and include a fair, reasonable profit.

Acting Chairman KING. My recollection is that some of the testimony indicates that some of the steel companies have sustained great losses.

Mr. WEIR. Yes, sir.

Acting Chairman KING. If they had maintained those prices and had not deviated from the posted prices, would there have been no losses?

Mr. WEIR. No, there would not.

Acting Chairman KING. Would there not be losses if they adhered to the posted prices and the demand for their products shrunk to a very small point?

Mr. WEIR. Well, I think when the industry gets down to a material subnormal basis of production, such as it did in 1932 when it got down to an average of 19½ percent, that there are bound to be losses, but when the industry operates on a basis of 35 to 40 percent I see no justification for prices that result in losses.

Representative WILLIAMS. What is your explanation under those conditions of these big companies having reduced the prices to such an extent that they did sustain material losses on account of those reductions?

Mr. WEIR. Of course in this discussion of mine which has been referred to, I criticize management for the responsibility for so doing, in my own opinion, that is my personal opinion. I believe that management is not justified in ever allowing prices to go to the point where it nets the company a loss. When I say that management is responsible, I mean this, that executive management is responsible. In the steel industry the competition at times is so frightfully keen that ordinary salesmen are sent out and given authority to take any price that is necessary to get business. In other words, the very life of the company, the very life of the industry, is placed in the hands of an ordinary salesman. That is what I take exception to.

Acting Chairman KING. Among any manufacturing organizations outside of steel, manufacturers of clothing and a multitude of commodities which enter into the daily consumption of the people, are there not departures from prices which may be regarded at the beginning of the season or of the period as sufficient to yield a reasonable profit as the result of which there are reasonable changes in the market, prices are departed from, fixed prices or fixed understandings are departed from and losses are sustained?

Mr. WEIR. There may be. You are speaking of seasonable goods. There may be a reason why a clothing manufacturer makes a low price and sells at a loss on a certain particular design. Take automobiles, it is the same thing. That does not apply to steel. Styles don't change so rapidly.

Acting Chairman KING. In the industries to which I have referred there are departures from a projected line of prices by the organizations at the beginning of the season, are there not?

Mr. WEIR. Yes, and that may be a normal part of their procedure. They have to expect that. Consequently, their selling prices generally should be on a basis to allow them on the average to cover those losses and give them a profit on the year's business.

Acting Chairman KING. Is it your view that in the steel industry you men who conduct the steel industry are so wise and have such prescience that you can project the policy for the future, fix your prices, or rather fix a datum line, and you must adhere to that, you do adhere to that, you are expected to adhere to that?

Mr. WEIR. No, absolutely not.

Acting Chairman KING. There are seasonable demands, are there not, in the steel industry?

Mr. WEIR. Yes. There are wide fluctuations in steel industry demand.

Acting Chairman KING. Foreign conditions as well as domestic changes in the industry affect the steel industry, do they not?

Mr. WEIR. Absolutely, very definitely. We only make our prices as a rule for 3 months, for a quarter, so that if conditions change for the next quarter we can adjust our prices to meet those conditions.

Acting Chairman KING. Suppose that you feel or some members of the steel industry believe that given the kind of steel that is going to be the large demand for the future and they build extensive plants at large cost, and that demand is not realized, would you expect that the prices which would be fixed following the construction of that costly plant should take into account the fact that it is obsolete or obsolescent, and that you must get prices upon a plant which is obsolete?

Mr. WEIR. Obsolescence is a very definite item of costs, Mr. Chairman. The money is spent; it must be returned to the company in some way. After all, where will it come from otherwise?

Acting Chairman KING. Doesn't your address—I haven't read it——

Mr. WEIR (interposing). I hope you will.

Acting Chairman KING. Doesn't it contempate a rather ideal situation, that producers of goods, whether steel or anything else, must have such wisdom that they may envision the future business and fix their policies with reference to that ideal which they have?

Mr. WEIR. Well, I think it just common-sense policy of the business that it must make a profit. It cannot operate at a loss.

Acting Chairman KING. That is your thesis, I suppose.

Mr. WEIR. It is a very practical necessity with any industry, certainly an industry such as the steel industry that has enormous sums of money invested and requires tremendous new investment every year. Where will the money come from? Furthermore, the matter of credit, which is based on the earning of money on the capital invested, is a matter of vital importance in this industry. The losses in this industry for the 9 years ending 1938 showed a loss to the common-stock holders who have $2,000,000,000 invested, of $80,000,000 over that period. During that time they received very little if any return. In order to carry the fixed charges of the industry, $80,000,000 was taken from the value of the common-stock holders' interest.

As I said, it is an industry that requires large sums of money constantly for improvement and development. That money must come from some place. Now, it is very evident, based on the record of the industry over these past 10 years, where it has not been able to carry its fixed charges over an average period of 10 years, it cannot afford to go out into the money market and borrow money in the shape of bonds or put out preferred stock, which are fixed charges; it cannot afford to increase its fixed charges, but yet it must continue to develop and spend money. The only place left for us to get money, to go out and borrow new money, is to sell common stock, and I venture to say that no steel company would have sufficient credit to allow them to sell common stock. It is a pretty broad statement, but I say there are very few if any steel companies that today can go out into the market and sell common stock at a price that would justify them in making sales.

Mr. REYNDERS. Mr. Weir, as I understand this formula which you lay out here, it would be carried out during a period when the volume of business would be in the neighborhood of 35 percent or 40 percent. Does that mean that you regard that as a break-even point?

Mr. WEIR. Well, I think that 35 percent should be a break-even point within the industry.

Mr. REYNDERS. Then when you are below, when the volume of business of the country is below that break-even point, then, of course, it would be impossible to carry out your theory.

Mr. WEIR. Yes; but in normal times, Mr. Reynders, there are very few years when the average operation is that low. I mean, we may have quarters when the operation is down to 30 percent or 35 percent, but there are very few years in which the average operation gets as low as 35 percent. I refer to 1938, which was a very depressed year, and the operation, I think, was about 40 percent.

Mr. REYNDERS. Nevertheless, those periods have occurred, and necessarily I assume they create a disturbance in the industry on the part of companies that find that they would be better off with some tonnage than with no tonnage. I mean, carrying out the theory that you announce that you should not under any circumstances quote a price that did not show a profit, it might be under such circumstances that some companies would shut down altogether, which would be a detriment to their forces. Mr. O'Connell says one remedy would be to raise prices.

Mr. O'CONNELL. In a period when your production got down to 30 percent or less, or less than 35 percent, according to your theory the proper thing to do at that point would be for the industry to raise prices.

Mr. WEIR. I have in mind always a period of a year's average, not a period of a quarter.

Mr. FELLER. Is that what you mean by "at all other times"? You have used several times the phrase "now and at all other times industry must adopt this policy." You also used the words "under any given condition." Do I understand you are modifying that? How would you know in any particular sale what the condition for the balance of the year would be.

Mr. WEIR. That is a matter of judgment and experience of the industry. You can look back over the record; and, as I say, there are very few years in which the average operation has not been in excess of 35 percent, outside of these very extreme instances.

Mr. O'CONNELL. Take the year you mentioned, was it 1932, at which you operated at 19 percent of capacity?

Mr. WEIR. Yes.

Mr. O'CONNELL. According to your solution of the problem, I take it, you would have required a substantial price increase at the end of 1932.

Mr. WEIR. I wouldn't expect the industry would make money in 1932. I mean it is an extreme year.

Acting Chairman KING. You lost money, didn't you?

Mr. WEIR. We (the steel industry) lost money in 1932, and there would be no way of avoiding losing money unless you put prices up beyond what I think the industry would not think of doing. It was an extreme period which very rarely occurs.

Mr. O'CONNELL. It would be logical, it seems to me, under your theory of charging prices at all times and under all circumstances sufficient to return you a profit. Would it also follow that in periods of high demand your prices would be decreased?

Mr. WEIR. Certainly. I am not speaking of static prices at all. When we have a high demand and costs are down and earnings are satisfactory, we go beyond the point of a satisfactory return, and the industry should reduce their prices as they have done in the past.

Mr. REYNDERS. In the event that there are periods which you indicate where the industry is bound to lose money, then would you think that at other times when its demand is active that they should have the opportunity to make up the loss that occurred during those periods?

Mr. WEIR. Absolutely; I think in times when the demand for steel is great that the industry should make a good profit; they should make a profit sufficient to cover, well, say, an extreme period like 1932.

Mr. FELLER. Mr. Weir, it is one of the salient facts of this industry, as I understand it, that as the rate of operation increases the cost per unit decreases.

Mr. WEIR. The overhead charges are less per ton of production.

Mr. FELLER. Costs you less per ton of steel; and conversely, as the rate of operations goes down, the cost per ton goes up.

Mr. WEIR. Yes; fixed charges.

Mr. FELLER. Doesn't your theory lead to this—that as the demand for steel declines and with it the cost increases, of necessity the price would have to keep going up?

Mr. WEIR. Absolutely.

Mr. FELLER. In other words, as the demand went down like this, the price would go up to meet it?

Mr. WEIR. Absolutely.

Acting Chairman KING. But it might reach such a point that it would encounter sales resistance and you would be prevented from making any sales.

Mr. WEIR. Then, I say, in the judgment of the individual or the industry the price would not be raised to that extent.

Acting Chairman KING. You do encounter sales resistance, do you not?

Mr. WEIR. If we have fluctuating prices—I believe in fluctuating prices—I stated in good times we should make a good profit; in poor times we can't make much profit, but I see no justification on the basis of 35 percent as a minimum why the industry should sell on a basis of losing money.

Mr. FELLER. Mr. Weir, I think we should have this clear in mind. The fundamental goal toward which your speech is directed is precisely the fundamental goal toward which, as I understand it, the efforts of this committee are directed. This committee wants to find out how the steel industry can make a reasonable profit at all times. What we are concerned with at the present moment is your suggestion of a method by which that could be reached. We agree that it is not only common sense, patriotism, and for the best interests of the country that the steel industry make a reasonable profit at all times. The committee, I think, is interested in finding out how we can reach that, and you have made, from your standpoint as a practical executive, practical suggestions. The suggestion is that management should decide now and at all other times or under any given conditions not to sell unless they receive for their product cost plus reasonable profit.

I should like to examine the question as to where the limits of this practical suggestion should be placed.

You have already indicated one. You said when the industry falls below 30 percent of capacity, it would be very difficult if not impossible——

Acting Chairman KING (interposing). Thirty-five percent, he said.

Mr. FELLER. It would be very difficult if not impossible to adhere to that kind of a pricing method.

Let's take, then, the point of 35 percent. The demand for steel is at the level of 35 percent. A good period about there would have been the first quarter of 1938, wouldn't it?

Mr. WEIR. Yes; I think so.

Mr. FELLER. About the first quarter of 1938. Now, what I should like to examine is the practical implications of this practical suggestion, for individual companies, because it is to individual companies that you have been addressing your thesis. Assume a period like the first part of 1938. The demand for steel is only capable of taking up 35 percent of the industry's facilities. And let's assume, further, that the major part of that demand comes from the activities of the automobile industry.

Now, is it not a fact that if all companies were at that time to follow your suggestion, that it would mean, in effect, that those companies which, by virtue of location, are not favorably situated to secure their own costs, plus profit from the sales to the automobile industry, would be required to stay out of the market and should stay out of the market?

Mr. WEIR. No; they can't be required to stay out of the market.

Mr. FELLER. I don't mean required legally, I mean, following out this theory.

Mr. WEIR. No; they can't be expected to stay out of the market.

Mr. FELLER. Assuming, now, that the industry is operating at this low level: The companies favorably situated with respect to the automobile companies go to the automobile companies and decide to sell them steel at a certain price which covers their own costs plus a reasonable profit. Such a company would be a company which had a plant at Detroit, for example. Now, how about a company which is situated at Pittsburgh, and which finds that the only way it can sell steel at the price which has been set by virtue of the bargaining between the Detroit steel company and Detroit automobile manufacturers—that the only way it can meet that price is to sell below cost, or at cost without the profit. What would you suggest they do?

Mr. WEIR. Well, Mr. Feller, the determination on prices is not made with regard to any one product. As an example, we have a plant in Detroit, the only steel plant in Detroit. We don't sell all of our product to the automobile companies. We have to sell products produced in Detroit in other territories. And in those other territories we may have to absorb freight, so that our determination of the price at which we would sell the automobile people is based on the determination of our position, taking into consideration all of our products, and the freight absorption which we must have in delivering into other territories—all steel companies have a freight absorption, under the principle on which they work of selling and delivering into all consuming territories.

Mr. FELLER. I should like to take a specific case. Supposing at a period when the utilization of capacity of the industry is at the rate of 35 percent you find that at your Great Lakes steel plants you can sell sheets to the automobile companies and receive a return which will net you your cost plus what is a reasonable profit for you. And let us assume that price is $2.20. And let us now take a company situated in Pittsburgh which finds that by virtue of the freight disadvantage it cannot sell steel to the same automobile company in Detroit unless it gets $2.20 plus the freight. It is just as efficient as you, but not more efficient. Are you suggesting, now, that that company should take either one of two alternatives—either sell at $2.20 plus the freight from Pittsburgh to Detroit, or else forego the business?

Mr. WEIR. Well, to begin with, we don't fix prices in Detroit or any other territory where we have plants with the idea of corralling all of the business in that particular territory. We must consider the over-all picture. If we would sell and make a price on sheets in Detroit that would represent our costs—simply our cost and nothing else—then we would have a loss on the products that we ship in other territories, and where we have a freight absorption, so the basis which we set up is an average consideration. Part of the freight we take up in other territories goes into the cost of what we sell in Detroit.

Acting Chairman KING. Then you lose on the freight absorption, but you make on sales in fields nearer the plant that is the source of production.

Mr. WEIR. The answer to that, Mr. Chairman, is that we get an average price that nets us an average that prevents us from losing money or allows us to make a profit. We can't take any one single territory nor can we take one single product. It must necessarily be an average. What advantage would there be to us in selling sheets in Detroit on which we don't lose money, at a price on which we don't lose money, and selling other products in other territories as a result of that price on a basis that would cause us a loss?

Acting Chairman KING. Don't you recoup in some instances upon some products sold in a contiguous territory for losses sustained in other territories remote from the source of production?

Mr. WEIR. Absolutely. That is the principle on which the steel industry operates.

Acting Chairman KING. So you balance your gains, so to speak, with your losses.

Mr. WEIR. Yes.

Acting Chairman KING. Or you balance the returns in a favorable field with the returns in an unfavorable field, and whereas in the former you would obtain a considerable profit, in the latter you would have no profit, and yet you adjust the matter so that perhaps, taking it by and large, you have a very small profit if you have any at all.

Mr. WEIR. That is right; that is the basis, I say, on which the industry operates. Each steel company very jealously guards its rights to sell its products in all the consuming markets

Acting Chairman KING. Do you sell some at a loss?

Mr. WEIR. In certain markets at times.

Mr. FELLER. Mr. Weir, it is precisely that queston that I am trying to elucidate here. Should it jealously guard its rights to sell in all markets, under the conditions that we have assumed, a low rate of operation for the industry, I shall examine it now on the basis that you have placed for us. You make your price to the automobile companies in Detroit taking into consideration your entire sales problem, selling everywhere. And let's assume again that the price is \$2.20. Now, let us take a Pittsburgh steel producer who is in an inferior position to you from two angles: First, he is further away from Detroit; and, secondly, he not quite as efficient as you. His costs are higher, so that over all, on all his sales, he would perhaps lose money in this period.

Now, are you suggesting to that producer that he should not sell steel in Detroit at all unless he can get for his steel his cost plus a reasonable profit?

Mr. WEIR. No. Detroit is only one consuming territory in which he sells.

Mr. FELLER. I am assuming the major part of the demand has come from the automobile companies. That has happened occasionally, hasn't it?

Mr. WEIR. When you say the major part, the difference in percentage I would say will be very small. When the general business is poor the automobile demand is poor; when general business is good and demand for other products goes up, the automobile demand goes up. There may be a difference in the automobile industry. The automobile industry in good periods might use 15 percent of the steel produced. In bad periods it might use 20 percent.

Acting Chairman KING. Without intending to express any opinion from the form of the question I am prompted to ask, does not the theory that you should guard your markets wherever they are tend to preserve the competitive system; that is to say, if you made reasonable money in a given area in which you were favorably situated, and you abandoned a more distant area where you had some losses or at any rate very small profits, if you abandoned that field it would result in a lack of competition, and surrender to the person or company that occupied that field an opportunity to charge prices entirely too great?

But by preserving your fields, even though you sold at a loss, or at least a very small profit, would you not, by preserving that field and entering and continuing in that field, tend to protect the competitive system?

Mr. WEIR. Absolutely.

Mr. HENDERSON. I gathered, Mr. Weir, from your speech something which is directly contrary to the answer you have given to Senator King. As I gathered from this, you are suggesting that each producer get a rate which covers all his cost, including the cost of carrying unused capacity, and returns a reasonable profit and then you denominated the profit system as the American system elsewhere in your speech.

Mr. WEIR. True.

Mr. HENDERSON. Well, now, under the condition that the Senator has outlined, a company would be doing business at a loss, and therefore it seems to me it inevitably follows that you would consider that company un-American, and therefore not following the maintenance of competition.

Mr. WEIR. Well, I don't know whether you were here, Mr. Henderson, when I made an explanation of that.

Mr. HENDERSON. I regret very much, Mr. Weir, that I was not.

Mr. WEIR. You may sell at a loss in a certain territory where you have a heavy freight disadvantage, but that is only one territory.

Mr. HENDERSON. There are years, even at the 35-percent level of operation, when some of the steel companies cannot cover their costs. Their break-even points are higher than that. United States Steel indicated recently it was around 50 percent. If I followed your outline it would mean that United States Steel would stay out of the market rather than take a loss, and if they take a loss they are un-American.

Mr. WEIR. Well, they said 50 percent on certain prices. Probably on the existing prices that they are receiving it would be 50 percent.

Mr. HENDERSON. That's right.

Mr. WEIR. Prices, I say, are too low on that basis. I say, the prices should be higher.

Mr. HENDERSON. What price do you mean, the base price?

Mr. WEIR. Yes; the prices they receive per ton for their product are too low, and that has been general in the steel industry.

Mr. HENDERSON. But your proposition was very specific that each individual company ought to set its price based on its costs.

Now, in this situation that Mr. Feller has outlined, and in the one that the Senator has outlined, obviously the most favored producer in that market prevents other companies from capturing their costs and a reasonable profit, and therefore it necessarily follows, it seems to me, under the very terms of your outline, that they have to stay out of the market in order to meet your terms.

Mr. WEIR. No; I gave an explanation of that using our own operation in Detroit as an example.

Mr. HENDERSON. Yes.

Mr. WEIR. We produce sheets and other steel products in Detroit; the prices that we make to the trade in Detroit that buys our product is a price that covers an average cost situation, including the freight absorptions that we must make through going into territories that are not so favorable. I mean that is all part of the cost. We don't pretend at any time to make a price in Detroit that represents the lowest cost that we can make on sheets, forgetting all of the other territories and the higher costs that we have through the freight absorption. After all, it is an average cost.

Mr. HENDERSON. That is your own cost, you mean.

Mr. WEIR. Of course. It has nothing to do with anybody else's.

Mr. HENDERSON. And your own average costs are lower. Let's see, I took a 10-year period at one time from about 1927 to and including 1936, and as I recall, the rate of profit of your company was something like 6¼ percent. That was for that 10-year period. There was only one other company that exceeded you, and in that same period the average earning of the industry was about 2¾ or 2.9 percent, something like that, and some of the companies larger than yours, of course, had lower than 2.9.

Mr. WEIR. That is right.

Mr. HENDERSON. Now, your costs are admittedly in the industry much lower than the rest of them, even your average costs and I have great admiration for the way you have been able to reduce them. Therefore if your pricing policy became the pricing policy for the industry, if they accepted your contention, there are many, many concerns that would not sell because they cannot get a profit.

Mr. WEIR. Why not? If we have an advantage in cost or location, that is our advantage, and we want to take advantage of it. The average of the industry must be a determining factor in the industry's position, and if we are able to make more money than the average of the industry, that is something that we want. You can't level them all down, see.

Mr. HENDERSON. That is right, but you propose to level them all down to your costs.

Mr. WEIR. No; I don't say that at all.

Mr. HENDERSON. Let me get to what you suggest should be the price policy. You say, "It is the job of each individual company to see that its price covers its own costs, not empirically established average costs of an industry," and then you go further and indicate what would happen if your general policy was adopted, that prices would inevitably gravitate to the point at which the more efficient producers can cover costs and make a profit.

(The witness nodded in the affirmative.)

Mr. HENDERSON. And that the low price established this way is an economically sound basis.

Mr. WEIR. Well, our record that you refer to there, Mr. Henderson, indicates that we don't use this lower cost that we may have lower average cost, possibly through a better average location. We don't use that to go out and operate, we will say, full, when the balance of the industry can't meet those costs and operates at 30 or 40 percent. We try to take that in additional profit. I set no limit on the profit that a company can make. I mean——

Mr. HENDERSON (interposing). Just so it is reasonable.

Acting Chairman KING. If you obtain satisfactory profits, a little more than satisfactory in some commodities and in some sections of your operation, that sort of recoups the unsatisfactory profits obtained from your other parts of your operation.

Mr. WEIR. Yes, we have to do that. As I say, it has to be an average proposition.

Mr. FELLER. Mr. Weir, I am interested in seeing just what management should do in line with your suggested price policy. Let's take a specific case. Let us take the United States Steel Corporation in the last months of 1937. The testimony of Mr. Fairless indicated two important things, first, that the prices had been increased. The base price had been increased in the early part of 1937 in order to meet the increased costs and in order to insure the company a reasonable profit.

The second thing that he indicated was that beginning in the latter half of 1937 the United States Steel Corporation was not getting those prices. It was realizing something considerably below that price. Now, speaking as a practical man, what should the United States Steel Corporation have done in the last month of 1937. Should they have refused any business which they could not get at the published base price?

Mr. WEIR. Of course not, they have to maintain their position in the market. What I have been criticizing is the extreme competition that brings about prices that are so low that they have to operate below cost. Those extreme prices may not have been caused by the steel corporation. They may have been caused by some other competitors. But I am saying, in my remarks—they are addressed to the company who willfully and specifically, in terms of competition, goes down to a point of selling their product below cost, and which, of course, affects all the other standard companies. None of them can lose their competitive position.

Mr. HENDERSON. Then you are criticizing the company that takes the action that Senator King outlines.

Mr. WEIR. Selling below cost.

Mr. HENDERSON. In order to keep their position, yes. And you say that competition drags down prices.

Now take this occasion when the United States Steel was confronted with low volume in that last quarter Mr. Feller spoke about, and the first quarter in 1938. Based upon their break-even point, they would have had to get the base price plus the full extras in order to meet the terms you are suggesting. And they didn't. They took less for realization, and they got to a point where, in order to meet your terms, they would have had to get more than the base price in order to cover their costs—even though they produce 35 percent of the market. If they had posted or quoted a higher price and attempted to get it, then their margin and their competitive position with relation to you would have been absurdly out of line, much more out of line, would it not?

Mr. WEIR. You are talking about their posted prices.

Mr. HENDERSON. Yes; but I am talking about the necessity that might fall upon them to meet this price theory you have expounded. They would have had to increase beyond those base points, and they were having difficulty, as the testimony shows, in getting anything like the base price. The realization was several percent under that. Now, that would mean that they would have to increase their price in order to cover their costs, and the costs for idle capacity and a reasonable profit, and since they couldn't get it, they would have to stay out of the market.

Mr. WEIR. No.

Mr. HENDERSON. Then I must say that——

Mr. WEIR (interposing). I think they testified that they were not able to secure even their published prices at that time.

Mr. HENDERSON. That is right, but they lost money.

Mr. WEIR. They did, and somebody was responsible for breaking the prices down considerably below those published prices. It may have been the corporation, I don't know, but somebody in the industry broke the prices down to a point at which the Steel Corporation and everybody else had to sell on a basis of where there was no profit, and they had a loss.

Mr. HENDERSON. Did they do it in order to keep their position? We had testimony yesterday concerning what Inland did in that period in order to keep its position in tin plate. They broke the tin-plate price for certain things.

Mr. WEIR. That wouldn't necessarily follow that they had to do that to keep their position. If they did it—I don't know—for the purpose of increasing their position in the tin-plate situation. It is done for a number of reasons.

Mr. HENDERSON. I think the letter indicates that it was to try to keep their position.

Acting Chairman KING. May I interrupt right there?

Mr. HENDERSON. I just want to see whether I have misread this. It is very easy, Mr. Weir, as I know, for some one to misinterpret what your theory is.

Mr. WEIR. Very easy.

Mr. HENDERSON. I think I have been in that situation once or twice myself. I don't want to be under any misapprehension as to what your price theory is in this particular case. But what is wrong with the interpretation I have placed on your theory as it applies to United States Steel in these periods that I have mentioned?

Mr. WEIR. I am criticizing the company who inaugurated the prices that were below cost.

Mr. HENDERSON. You mean the one that touched it off?

Mr. WEIR. Yes; absolutely. I am talking to that particular company or companies.

Acting Chairman KING. Suppose at that time that the company which reduced prices found such sales resistance that it affected not only that company, but others, and in order to break the dam, and to keep some of the plants in operation, rather than close them down, it lowered prices even below cost, that course would fall under your condemnation?

Mr. WEIR. Yes, because experience has shown that no company gets any particular advantage through so doing. They cut this price today below the standard, the fair standard, and below their costs. Tomorrow it is known, because there are no secrets about the price situation in the industry. The buyer that received that price took advantage of it tomorrow by telling some other competitor what the price was and what he would have to do to get his share of the business. The result of it always is that no one company gets any particular advantage in operation or in tonnage, but it does have the effect of breaking the standard of prices down for the industry below a fair price.

Mr. HENDERSON. The company that does that thinks it is getting an advantage in relation to covering its overhead costs, doesn't it? And as I gathered from your paper and from your testimony now, you felt that they weren't correct in that, that they were exercising poor business judgment when they did something like that.

Mr. WEIR. They are not only breaking the price on this particular sale on themselves, they are breaking the price on practically everything they sell, because I say——

Mr. HENDERSON (interposing). I gather this is a serious thing in your industry. Time and again somebody does break the price thinking it is to his advantage to do it.

Mr. WEIR. Yes, it is a rather common practice. As I have stated, there is extreme competition in the steel industry. The corporation puts out its prices at the first of every quarter, but the actual prices are made through the day by day competition in the market. It has been unfortunate over these last 9 or 10 years that this competition eventually has resulted in prices that have been so low and below the costs so that the companies on the average have netted a loss.

Mr. HENDERSON. Let me ask you this. In the period when you were building up National, particularly in the period when you were developing Weirton, what was your practice about cutting below the base price?

Mr. WEIR. Well, of course, the theory on which we operated, Mr. Henderson, was that we were meeting competition.

Mr. HENDERSON. Do you mean that the theory you operated on was that you never initiated it but that you met it? Is that it?

Mr. WEIR. That was the theory.

Mr. HENDERSON. It wasn't the actual practice, though, now was it, Mr. Weir?

Mr. WEIR. I certainly wouldn't say so.

Mr. HENDERSON. Then to that extent you were doing just the thing that calls up the condemnation Senator King has indicated.

Mr. WEIR. No, the condemnation is not of the practice of competing and not securing prices that have been posted by the Steel Corporation, but the condemnation is carrying the competition to the point of where the prices eventually get down below the cost of production. I have no criticism of the competition that exists in the market from day to day.

Mr. HENDERSON. You have met it very adequately because over a period of time your operating results show that. There have been times, for example, take 1937, when your net after all charges was close to 18 percent, wasn't it?

Mr. WEIR. Eighteen percent on the——

Mr. HENDERSON (interposing). On stock surplus and earned surplus.

Mr. WEIR. I don't remember the figures. I doubt whether it is that high.

Mr. HENDERSON. I have made this computation from the prospectus that you filed with the Securities and Exchange Commission. It may be off a percentage or so.

Mr. WEIR. Are you speaking about the net after-all charges, interest charges, and everything?

Mr. HENDERSON. Yes; after something like five million of Federal taxes, too.

Mr. WEIR. I don't think it was that high, Mr. Henderson.

Mr. HENDERSON. I made a fast calculation.

Mr. WEIR. 1937 was a good year.

Acting Chairman KING. Over the past 10 or 15 years, how many years have you had no profits, paid no dividends, no returns to the common stockholders?

Mr. WEIR. We have never been in the red, Mr. Chairman. We have always paid some dividends, although they have been very small.

Acting Chairman KING. What dividends have you been paying generally?

Mr. WEIR. This last year we paid a dollar a share on stock selling today at about 75. This year we are paying on the basis of $1.60.

Mr. HENDERSON. You made about six and a quarter percent between 1927 and 1936, as I remember.

Mr. WEIR. On the average.

Mr. HENDERSON. Yes; on the average, and that was a period when you had at least double the average for the industry and many times more than some of the most important of your competitors in the industry.

Mr. WEIR. Yes.

Mr. HENDERSLN. I gather in that period when you were aggressively building up Weirton and later National, that because of your lower costs you were able to keep this policy you outlined in the speech you made and that you very seldom were driven to the place where you couldn't recapture your costs including idle capacity and a reasonable profit.

Mr. WEIR. That is true, but I didn't indicate that we had made prices on account of our ability to make some profit during that period. We had gone out in the market and met prices; of course the average of the industry was at a loss.

Our efforts always was to get the best price we could get.

Mr. HENDERSON. But in this 1937 experience that I refer to, if you had taken, say, the average of your 10 years from 1927 to 1936 you would have been able to cut the price rather substantially, would you not?

Mr. WEIR. Undoubtedly, undoubtedly. We had no disposition to do that. Prices fluctuated greatly during that period.

Mr. HENDERSON. Yes, but the net result was a rate of earning in 1937 which was at least double what the average had been from 1927 to 1936 in your company and you were in a position, if you wanted to follow rigidly the price policy you outlined, of being able to cut that price.

Mr. WEIR. No, I didn't say anything about that. I put no limit on what a company can make. I put no upper limit on what the prices should be.

Mr. HENDERSON. Even the term "reasonable" isn't a limit?

Mr. WEIR. Well, in my opinion, of course, our earnings have never been unreasonable.

Mr. HENDERSON. I have never yet met a businessman who did feel that way, because he felt that that was a reward for his particular efficiency and marketing ingenuity. But certainly in terms of what you outline here, unless you assume that something way beyond the rate of profit in the industry is not unreasonable, you could have cut the price substantially.

Mr. WEIR. That hasn't been our practice.

Mr. HENDERSON. What I am suggesting is that you didn't in that period follow your policy. Other companies less advantageously situated for whatever reason, are driven to the conclusion, as I am, that they either have to stay out of markets in periods when they can't meet your terms, or be considered un-American. I can't get any other connotation out of it.

Mr. WEIR. Mr. Henderson, my condemnation is of prices that are made below costs. I put no limit on what a company should make or could make. I mean if we had been able to sell our product on a basis where we made a profit, I put no limit as to what that profit could be, except it be a reasonable profit.

Acting Chairman KING. In view of the fact that so many of the companies have been in the red for years is it not evidence that there has been fierce competition in the steel industry?

Mr. WEIR. Why, of course. It speaks for itself.

Mr. O'CONNELL. That is what you are complaining about.

Mr. HENDERSON. That is what he objects to.

Mr. WEIR. I can't view this industry simply from the point of view of my own company. I must look at it from the total over-all picture.

Mr. FELLER. Mr. Weir——

Mr. WEIR (interposing). May I go on?

Mr. FELLER. Yes; please.

Mr. WEIR. One of the very important and essential things in the steel industry is the quality of products that are produced. There is constant change, constant improvement in that quality, all of which requires enormous expenditures of money. Over recent years there has been a great change in the method of producing sheets and of producing tin plate, going from the hand method to the continuous mill method. That has required a tremendous investment. We have one mill at Detroit that we built a few years ago on which we spent $25,000,000 alone for that mill. That was to introduce in that particular company, this new method of rolling sheets. That produced a quality that was so superior to the quality that had been produced in the old mills that it allowed a great improvement, we'll say, in the quality of the automobile as one example. Now, that is a necessity within the industry. It doesn't apply only to our company. So that the whole industry must in some way get a return on its sales and its operations that allows it to keep up this development that has been so valuable to the consuming public. I don't see alone the position of my own company. Of course when I say that I don't think anybody should sell products below cost I know if that practice is continued it would be detrimental to the steel industry as a whole and in the long run anything that is detrimental to the industry as a whole is bound to be detrimental to my company in some way, shape or form.

Mr. HENDERSON. Isn't the assumption in the competitive theory of a system of profit and loss, which is what I was talking about as the American system—I think Senator King has referred to it several times himself because he knows what losses mining agencies and institutions have suffered—that under——

Acting Chairman KING (interposing). There are 90 losses where there is 1 gain.

Mr. HENDERSON. That under fair competition and constant adjustment to supply and demand you will get a price which to the efficient producers, will yield a profit and will enable them to continue, as you have indicated. That profit will be sufficient to determine the allocation of factors in the reward that they get—wages, building of new equipment—and will be sufficient to maintain that industry's growing needs. What I am suggesting is that perhaps what has been taking place is a constant impact on the price, certainly some of it due to your vigor and that perhaps what is needed is not less of it but more of it; I mean there is a reasonable assumption in terms of the competitive theory that there ought to be more of it.

Mr. WEIR. Should be more competition?

Mr. HENDERSON. Yes.

Mr. WEIR. Well, it is pretty hard for me to visualize in the steel industry how there could be more competition on price without ruining the industry. It is so extreme now that the industry operates at a loss, and after all, that is a very definite fact, it is not a matter of theory. This industry over a period of the last 10 years has lost money. That money has had to come from some place. Where does it come from? The operation of these mills, the protection of the organization, the protection of the trade, is a practical matter. That can only be done when there is money coming from some place to keep the companies going, to keep them alive, to keep them developing and meeting the continual new requirements of the country. When the industry loses, according to my figures, over a period of 9 years of the stockholders' money $80,000,000 and they have had no return whatever over that period, that is a very practical matter, not a matter of theory. The money must come in.

Mr. HENDERSON. I disagree that it isn't a matter of theory. I don't concede that the steel industry today does not operate upon a certain theory. Certainly——

Mr. WEIR (interposing). They don't agree on the theory apparently.

Mr. HENDERSON. They may not agree on the theory, but there is a theoretical background as to the general basis upon which the steel industry operates. It does have a pricing policy, it has certain mechanics such as the basing point and the extras by which it operates. Long before this period of which you speak, Government agencies such as the Federal Trade Commission were suggesting that there was something wrong with the theory of that pricing policy. They were suggesting, to take it in terms of the price rises in '36 and '37, as was amply testified to by Mr. Grace here yesterday, that a theory of pricing policy that assumes there should be a rise in price with rising demand and a reduction in unit costs helps to destroy demand and to disorganize the industry. I submit that there have already been three theories advanced before this Committee, Mr. Chairman: One, the theory of prices and price making by the Steel Corporation; another by Mr. Grace yesterday; and another by Mr. Weir today.

Acting Chairman KING. I assume there may be more theories and this committee, acting as judges, I assume, after a reasonable investigation, will in their findings which they will subsequently make, it is presumed, indicate which of the theories they regard as sound and which they regard as very fallible. Perhaps none are infallible. As far as I am concerned I am here to listen and to get all the information I can and any statement which I made was not intended to convey the idea that I have prejudged the case.

Mr. WEIR. I know that. Mr. Henderson, I don't understand the difference between the theory of the Steel Corporation and the theory of Mr. Grace and the theory of myself. I don't know that they touched particularly on this matter of developing products below cost. This is one item.

Mr. HENDERSON. It is the central thesis of your address.

Mr. WEIR. The theory has been entirely a basis of a fair, reasonable price.

Mr. HENDERSON. It has not been your theory that if they can't get enough to cover their costs and a return on idle equipment, which is very substantial in many years, they would stay out of the market?

Mr. WEIR. I haven't advocated that at all.

Mr. HENDERSON. I think it follows.

Mr. WEIR. Not necessarily. I said that companies that compete must continue the competition. I criticize in that address the company or companies that have inaugurated prices below cost.

Mr. FELLER. Their own costs?

Mr. WEIR. It must be; yes.

Mr. FELLER. Isn't it conceivable that a company may inaugurate a price which is below the published price but which is above its own costs and yet is below everybody else's costs, or below the costs of so many other units in the industry that in order to follow that they must cut below cost and thereby reduce the return of the industry, and isn't that, perhaps, Mr. Weir, the thing which explains your profit showing?

Mr. WEIR. As I say, in these major companies the difference of cost is not very great. We know that. We can make a pretty good estimate of what the costs are.

Mr. O'CONNELL. Can that be demonstrated to be the fact, that there are no substantial differences in costs between the steel producing companies?

Mr. WEIR. I think so; yes. Their location and employment on the average is much the same.

Mr. O'CONNELL. What is the explanation of the substantial differences in return of the different companies over periods?

Mr. WEIR. That may be a matter of management for one thing.

Mr. O'CONNELL. It has to do with costs.

Mr. WEIR. Management has a great deal to do with costs.

Mr. O'CONNELL. That is right, and might it not follow that because of different types of managements you have a substantial difference of costs between the companies? Wouldn't it also follow that you are possibly being a little too dogmatic in saying that everyone knows there are no substantial differences in costs between the steel companies?

Mr. WEIR. When I say substantial differences I mean differences that would make a great difference in the ability to sell at certain prices.

Acting Chairman KING. There is a great deal of difference in the freight rates, isn't there, from Detroit to Birmingham and from Detroit to the immediate neighborhood?

Mr. WEIR. I think, Mr. Chairman, though, that for the companies pretty well covering the whole country in selling into these different territories, I would assume that their freight absorption on the average is not very different.

Acting Chairman KING. Isn't there a difference in costs as to the prices of ores, between those who have mines of their own and those who do not?

Mr. WEIR. Very little difference. There has never been very much profit in the ore business. There is so little profit in the ore business that the fellow that buys his ore on the average I should say is about as well off as the fellow that owns his property and produces it.

Mr. O'CONNELL. Do you buy your own ore?

Mr. WEIR. No; we mine all of our own ore and are a seller of iron ore.

Representative WILLIAMS. Would you say the reason for loss in some companies and gains in others was by reason of the fact that they went out on the market and by this pricing policy reduced the price and made concessions and reductions from the base price to such an extent that they sold below cost and by that reason actually lost?

Mr. WEIR. That would be one reason; yes.

Representative WILLIAMS. You take the record here of the United States Steel during '38, it was perhaps a loss or very little gain, if any, while you had a sustantial profit. Would that explain the difference between your policies, between your gain on the one hand and their loss on the other, that they sold their products below cost while you didn't?

Mr. WEIR. They must have done that.

Representative WILLIAMS. I asked you whether you think that is the cause of that difference, whether it is a matter of pricing policy between them and you? Or is it for some other reason? That is a fact according to the record here. I am simply asking your judgment, your explanation, of that difference.

Mr. WEIR. I think it is a little easier for a company of our size to operate and make a profit than it is for a company of the size and ramifications of the Steel Corporation.

Mr. FELLER. I think one of the most important statements that has yet been made has been made right here; one of the most important statements made before this committee.

Acting Chairman KING. What was that? The size of the company has something to do with profits? There has been some effort tending to show that smaller corporations do not have some of the difficulties that larger corporations and larger units have, and therefore they have profits when the larger units do not have.

Mr. REYNDERS. Mr. Chairman, I should like to call attention to the fact that the Steel Corporation is in a great many lines of products which have to do with capital expenditures. This sheet business has been running at a somewhat higher rate than structural steel, plate, rails, and the Steel Corporation's earnings are an average of all these products, some of which have not been in as good shape as the sheets.

Mr. O'CONNELL. Is your company in the business of producing a pretty wide range of products?

Mr. WEIR. Oh, yes.

Mr. O'CONNELL. Does it compare with the range of products produced and sold by the United States Steel Corporation?

Mr. WEIR. Oh, no. No company except Bethlehem, I think, has anything like the range of products.

Mr. O'CONNELL. Are you in substantially all lines that they are in?

Mr. WEIR. Well, of the large standard lines we are in all of them except pipe and wire, and they make a wide range of specialties.

Mr. REYNDERS. But you have only been in structural in the last year?

Mr. WEIR. We have made structural steel for 5 years.

Mr. REYNDERS. You don't build any ships?

Mr. WEIR. Oh, no.

Mr. O'CONNELL. Would it be fair for me to understand that the record of earnings of your company over the period of the last 10 or 12 years would support your recent general statement to the effect that the smaller companies in the steel industry are able to operate at a lower cost and more efficiently than the larger companies, such as the Steel Corporation?

Mr. WEIR. Oh, I don't say that about all of them. The record shows that some of the smaller companies also have not made money and have lost money.

Mr. O'CONNELL. You indicated generally that——

Mr. WEIR (interposing). I was speaking about our own company.

Mr. HENDERSON. General Johnson—pardon me, I thought you were through.

Mr. O'CONNELL. The statement you made was a rather general one, that in your judgment the smaller companies did have certain advantages in terms of costs.

Mr. WEIR. I was thinking particularly about our own company because I know more about that.

Mr. O'CONNELL. Certainly insofar as your company is concerned your record of earnings as compared to the larger companies would tend to support that belief.

Mr. WEIR. Oh, yes. On the average I think in times when the demand for steel is great and operations are heavy that the Steel Corporation has a very definite advantage over the rest of us; they have very substantial transportation profits which the rest of us do not have.

Mr. O'CONNELL. You mean that the rate of return as compared to their investment would tend to be higher in those periods or they just get more profits?

Mr. WEIR. They might; their cost per ton I should think would be lower.

Mr. HENDERSON. I don't think the record of profits, Mr. Weir, shows that. General Johnson quoted you on November 3, 1939, in his column, in this wise [reading]:

> In Pittsburgh the other day I heard one of our greatest industrialists, E. T. Weir, say exactly what I have heard Judge Brandeis say: "The trouble with our great economic empires is that they are too big for any single human mind to manage. There aren't enough brains." Weirton papers please note.

Is that a correct quotation?

Mr. WEIR. No; it certainly was not. I didn't make that remark. General Johnson and I had a conversation for about an hour and a half and there were many things said, but I didn't make that statement. I think I did make a statement criticizing management for not making sufficient profit out of business.

Mr. HENDERSON. Now that gets back to something I wanted to speak about——

Acting Chairman KING. I think Mr. Reynders wanted to ask a question.

Mr. HENDERSON. Pardon me, Mr. Reynders.

Mr. REYNDERS. I didn't want the impression to prevail that your company, Mr. Weir, was anything like as diversified as the Steel Corporation. Their customers are in the railroad business, which has been a very poor buyer, and shipbuilding, during this period of depression, bridges and building. The percentage of the Steel Corproation in sheets and strips has certainly been very much less than your percentage. I mean you are essentially a manufacturer of sheets and strips.

Mr. WEIR. No; we are nothing of the kind, Mr. Reynders. We have a diversified line of production.

Mr. REYNDERS. What percentage of your business is sheets and strips?

Mr. WEIR. I should say offhand 25 or 30 percent . We make quite a diversified line of production. I did say, you will remember, that in the period it was a lot more difficult for a large company like the Steel Corporation with its various ramifications to make a profit equal to ours, particularly when the demand is off. In good times when the demand is great the Steel Corporation has the advantage. I would say that probably today their costs were below ours.

Mr. REYNDERS. Essentially speaking, your business is in the consumer-goods line, tin plate which goes into canneries, sheets which go into automobiles; that certainly has been more active in both cases than any of these other lines.

Mr. WEIR. There is no product within the industry that I know which has a lower price than sheets today.

Mr. AVILDSEN. Mr. Weir, I think Mr. Reynder's point is, do you do a substantial rail business, for example? Do you have a large rail mill that might have been lying idle for a long time?

Mr. WEIR. We have a rail mill but we haven't made rails.

Mr. AVILDSEN. Is that a substantial part of your set-up, to make rails and heavy plates and bridge material, and so forth, such as is true of the corporation?

Mr. WEIR. Well, nothing like the percentage that they have in that particular product.

Mr. AVILDSEN. That is what I mean. They have been at a disadvantage in that the heavy industries, buidling construction, railroads, bridge builders, and so forth, have been inactive for a long time. Isn't that true?

Mr. WEIR. Yes.

Mr. AVILDSEN. You have a very small percentage comparatively of that kind of business and a very large percentage of the types of steel which have been in active demand. Isn't that true?

Mr. WEIR. Understand, I said nothing in criticism of the Steel Corporation.

Mr. AVILDSEN. I am just trying to clear the record here and get at the facts, that is all. If there is an essential difference between the nature of your production and the nature of their production, we should know about it because it affects the question.

Mr. WEIR. With respect to that I think the matter of price has a lot to do with it. I say today that one of the worst things in the way of price structure is sheets. I would very much rather manufacture structural material or bars or plates or shapes. We can make plates, by the way. I didn't mention that before.

Mr. HENDERSON. The sheets go to big buyers who have an organized buying strength and tend to press the price pretty close; the structural materials go to individuals of smaller size and they tend to pay more nearly the base price?

Mr. WEIR. I don't think there is any organized buying activity on the part of the automotive people. Each one buys for himself.

Mr. HENDERSON. I had in the N. R. A., running at the same time, a study of the automobile industry and a study of one function of the steel industry. Almost without exception the steel industry complained about the extraordinary amount of close bargaining the automobile manufacturers did. The automobile manufacturers, on the other hand, were constantly complaining that the steel people were keeping prices above what they felt was a reasonable level. I wondered whether that difference in bargaining strength as between the automobile companies—not an organized buying strength—and those who buy structural steel didn't have something to do with the difference in the realizations.

Mr. WEIR. I don't think that the low prices that exist in the sheet industry today are the result of any undue pressure on the part of the automotive buyers. I think it is the result of the weakness in the selling, the merchandising.

Mr. HENDERSON. Failing to follow your thesis.

Mr. WEIR. The automobile people, in my experience, have always been willing to pay a fair price. It has been stated in publications that they are constantly putting pressure on the market. I don't think they put any undue pressure on the market. They know the methods by which steel is merchandised, they know the weaknesses that exist and they are out at times to try to find out what is the price.

Mr. HENDERSON. I didn't suggest any undue pressure. I was saying that because of their size and strength and because of their very knowledge of these weaknesses they are able to trade better and as a result you get a weaker price on sheets than on structural shapes.

Mr. WEIR. I think all buyers of steel buy on a strictly competitive basis.

Mr. HENDERSON. Isn't there a difference in the degree of competition?

Mr. WEIR. Just as there exists in the different quality of the different purchasing agents. Some are more aggressive than others. I don't think you can apply that to any consuming industry as an industry. I think it depends on the individual pressure of the purchasing agent.

Mr. HENDERSON. How do you account for the fact that the steel industry has such a bad merchandising policy on sheets?

Mr. WEIR. I think the merchandising policy is bad not only as regards sheets, Mr. Henderson, but as regards all other products. Sheets are not the only product that has been sold below cost. Other products have been sold below cost too.

Mr. HENDERSON. On that matter of selling below cost, would you want to state the companies in the industry which initiate this selling below cost in times of stress? Is it the corporation?

Mr. WEIR. I can't put my finger on any particular company and say that they do or they do not.

Mr. HENDERSON. I thought you told me in response to some other question that a price cut was known immediately to the industry, that you couldn't keep it concealed.

Mr. WEIR. Well, but we do not know the name of the company which made the price cut.

Mr. HENDERSON. You just know that there has been a price cut?

Mr. WEIR. Yes.

Mr. HENDERSON. Don't you know as a matter of fact what the principal sources of supply are for most of the big buyers of steel, what their customary trade lines are?

Mr. WEIR. Yes; the larger buyers ordinarily buy from practically all of the producers, or a large percentage of the producers, so that we might have a suspicion as to who was introducing an extremely low price, but we would have no definite assurance of it.

Mr. HENDERSON. There is no open-price system now by which you would be able to know that?

Mr. WEIR. No. If I would ask, If I had a suspicion that a certain company had made a low price and I would ask the principal of that company, I probably wouldn't get the facts.

Mr. HENDERSON. I disagree with you on the basis of other things I happen to know. Taking it just on the basis of Mr. Pfeltz' letter to Dr. Baker, he got it out of Block, of Inland, as far as that Campbell Soup contract was concerned, and he got a substantial rebate on his own item because of it.

Mr. WEIR. I don't know anything about that.

Mr. HENDERSON. You may not find out in every case but I have good reason to believe that you do track it down pretty well.

Mr. WEIR. No. I am talking about it from my own experience, which goes over a long period.

Acting Chairman KING. That is a leading question.

Mr. HENDERSON. I am trying something that you lawyers would of course object to; I am trying to lead the witness.

Mr. WEIR. In the great majority of cases we do not know who is responsible for the extremely low prices.

Mr. HENDERSON. Therefore, if each of them would follow the advice you gave them every day in their own offices, to do their part about seeing that their own companies earn a profit, that would take care of that situation.

Mr. WEIR. Yes.

Mr. HENDERSON. What would that do to capacity, Mr. Weir, to building capacity?

Acting Chairman KING. Obsolete machinery?

Mr. HENDERSON. No, building new capacity.

Mr. WEIR. The steel industry has always been very liberal in providing additional capacity; even during this period of depression they have been building; the industry always has peaks such as it is having today, such as it had in 1937 and in 1929, you will always find that the industry will build up to take care of those peaks. That has been a principle in the steel industry.

Mr. HENDERSON. Suppose all of them had a pricing policy which yielded the standard of 7 percent which you set in your speech and which they made in 1928 and 1929. I think you said that judging by results these profits must have been reasonable.

Suppose the steel industry adopted your pricing policy and each of these companies with a wide degree of variance in cost, as has been shown, recaptured their costs and made a profit. What would that do in terms of attracting new investment into the industry?

Mr. WEIR. Well, based on past experience, Mr. Henderson, it would not result in increasing the capacity beyond the expected requirements. You have the history of the steel industry over a long period. You have a period when it had the opportunity of going into the money market and getting what money it needed. Yet I don't think that it has ever built to extreme. The demands on it within a few years following have always taken up the slack for a period.

Mr. HENDERSON. Would you say that is true about structural shapes?

Mr. WEIR. Oh, yes; absolutely.

Mr. HENDERSON. Don't you think there is an excess capacity in structural shapes?

Mr. WEIR. Based on the demand today?

Mr. HENDERSON. Based on the peak demand.

Mr. WEIR. Well, of course that is a very variable thing, don't you know.

Mr. HENDERSON. I am asking your opinion because I have it that on tubes, wire rods, structural shapes and rails there is a tremendous excess of capacity even in high periods.

Mr. WEIR. And yet today the steel production, the whole steel being produced, is all taken up. As I say, it is a very variable thing. A structural mill, we will say, can produce 75,000 tons a month if they have the steel, or they may operate it at 10,000 or 15,000 tons per month if they want to put the steel into some other product.

Mr. HENDERSON. I take it that your answer is that you do not think there is an excess capacity in these four categories I have mentioned.

Mr. WEIR. There is no excess capacity in steel today.

Mr. HENDERSON. Steel as a composite.

Mr. WEIR. Yes. That is the basis from which these finished products are made.

Mr. HENDERSON. If we had all companies getting this profit you think is reasonable, it would be a natural assumption in the economic theory I was taught that there would be an additional increase in capacity, and it would be particularly true if it was the thesis in the industry that nobody would sell unless he got a profit. Don't you think that is likely to happen? Don't you think that if they all sold and got this profit there would be a building of additional capacity?

Mr. WEIR. I say, I can only speak from past experience and that has not been the experience within the industry.

Mr. HENDERSON. But that is the thing you complained about, they haven't made this profit. I am saying if they all did, wouldn't we get a building of additional capacity?

Mr. WEIR. I am speaking here about the present situation and going back over the last 9 years. Prior to that the industry did make money. Every 10-year period the average earnings in the industry I think were satisfactory.

Mr. HENDERSON. What I am suggesting is that if that situation came back and this rigid price policy you have announced were followed, there would be more money attracted into the industry if it followed what is expected in economic theory. And if you say you don't think it will happen, then my response to that is that the steel industry again is different from the rest of the industries.

Mr. WEIR. Of course the investment required to increase the production of steel is tremendous, and it is certainly given very careful consideration.

Mr. HENDERSON. But we are not having, as you know, full use of our savings now.

Mr. WEIR. I see at no time any disposition on the part of those in the industry, they have such a large investment in the industry, of increasing a basis that is unjustified by the outlook as they see it.

Mr. HENDERSON. But the way we get an excess of capacity in other industries where there is competition and where there is a fair rate of profit is by the return that exists in that industry. That is how excess capacities get built up.

Mr. WEIR. Mr. Henderson, you used the phrase "rigid price policy." I certainly am not advocating any rigid price policy.

Mr. HENDERSON. Not a policy of rigid prices, I understood that, but a rigid adherence, then, to the policy of selling under the terms you have outlined.

Mr. WEIR. Not selling at a loss.

Mr. HENDERSON. The term that you used was, as I recall:

> It means that you must charge a price under any given condition which covers all your costs including the cost of carrying unused capacity and return a reasonable profit.

Mr. WEIR. Any given condition, any average condition that exists at the time. I see no justification for selling 50,000 tons of steel at a loss, and that is done. That is what I criticize. I am in favor of the competition that we have in the industry, but I am not in favor of competition that goes down to the point where some producer establishes a price that is below the cost, a fair average cost.

Acting Chairman KING. That would mean the others follow

Mr. WEIR. They do follow, Mr. Chairman. We have been doing it for a number of years and I have been exercised about it. It is difficult for me to see where this industry, if it continues on this basis, will get the money to continue the improvements and developments that are necessary within the industry. As I say, we can't increase our fixed charges, we can't go out and put any more bonds, any more mortgages, on the property, we can't afford to put out any more preferred stock and we cannot sell common stock.

Representative WILLIAMS. What in your opinion has been the extent to which sales have been made below the cost of production? What part of this business has been conducted on that basis?

Mr. WEIR. I can't give you any percentage but certainly sufficient to result in a loss the industry.

Representative WILLIAMS. Can you give us any idea?

Mr. WEIR. No; I haven't the slightest idea.

Representative WILLIAMS. It must be a rather substantial amount according to the losses that have been sustained by some of the companies.

Mr. WEIR. Sometimes it doesn't require a great deal of tonnage to affect the market.

Representative WILLIAMS. You haven't done any of that yourself.

Mr. WEIR. I wouldn't say that.

Representative WILLIAMS. I thought that was against your policy.

Mr. WEIR. That is against my policy but I am not saying that our own organization follows out my policy. It is a large organization and it covers a lot of territory.

Acting Chairman KING. You are speaking generally that if industry, whether it is steel or any other industry, where there is individual enterprise, continues to operate at a loss in its business it is bound ultimately to get into bankruptcy.

Mr. WEIR. Absolutely.

Acting Chairman KING. And that the capitalistic system or any system must have some degree of profit in order to survive.

Mr. WEIR. Absolutely, it must do that. Business must be profit-minded, it must undertake to make a profit.

Acting Chairman KING. And if you start out with the idea that you are going to be so humane as to sell everything at a loss you are sure ultimately to bankrupt your concern and injure the public generally.

Mr. WEIR. Yes.

Mr. HENDERSON. But you have not sold at a loss, have you?

Mr. WEIR. We may have sold some products. Not on the average.

Mr. HENDERSON. Not on the average.

Mr. WEIR. No, sir.

Mr. HENDERSON. And a number of other companies have not sold at a loss, mainly what we call the medium-sized ones, have they? It is a matter of public record that they haven't. You would have no difficulty in getting financing for additional lines based upon your record, would you?

Mr. WEIR. I don't believe that we, on account of the general average of the steel industry, could sell common stock today to the public, although our common stock has made a profit through all these years and we have paid a small dividend, but on account of the general situation in the steel industry I don't believe that National could go out and sell common stock today at a price.

Mr. HENDERSON. It could get financing at a price which would increase the leverage of earnings of the existing common stock, could it not?

Mr. WEIR. I don't think we could sell it. I don't think there is any market for it.

Mr. HENDERSON. If you anticipated increased business you don't think the public would be enamored by the very amazing record you have made, beginning with Weirton and on through National?

Mr. WEIR. No; I don't. I don't see that our stock on the market is in any great demand.

Acting Chairman KING. In view of the large capacity in the steel industry with its various plants, is there any very great invitation to any person today to go and build new plants?

Mr. WEIR. No; it is a very difficult thing, Senator, because of the enormous amount of money that is required to build these plants. As I say, one mill doesn't supply the raw material for this mill. This is just a mill to roll sheets, semifinished, and finish those sheets and plates, that cost us $25,000,000 for that one mill, and then back of that you must have the raw material, the steel production, pig-iron production, and the ore and the coal. We have spent in the last 10 years in Detroit building this plant, something I think over $100,000,000. It is not by any means a completed plant.

Acting Chairman KING. I assume that in the production of steel by the various organizations which do produce steel, that some of their products yield a profit, whereas some of the commodities or products do not yield a profit.

Mr. WEIR. That is right.

Acting Chairman KING. That is true generally, is it not?

Mr. WEIR. Yes; and that is a fluctuating thing. In a certain period the demand for one product may be better than another, a better price.

Representative WILLIAMS. Do I understand that during the last 10 years generally there has been a substantial increase in investment in the steel industry?

Mr. WEIR. Oh, yes. For 9 years, ending 1938, nine leading companies of the industry spent a billion-one-hundred-and-some-milllion dollars in new development.

Representative WILLIAMS. Does that represent increased capacity in production?

Mr. WEIR. To some extent. In others it means changing the methods.

Representative WILLIAMS. What percentage increase in production would you say has taken place in the steel industry during the last 10 years?

Mr. WEIR. I don't have those figures. They are a matter of record.

Mr. HENDERSON. As to increases in capacity?

Representative WILLIAMS. As to production.

Mr. WEIR. That would be steel production.

Mr. HENDERSON. We have that right here.

Acting Chairman KING. There would be increased capacity in some factors, in some branches of the industry, and perhaps decrease in others because of the obsolesence.

Mr. WEIR. The governing item would be, of course, the steel production. what we call ingot production, raw steel production, because we might build a mill, we might have a production of, say, 10,000 tons a month in some particular line like sheets, and we have of course to build a new mill to provide this better quality and new system. That mill can produce times over that 10,000 tons, but we don't undertake to run it up to its full capacity.

Acting Chairman KING. The technological developments which have improved the product, necessitate the obsolesence of large plants that have cost millions of dollars.

Mr. WEIR. Absolutely.

Mr. HENDERSON. There is no doubt that the American steel industry is in the finest condition it has had for a long time; probably the top of the world, is it not?

Mr. WEIR. Oh, yes; understand my criticism of the management of the steel industry, which includes myself—I am part of the management—is only in the merchandising end. I think that there is no better operated industry in the United States than the steel industry in an operating way, and its technological development, its constant research, and its improvement of products. It is a wonderfully operated industry.

Representative WILLIAMS. In this increased billion dollars in investment during the last 10 years, and plus, as I understood your testimony, where did that come from? Has that been from your depletion and depreciation and obsolescence or by the addition of new capital?

Mr. WEIR. Yes; the industry borrowed over that time five-hundred-some-million dollars of new money.

Mr. O'CONNELL. There seems to be a little inconsistency to me. On the one hand, in the past 10 years over a billion dollars has been invested in the steel industry and also that the steel industry is at the present time in the best operating condition apparently that it has ever been, and for you to say on the other hand that because of pricing policies in the industry it is impossible or prospectively impossible to attract sufficient capital to the industry.

Mr. WEIR. Well, the basis on which you attract new capital is the possibility of getting a return on that capital. As I say, when the industry has been operating, after all of these improvements and this tremendous expenditure of money, at a loss, with no return to the common-stock holders who have $2,000,000,000 invested in the industry, it is certainly no encouragement for them to put any more money in.

Mr. O'CONNELL. On the record, has not the necessary capital been forthcoming in spite of the fact that the return has not been satisfactory? There has been no shortage of capital in the sense that you now have the best operating unit that you have had?

Mr. WEIR. I realize it would be impossible to get more capital.

Mr. O'CONNELL. So you are being theoretical.

Mr. WEIR. No; I am not being theoretical.

Mr. O'CONNELL. At least it is a prospective view and not based on any existing record.

Mr. WEIR. It is based on my observation of the industry and the capital market. I see nobody who is interested in investing money in common stock of steel companies. That to me is a very important matter because if we go along and require more money, and my estimate is that National Steel will have to spend $30,000,000 to $35,000,000 over the next 3 years, the question is, Where do we get that money? That is a practical thing.

I say, I find none of our stockholders, who have been fairly well treated—that is, they have had some returns, very small—interested in buying any more common stock from the company, so with me it is a practical matter of where am I going to get the $35,000,000 if we decide to spend it and I want to spend it.

Acting Chairman KING. We will take a recess until 2:30.

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

AFTERNOON SESSION

The hearing was resumed at 2:30 p. m., upon expiration of the recess, Senator King presiding.

Acting Chairman KING. Are you ready, Mr. Feller?

Mr. FELLER. Yes, sir; may I have Mr. Weir recalled?

Acting Chairman KING. The committee will be in order. Take the stand, Mr. Weir, please.

TESTIMONY OF ERNEST T. WEIR, CHAIRMAN, NATIONAL STEEL CORPORATION, AND PRESIDENT, AMERICAN IRON AND STEEL INSTITUTE, PITTSBURGH, PA.—Resumed

Mr. FELLER. Mr. Weir, you may recall the testimony which was given by Mr. Fairless a day or two ago, and by Mr. Grace yesterday, with respect to the extras and the basis on which they are established. Mr. Fairless stated that the basis for the establishment of the extras was, in his words, a cross section of the costs of the industry. Now, in your speech you said:

> The job of each individual company is to see that its prices cover its own costs, not empirically established average costs of its industry.

Do you feel that the basis on which the extra books have gone out, that is a cross section of the cost of the industry, is an improper one?

Mr. WEIR. No; I think it is a very proper one. There are thousands of these extras. It is particularly for the benefit of the buyer of steel to have standardized extras, or differentials, rather, because they are not all extras.

Mr. FELLER. We understand that some of them are deductions.

Mr. WEIR. With an extremely competitive base price situation, if that applied to the actual price of each article, there being thousands of them, it would be impossible for the buyer himself to know what the prices were from day to day. With the differentials set, and they represent a fair cross section of the costs of the producers, then the fluctuations from the prices from day to day are in the base, so that the buyer knows exactly, whatever articles he looks at, just exactly what his price is.

Mr. FELLER. Then you don't think that your restrictions against following what you call empirically established average costs of the industry apply in the case of the extras?

Mr. WEIR. No; I do not. It is just a matter of practical application of the situation within the industry. It would just be impossible, as I say, for the buyer to know what the prices are of these thousand or more different articles. It may use the base price as the determining factor in determining the fluctuations in the price from day to day.

Mr. FELLER. Well, in taking the base price, at what level would you want the base price established, at a level which would cover the costs of every individual company?

Mr. WEIR. Yes; I said I don't think any of the standard companies is justified in selling the product below cost, on the average.

Mr. FELLER. Over a period of time, you mean, for each company?

Mr. WEIR. Yes. Each individual transaction—I mean we have got to be literal about this situation. The losses that occur to the industry come about from selling over an average period sufficient tonnage below cost so that there is a loss represented in the final figures.

Mr. FELLER. Well, would you say that a company, that every company today—you have a pretty good market now—should sell on the basis which would yield it cost plus a reasonable profit?

Mr. WEIR. Yes; I think so.

Mr. FELLER. Now, let us take the hypothetical unit which is the most inefficient unit in the industry. Wouldn't the result be that the price set by that most inefficient unit would become the price set for the industry?

Mr. WEIR. When referring to the industry I have particularly in mind the really competitive units within the industry. As I said this morning, there is not so very much difference between their average location, their equipment, and consequently their costs.

Mr. FELLER. Well, let's take, for example, the small companies which are still operating the old hand mills for sheets. There are some still in business. Do you suggest that they go out of business?

Mr. WEIR. Well, I think that is inevitable, not because anybody wants to put them out of business but because they have a method that is entirely obsolete, and it not only is not competitive from a cost basis but from a quality basis, in a broad competitive way.

Mr. FELLER. One more question along a general nature and then I would like to ask one or two questions relating to specific situations.

From time to time during the testimony here reference has been made to producing merely to give employment. You may perhaps recall that such a reference was made in connection with iron ore, that there was a period when the iron-ore producers said they were producing merely to give employment, and then reference was made at various points, I think during the testimony of Mr. Pfeltz, I am not quite sure about this, to the effect that efforts were made to continue production in various plants in order to give employment. Would you say that that was unjustified?

Mr. WEIR. No; I think that is perfectly justified. I don't think it has anything to do with the selling price.

Mr. FELLER. But suppose the market is such and the situation of a particular plant or mine is such that it cannot sell at cost plus a reasonable profit in a given situation, then isn't your suggestion that it don't sell at all?

Mr. WEIR. Well, of course, I don't agree that on the average there should be situations of that kind.

Mr. FELLER. I don't think any of us agree. The trouble is that they happen, they happen much more frequently than we like. The problem really is whether your method, the method you suggested, is a workable solution.

Mr. WEIR. Well, it is of just as much importance in the long run. The idea of selling below cost in order to give employment I don't think on the average increases the employment, because I don't think that increases the demand for steel.

Acting Chairman KING. I assume, Mr. Weir, that there are crises in industry, extraordinary conditions, which would result in unemployment, and your general thesis that the industry should be run so as to furnish a reasonable profit instead of a loss would not envisage, in crises to which I refer, that efforts to keep people employed though at a great loss should not be permitted.

Mr. WEIR. People can be kept at employment, ore inventories can be built up. There is no demand for ore that would justify us in shutting our mines down. Instead of that we run the mines and build up inventories of ore to a point that is as far as we can go.

Acting Chairman KING. Do you mean to convey the idea that any crises to which I have referred, when there is considerable unemployment resulting from a variety of causes, that in those temporary situations the industry ought not to run at a loss in order to keep the people on the employable list?

Mr. WEIR. I don't think it is a matter of running at a loss, Mr. Chairman; as I say, the industry can operate and build up her inventories on certain standard articles.

Mr. HENDERSON. I think we theorists had better get our heads together here. As I understood this morning, one of the points you made was that no more business would result from somebody shading the price; that it was your contention and that of others in the industry that there isn't a real increase in demand but merely a shift from one producer to another.

Mr. WEIR. In a period such as mentioned, when there is a very low demand for steel, it is not on account of the price of steel, it is on account of conditions beyond the power of the steel industry to correct. It isn't a matter then of being able to go out and force the sale of a lot of material at any price, because there isn't the demand.

Mr. HENDERSON. On another matter of theory, and I think I ought to say that while the exchange on theoretical ground this morning got pretty lively, that is what happens in the field of theory and I have seen it much more lively among the ivory-towered theorists. Mr. Weir, you mentioned in the three ways by which your industry might get on a profit basis that reduced capacity has been suggested, that this step has been urged by some theorists. Were they theorists within the industry or without the industry, you were referring to?

Mr. WEIR. Well, not theorists within the industry.

Mr. HENDERSON. Of course, in the N. R. A., as you probably recall, proposals for buying or destruction of equipment came from the industry.

Mr. WEIR. I never heard any offered within the steel industry.

Mr. HENDERSON. Where do these theories come from?

Mr. WEIR. That statement was a general impression I had that somebody had said it. I can't think who it was, but it is a theory.

Mr. HENDERSON. It was advanced many times. It was by the paper industry during N. R. A. A proposal was made that a corporation be formed under the sanction of the N. R. A. for the purpose of buying up equipment and plants and taking them off the market. It came from within the industry and was rejected.

Just one more item on theory and I am about through. I just want to recapitulate. On page 7 [1] you explained your price policy about like this—now I am quoting:

> It means only that you must charge a price, under any given condition, which covers all of your costs—including the cost of carrying unused capacity—and returns a reasonable profit.

Then on page 14 of the copy of your speech you ask the question: "What is a reasonable profit?" And then you give the answer on the following page like this [reading]:

> In 1928 and 1929, which are considered boom years in which the American people enjoyed unparalleled prosperity, and the full use of savings was attracted, profits averaged seven per cent. Again judging by results, these profits must have been reasonable.

Now, if this price policy is followed, you say on page 9 [reading]:

> Prices inevitably gravitate to the point at which the more efficient producers can cover costs and make a profit. Lower prices established by this method are economically sound. Any immediate advantages to more efficient and disadvantages to less efficient producers soon even out, because less efficient producers are compelled to increase efficiency at least to the point where they can stay in business.

That is pure, unadulterated, orthodox theory, there is no doubt about it and as something which ought to happen I subscribe to it most thoroughly. But looking at the situation, you see that in 1937 you in your company and some of the other medium-sized companies went considerably beyond this 7 percent you mentioned. When they were tending that way toward the end of 1936, instead of getting lower prices, instead of the orthodox theory working out the way it should and the more efficient getting the business and making their profit and forcing the others to come down, we had a price increase, and the price level, as I have pointed out before, for steel is now about 15 points above the general average of prices. How do you explain why your theory didn't work out?

Mr. WEIR. Well, of course, you are referring only to the one year, Mr. Henderson, and the industry had had a period prior to 1937 that had been very, very lean.

Mr. HENDERSON. Yes, but you were in this period the efficient producer and you were coming pretty close to what you considered the average profit. Then you moved considerably above it and you would expect in orthodox theory that what you would do would be to reduce the price, as for example du Pont does with its newer products, and that you would compel anybody who wanted to stay in business to meet your price with your reasonable profit, or else become as efficient as you.

Mr. WEIR. As I said this morning, I wasn't speaking of an individual producer in this address which you are referring to.

Mr. HENDERSON. Yes, but steel gets produced by individual producers. Price policies get made by individual producers.

Mr. WEIR. After all, you must take into consideration the average situation within the industry.

[1] Of "Exhibit No. 1421."

Mr. HENDERSON. Do you mean by that that the reason why you didn't keep your price or even lower it as volume went up was because you had some other considerations for the industry itself, in other words, taking into account some kind of live-and-let-live policy?

Mr. WEIR. Of course.

Mr. HENDERSON. That is the explanation of it.

Mr. WEIR. In addition to that, I wasn't particularly happy about our own average earnings.

Mr. HENDERSON. Although they came close to what you defined as a reasonable profit.

Mr. WEIR. I am speaking about reasonable profit within an industry on the average. Sometimes it would be up, sometimes it would be down.

Mr. HENDERSON. But this price policy is clear to the individual producer. You suggest that he do it on the basis of his costs.

Mr. WEIR. The individual producer does not sell his product on a basis over a period that produces a loss for him.

Mr. HENDERSON. That is right.

Mr. WEIR. Because by doing that of course he loses money himself and breaks down the standard for the industry, which results in losses on the average for the industry.

Mr. O'CONNELL. That isn't what you said in your speech.

Mr. WEIR. What did I say?

Mr. O'CONNELL. I understood you to say that each individual company should make prices that returned costs and a reasonable profit. That doesn't seem to me to mean the same thing as not selling below cost.

Mr. WEIR. The general theory on which I made this statement was to encourage industry, this particular industry that I was addressing myself to, to handle its affairs on a basis so that it would make a profit, so that it would be profit-minded, and it is pretty hard in an address of this kind to make every point balance. The general theory was that they eliminate selling at prices that resulted in a loss, that they get prices that would result in a profit.

Mr. O'CONNELL. But you don't think that that bad result that they get is because they are not profit-minded, do you? You indicated you were trying to persuade them to be profit-minded.

Mr. WEIR. Yes.

Mr. O'CONNELL. Don't you think the steel industry is profit-minded?

Mr. WEIR. I don't think it has been.

Mr. O'CONNELL. You are speaking now of the results from whatever technic they adopt, I take it.

Mr. WEIR. From my observation, and I am closely associated with the industry from day to day, I think the continued failure of the industry over this period of 10 years to make a profit is certainly the result of not being profit-minded, sufficiently profit-minded to make a profit, because I think over the period if they had been profit-minded they could have made a profit.

Mr. HENDERSON. Even at the low level of use of capacity?

Mr. WEIR. On the average.

Mr. HENDERSON. I say even at the low level of use of capacity?

Mr. WEIR. Yes; over this 10-year period I think they operated on an average of about 50 percent.

Mr. O'Connell. In answer to a question from Mr. Henderson in discussing the attitude of a particular company as having to deal with the industry as a whole, I understood you to indicate that his suggestion of a sort of live-and-let-live policy was rather essential from the point of view of individual companies.

Mr. Weir. I think that is a matter of good business, from my point of view. We may be in position today to make a profit better than the average. That may not be our position next year or the year following. As I say, I think the conditions that affect an industry, the basis on which an industry is put before the public as an industry, has its effect on every company within the industry, every one of the standard companies.

Mr. Henderson. Particularly when it comes to financing.

Mr. Weir. Yes, sure; and in the public estimation, and so on, and in its relation with its employees, and so on.

Mr. O'Connell. Then your view of the policy of your company, or any company in the steel industry, as regards price and other major policy matters, is one that you should be concerned with the welfare of your competitors, as well as the welfare of your company.

Mr. Weir. Well, the welfare of the industry, for the reasons I have given.

Mr. O'Connell. The industry is the sum total of your competitors.

Mr. Henderson. And I gather that, as you might have a particularly advantageous position in 1 year, and might not have it next, there is implied in that, that is——

Mr. Weir (interposing). Maybe less retaliation, less interest in retaliation—but in a broad way, what effects an industry does have an influence on the individual company on important matters.

Mr. Henderson. On this matter of financing, you spoke this morning about the difficulty that might be encountered in selling common stock. You had no difficulty, however, in the spring, in selling your $65,000,000 3-percent stuff, did you?

Mr. Weir. No; that was very largely refunding.

Mr. Henderson. But it has to go to the public?

Mr. Weir. Yes; but that is very different. I mean I don't feel that we can afford to go out today. We might sell more bonds, we might sell them at 3 percent, I don't know, but I don't feel that we can afford to sell, or put any further fixed obligations on the business. I think that we have reached about our limit as I see it.

Mr. Henderson. Don't you get a leverage on common if you do that? Suppose your earning rate stays above 6, as it has for about 12 or 13 years, and you can get 3-percent money. On account of the leverage, it is to your advantage, is it not?

Mr. Weir. Nevertheless it is a fixed charge, Mr. Henderson, and in years ahead that are uncertain there is a limit.

Mr. Henderson. On account of the slow turn-over?

Mr. Weir. Yes; very slow turn-over and uncertainty as to what the profit position will be. As I say, in the contemplation of our own business, I hesitate to go out and sell any more bonds or put out any preferred stock which is in the nature of a fixed amount that we must pay each year. I think we have gone about as far, and I certainly think that applies to the industry, and I think it has been indicated by the results of the industry over the last 10 years.

Acting Chairman King. Well, perhaps there is not a real analogy between the development of private industry in contradistinction to corporate industry; nevertheless, have not most of the private industries—that is, owned by individuals, developed and grown out of their own profits? And they have so adjusted their business so that each year they would have some little profit which they would add to their surplus, and use for the expansion of their business.

Mr. Weir. That is so.

Acting Chairman King. And isn't that true of partnerships? Some of the biggest private businesses in the United States, individual and partnerships, have been built up in the main, have they not, from the surplus earnings which they have utilized to expand their business activities?

Mr. Weir. That is right.

Mr. Henderson. A lot of this one billion one addition to plant in the steel industry was financed from internal sources, wasn't it?

Mr. Weir. Well, it came about through the borrowed money and also through the money that came back from depreciation charges, which of course was quite heavy.

Mr. Henderson. That is what I meant by internal sources. For example, in '37 and '38, as I recall, and up to the end of September 1939, the issues passing through the S. E. C. for the iron and steel industry were, about $350,000,000, but in one of those periods there was your $65,000,000, a large portion of which went for the refunding of 4-percent obligations, and some of them a little higher.

Mr. Weir. Yes, but over the 9-year period that I mentioned this morning there was, I think, $512,000,000 of new money brought into the industry. That is absolutely new money.

Acting Chairman King. Would you regard it as improper for corporations, after paying reasonable salaries to the officers and reasonable wages to their employees, meeting the increased demand which is quite proper for increased wages, to have some surplus which might be used for plant expansion, rather than to issue new stocks and sell more bonds to get the money for plant expansion?

Mr. Weir. Oh, very definitely they must build up some surplus, Senator, as they go along, because they can't finance entirely from new money in any form. They must, out of whatever they earn, retain a certain portion, and my observation of the steel industry is that—this is just my own opinion—in normal times, with normal earnings, it cannot afford to pay out more than 50 percent of its earnings, and that has been more than I have been willing to do.

Acting Chairman King. In the general fields of industry, manufacturing industry, clothing, automobiles, generally, without identifying each one but speaking generally, has it not been the policy of business to continue the competitive system, but notwithstanding the competitive system the policy has been, if possible, to have some earnings and not run their business at a loss.

Mr. Weir. Oh, absolutely. That is fundamental.

Acting Chairman King. And the progress which has been made under the capitalistic system has resulted from the competitive system and plowing back into the business whatever profits were available?

Mr. Weir. That's right, absolutely.

Mr. Feller. Mr. Weir, I just want to ask one or two questions on price policy with respect to a particular commodity, and then I shall be through with you.

The record shows that the tin-plate producers in the industry, or nearly all of them, have followed the practice in their contracts of agreeing to sell tin plate to the tin-plate buyers on the basis of the officially announced price of Carnegie-Illinois.[1] Do you think that is a good policy for the industry to follow?

Mr. WEIR. Well, you have an unusual situation in the tin-plate and the tin-can industry, in that the price is really set by the Corporation in their dealings with the American Can Co., the Corporation being the largest producer of tin plate and the American Can Co. the largest consumer of tin plate. I think that that price is set on a competitive basis, because as a buyer of tin plate the American Can Co. is interested in buying as cheaply as it can, and naturally uses all factors to that effect in its dealings with the Corporation in getting a price which it thinks is a proper and fair price, taking all conditions into consideration.

That results, as I say, in a price, in my opinion, originally being set through competition, strictly competition between a large buyer and a large seller which, after all, is what produces the price. Then the American Can Co., the largest producer of cans, the largest buyers of tin plate, is willing to pay that price. It would be assumed throughout the balance of the industry that that would be a fair price.

Acting Chairman KING. The chairman omitted stating this morning that we have been favored during the hearings this morning and yesterday by the presence of the distinguished Senator from Pennsylvania, Senator Guffey, and he is with us again this afternoon.

Mr. FELLER. Does your company follow this policy, Mr. Weir, of selling tin plate in accordance with the officially announced price of Carnegie-Illinois?

Mr. WEIR. Not all of our sales are made on that basis, Mr. Feller.

Mr. FELLER. You have contracts in which you sell at a different price?

Mr. WEIR. I would say so.

Mr. O'CONNELL. But in general I understand you are sympathetic——

Mr. WEIR (interposing). I might say, so far as the American Can Co. is concerned, we have no contract with the American Can Co., if you are referring to a sale with them.

Mr. FELLER. With other producers, do you have contracts at which you sell at a different price?

Mr. WEIR. Some.

Mr. O'CONNELL. In general, though, from your first answer, I understood you were sympathetic with that type of price making in that particular, let us say, competitive situation. You are willing to defend it, I take it.

Mr. WEIR. Yes. As I say, I think price would be fixed on a competitive basis.

Mr. O'CONNELL. Is it your understanding that ordinarily a competitive price is one which is determined by negotiation between one buyer and one seller and accepted by all the other buyers?

Mr. WEIR. No; except there is naturally competition when there is an effort to trade between a buyer and a seller. The seller knows

[1]Testimony on this subject is included in Hearings, Part 20.

the market, he knows the conditions, he has an idea as to what he can buy from other producers, so he brings into the conference a competitive knowledge.

Mr. O'CONNELL. But that is a peculiar type of competition, though, in price.

Mr. WEIR. Well, it is; it's unusual in view of the fact that the American Can Co. are very large users. They buy particularly from the corporation. They always have.

Mr. O'CONNELL. But to the extent that that system operates, it is exactly the situation as though you had one buyer and one seller controlling the supply—to the extent that that system operates. I believe that that is what it is, is it not?

Mr. WEIR. No; because back of it all the American Can Co. know that they have a number of other producers that they can buy from.

Mr. O'CONNELL. You probably don't give the same force that I do to my suggestion, to the extent that that system operates. To the extent that the system involves a negotiating price between the Carnegie-Illinois Steel Co. and the American Can Co., followed by the other producers of steel, it is exactly the same position as though there were only one buyer and only one seller in the market.

Mr. WEIR. I don't agree with that, because as I say, if there were only one buyer and one seller, the position of the American Can Co., as a buyer would be nothing like as strong in pressing for a lower price, as it is when they know they have a number of other companies from whom they can buy quantities, or probably all that they can require.

Mr. O'CONNELL. But at any given moment, I take it, the other suppliers of tin plate, to the American Can Co., are bound by contract, to supply the American Can Co. at whatever price is negotiated by the American Can Co. and Carnegie-Illinois.

Mr. WEIR. Not all companies are in that position.

Mr. O'CONNELL. That is why I qualified it, to the extent the system operates.

Mr. WEIR. That would mean the companies that have contracts of that type. Some, such as ourselves, have no contracts of that type.

Mr. O'CONNELL. But in this situation you accept as competitive a situation in which the competition is between buyer and seller, rather than between sellers.

Mr. WEIR. Yes; that is a form of competition.

Mr. O'CONNELL. Is that the form of competition that generally prevails in the steel industry?

Mr. WEIR. No.

Mr. O'CONNELL. It isn't the type of competition that prevails in ordinary competitive industry, is it—or is that a fair question?

Mr. WEIR. It is one form of competitive competition. I wouldn't say it is the major form. I don't assume the American Can Co. are willing to pay the corporation a price that they think is higher than a competitive price would be. I assume that they know all the competitive factors in the industry.

Mr. O'CONNELL. I have no way of knowing whether the price is lower or higher than it would be were another system in effect. I was merely attempting to demonstrate, as I think it is demonstrated, ordinary market competition, when the competition is between a buyer and a seller, as distinguished between sellers.

Mr. WEIR. It is a little different form of competition on account of the magnitude of the purchasing by this particular company.

Mr. FELLER. Just one question more. I believe you expressed your opinion to be that this type of contract for the selling of tin plate, which is in fairly general usage, is peculiarly appropriate to the conditions under which tin plate is produced and sold. May I ask why your company pursues a different policy with respect to its sales of tin plate?

Mr. WEIR. Well, I don't say that we do pursue a different policy. We pursue the same policy as far as the American Can is concerned.

Mr. FELLER. How about your other——

Mr. WEIR (interposing). In dealings with other consumers, we meet competition. There is competition of a different type which may result, at times, in a lower price.

Mr. FELLER. Is your policy, for example, in selling Continental Can Co., to meet competition?

Mr. WEIR. To meet competition; yes—in selling to anybody.

Mr. FELLER. In selling to the Continental Can Co., which has a number of contracts with other tin-plate producers providing for purchases to be made on the officially announced Carnegie-Illinois price, you sell at a different price, don't you, than the Carnegie-Illinois price?

Mr. WEIR. A different price than the price at which they are buying on these other contracts?

Mr. FELLER. A different price than the price they are obligated to buy on these contracts.

Mr. WEIR. I don't understand; will you repeat the question?

Mr. FELLER. Under the contract which Continental Can Co. has with other tin-plate producers than you, the contracts provide that the price shall be the officially announced price of Carnegie-Illinois. You don't have such a clause in your contract with Continental Can?

Mr. WEIR. That the price shall be the official price at which the Carnegie-Illinois sell the American Can Co.?

Mr. FELLER. You don't have such a clause?

Mr. WEIR. I don't remember the contract we have with them.

Mr. FELLER. The Continental Can Co., in a letter dated October 30, 1939, signed A. C. Hoffman, president, addressed to Mr. Thurman Arnold, Assistant Attorney General, stated [reading]:

> I am enclosing copies of can contracts with Bethlehem Steel Company, Carnegie-Illinois Steel Corporation, Inland Steel Company, and National Steel Corporation.

Contract with National Steel Corporation is in the form of a letter with an attached sheet. It is dated October 1, 1935, signed by Mr. Weir and accepted, "Carl C. Conway." The letter which is addressed to Mr. Conway reads:

> I herewith confirm to you the verbal contract entered into between us when I was in New York a few days ago, to the effect that beginning January 1, 1936, and extending for a period of five years therefrom, on all of the material we ship to you special allowances will be made as per the attached list. The reason, of course, for these allowances is the large tonnage of business that you give us, and its consequent value to us.

The attached sheet—and I shall omit the exact number of cents and merely say "blank" cents, a practice I have followed whenever referring to specific contracts—reads:

> List of allowances verbally agreed to be made to the Continental Can Company, Inc. on tin plate for the calendar year 1939—

applying to the 5-year contract dated October 1, 1935, attached; and underneath that occurs the line:

> Tin plate allowance, blank cents per base box.

Acting Chairman KING. If any part that you have omitted to read is desired by Mr. Weir to be inserted, I presume that may be done.

Mr. FELLER. For that reason I have not offered this as an exhibit, as it may be a matter which should not go into the record.

Mr. WEIR. I think that confirms the statement we made that we don't sell all of our tin plate at a certain price.

Mr. FELLER. Yes; that is correct.

Mr. WEIR. We have different prices owing to different conditions. The Continental Can Co. are extremely large buyers from us.

Mr. FELLER. I am familiar with the contracts of the American Can Co. and the Continental Can Co., and the record shows what those contracts are. This is the only contract that we have seen of these two companies which is different from the usual contract; and the question I am asking you is whether, since in your own sales you follow a different system of selling tin plate, you don't think that it would be a wise thing for the industry generally to abandon the system of contract which other people in the industry follow. You apparently differ from other people in the industry in this respect.

Mr. WEIR. In connection with this Continental Can Co. matter.

Mr. FELLER. You think that is an exceptional situation?

Mr. WEIR. I think it is with us.

Mr. FELLER. That is all.

Acting Chairman KING. Any other questions?

Mr. AVILDSEN. I have some questions, Mr. Chairman.

Mr. Weir, this morning I was trying to find out the difference between the capacity of your company and the United States Steel Corporation; I was also—I think we are all here—rather curious to know why your earnings should be so much better, on the average, than the industry as a whole, and I have been wondering whether it could be due to the difference in the products which you manufacture.

I would now like to hand you this pamphlet put out by the Department of Justice, entitled "Major Characteristics of the Iron and Steel Industry." On page 15, table 16,[1] you will notice it shows that the National Steel Corporation has an invested capital which represents 4 percent of the total invested by the industry, whereas the United States Steel Corporation has an invested capital of 40 percent of the total invested by the industry.

Now, if you will turn over to page 16—it may be difficult to read it, because the type is very small—you will find that under the heading "Cold-reduced tin plate"[2] National Steel Corporation has 20 percent of the capacity of the industry; or, in other words, five times your proportionate investment in the industry. You have 4

[1] "Exhibit No. 1340," included in Hearings, Part 18; the table appears on appendix p. 10408.
[2] Ibid, p. 10409.

percent of the money in the industry and 20 percent of the cold-reduced tin-plate capacity, whereas the Steel Corporation has 40 percent of the investment and 25 percent of the tin-plate capacity. You have five times your proportionate amount, you might say, and they have only about 60 percent of their proportionate amount.

We also find, under "Cold-rolled sheets" the National Steel has 14½ percent of the capacity and United States Steel has 10.7 percent of the capacity. Now those two items—I assume cold-rolled sheets go very largely into automobiles, and tin plate goes largely into tin cans, two businesses which have been very active in recent years; whereas we all know that railroad buying has been very low, we know bridge building and structural business has been very low. I find that under "Heavy rails" National Steel Corporation has no capacity, whereas United States Steel Corporation has 57 percent of the capacity of the industry.

Now let's see about structurals. That would be "Shapes." You have 3.1 percent, and United States Steel has 52.9 percent, and so on. Would you say that that difference in capacity which I have just explained accounts to a large extent for the difference in earnings of your company compared with the United States Steel Corporation?

Mr. WEIR. Well, I would think that it accounts to some extent.

Mr. AVILDSEN. Would you think that your company would have made a satisfactory earning if they had the same proportion of capacity as the United States Steel Corporation? In other words, if you had 10 percent of everything that they have on this list—your capital is 10 percent of theirs—you have only, say, 2½ percent of the tin-plate capacity, that would then be your proportion——

Mr. WEIR (interposing). I can't answer that. The fact remains that we don't have that proportion.

Mr. AVILDSEN. I am asking your opinion. Do you think your earnings would have been as great?

Mr. WEIR. I don't think they would, no.

Mr. AVILDSEN. The committee is trying to find out facts, why there should be such a difference in earnings, whether it is mere size that makes the difference, or is it the difference in the products that you manufacture?

Mr. WEIR. I think the difference in products would have a very considerable bearing on it, but the fact remains, as far as my own company is concerned, we have invested our money in things that have produced a profit.

Mr. AVILDSEN. That is true, and I think you should be complimented on that. You have shown very wise judgment in selecting the products which have shown the continuous demand. I wanted to be sure that I understood that that was probably the reason for it, your good judgment in picking things that were coming along, and not trying to make things for which there was a limited demand.

Acting Chairman KING. If the one steel company had geared its constructive capacity to the construction of steel for ships and for railroads and for building steel buildings, and the market for those was very low, very much depressed, and another steel company had geared its activities for the construction of a different kind of steel products, the latter might make a large profit, and the former not.

Mr. WEIR. That is true, and then, of course, the conditions between years probably will change. We will probably run into periods when the demand for structural and rails and the heavy steel lines will be better and greater and the profits larger than in these other lines. That is the change that takes place within the industry, and then, of course, it is up to us to protect ourselves against that.

Acting Chairman KING. And if there is to be a regeneration—and I don't use the term offensively—of the railroads—new rails, new engines, new cars, great booms so to speak in the railroad business, then those companies that are geared for that kind of steel production would have advantages over other companies.

Mr. WEIR. That is right, Senator.

Acting Chairman KING. That had not been in the business of constructing that form of steel.

Mr. WEIR. That is right, you must keep yourself in a financial condition where you can meet those situations. I said this morning we did not manufacture rails. We have a rail mill, and if that condition comes about and there is a big demand for rails and it is more profitable than the manufacture of sheets, we, of course, will manufacture rails. That is all within the management.

Acting Chairman KING. But a large corporation that attempts to meet every demand for every form of steel, including the thousand forms of extras, would have a very large capacity not used much of the time, and a very large investment which would not be put into active operation at all times.

Mr. WEIR. Yes; that is perfectly natural, and that is one of the very difficult problems.

Mr. HENDERSON. Mr. Weir, as Mr. Avildsen has pointed out, and as you have indicated, you went into the newer lines that are more profitable, and you had the advantages, as I seem to recall, of new technology which helped you meet this demand for what you might call durable consumers products. But you did have, also, a very definite and aggressive selling policy of your own on those products, didn't you?

Mr. WEIR. We were always very competitive.

Mr. HENDERSON. You probably had quite an influence on the fact that some of those prices have come down, have you not?

Mr. WEIR. I wouldn't be surprised.

Mr. HENDERSON. Neither would I.

That brings me up to the other point, and if you don't want to comment on this, I am willing to skip it, but it has always been said—I have found it running through the comments—that one of the reasons why you could grow and use this price policy is that the corporation was holding an umbrella over you, and that that umbrella was to some extent taken away in June of 1938. Do you want to comment on that?

Mr. WEIR. Of course, I don't subscribe to that theory at all. It has been stated many times. I don't think they have held the umbrella, I don't think they have had a disposition to hold the umbrella.

Mr. HENDERSON. You don't think they have had a disposition lately to take the umbrella down?

Mr. WEIR. I see no change. They have always been very competitive.

Mr. HENDERSON. Haven't their recent activities been much more vigorous?

Mr. WEIR. I don't think so.

Mr. HENDERSON. You don't think the elimination of the Birmingham and Chicago base differentials——

Mr. WEIR (interposing). I think the prices at that time were down. I think the changes that they made in price at that time only represented, and possibly didn't quite represent, the prices that were going within the industry.

Mr. HENDERSON. On that point, there has been reference, Mr. Chairman, from time to time, to the difference between the mill net yield, that is, the realization, and the reported composite price. And I think the Steel Corporation has a table of their own experience.[1] It is well worth study, and I imagine every competitor of the corporation will be doing some tall figuring on the basis of this. But it shows in the main that the spread between the composite price and the mill net yield runs from 2 to 3 or 4 percent, gets up as high as 5 percent at times—in fact in July, which is the last date they reported, it was 5.2. In 1937, in the early period when prices had been advanced and there was a substantial volume of business, there was the largest spread. In March of 1937, for example, the composite price was 106.2, and the mill net yield was 93.3, almost 13 points difference.

Now, what needs to be taken into account, of course, is what Mr. Fairless pointed out, the lag between the attainment of the new posted price, because of the fact that they are delivering on contracts made at the previous quarter's posting, and the other thing that needs to be taken into account is what brought Mr. Fairless back to the stand yesterday. There is in this difference between the realization and the composite price the amount of freight absorption. That is, any time they have moved out of their natural area and absorbed freight, that naturally reduces their mill net. I am not a qualified judge, but it just seems to me—I don't know how it seems to you, Mr. Weir—that isn't such an enormous spread between the posted price and the mill net yield as to be destructive of the industry. It would seem to me that it was more a question of volume than anything else. There is no amount of volume, for example—if big steel is running at 17 or 18 percent of capacity—which would really make up for that loss of capacity.

Mr. WEIR. That is what I said this morning, that the industry running at 19½ percent, as it did in 1932, couldn't possibly break even.

Mr. HENDERSON. In 1932, for example, during the worst months—let's take a mid-point of June—the composite price was 82.4, and the mill net yield was 79.2. In other words, it was much worse than it is at the present time, and only a small percentage of what it was in the months of the big winds in 1937.

The volume is a much more important question than the difference in the cut in price, is it not?

Mr. WEIR. The volume has a very definite influence on it, but the cut in price, of course, is bound to have an influence. You can have a good volume and still have prices that are below the cost of pro-

[1] "Exhibit No. 1393", appendix, pp. 10720–10721.

duction if the policy is followed out. But the industry—you can't take, I didn't take and wouldn't take an extreme period such as that. I think the industry when it gets to a 35 percent basis of operation should be able to break even or make a little money. I would say that from that up would be normal, because—I am quite sure that my figures are correct—over the past 10 years the average operation of the industry has been about 50 percent. Now, if we can just break even at 35 percent, then we must make our money between the 35 percent and 50 percent average. It doesn't give a great spread there.

Mr. HENDERSON. I take it you want officially to destroy that umbrella business.

Mr. WEIR. I will say this, as far as the umbrella is concerned, if I thought that I was sitting in this industry solely protected by somebody holding an umbrella, I would feel very, very uncomfortable. I certainly had no such idea.

Mr. HENDERSON. You admit there has been quite a bit of talk.

Mr. WEIR. Oh, there has been talk about it, certainly, just as there have been statements about other situations in the industry that haven't been facts.

Acting Chairman KING. Any further questions?

Mr. FELLER. No, sir.

Acting Chairman KING. Thank you very much, Mr. Weir.

Mr. WEIR. Thank you, Mr. Chairman.

(The witness, Mr. Weir, was excused.)

Acting Chairman KING. The next witness.

Mr. FELLER. Mr. Hook, please.

TESTIMONY OF CHARLES R. HOOK, PRESIDENT, AMERICAN ROLLING MILL CO., MIDDLETOWN, OHIO

Acting Chairman KING. Do you solemnly swear that the testimony you shall give in this proceeding is the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HOOK. I do.

Acting Chairman KING. Give your name, please.

Mr. HOOK. Charles R. Hook.

Mr. FELLER. You are president of the American Rolling Mill Co.?

Mr. HOOK. That is correct.

Mr. FELLER. For the information of the committee, you were formerly president of the National Association of Manufacturers?

Mr. HOOK. That is correct.

DEVELOPMENT OF THE CONTINUOUS ROLLING MILL

Mr. FELLER. Mr. Hook, your company is distinguished in the industry as a company which developed the continuous rolling mill, is it not?

Mr. HOOK. I think that is the case, sir.

Mr. FELLER. And all the continuous strip mills which are now in operation are operated under license from your company.

Mr. HOOK. That is correct.

Mr. FELLER. Could you tell us, Mr. Hook, very briefly, something about the time when the rolling mill was first developed by your company and something about the number which are in operation now?

Mr. Hook. I think I had better read from my record as far as the number.

Mr. Avildsen. Mr. Feller, you said continuous strip, is that the same as continuous sheet?

Mr. Hook. That is right.

Mr. Avildsen. It is all the same thing?

Mr. Feller. Yes. That is the continuous mill to which reference has been made again and again during this hearing. That is one of the great technological advances of the industry.

Mr. Hook. Mr. Feller, I prepared a short statement. Would you like me to read that for the advantage of the chairman and the other members of the committee? It gives a general picture of the development of this process and I think possibly you would better understand it.

Mr. Feller. May I suggest that it might be advisable to read it down to just before you come to the form of license because there may be some matters that we want to develop from it.

Acting Chairman King. Proceed.

Mr. Hook. The rolling of sheets up to the time that this development was made in 1925 was largely a hand operation in which a crew of 8 men working 8 hours a day produced about 6 tons of salable sheets and handled this red hot material, with the heating furnaces on one side and the hot rolling mills on the other 3 times, namely, handling 30 tons. It was extremely hazardous work in that especially in the summer time men had to have substitutes take their place as the work, the weather and the surroundings were beyond human capability of continuous effort.

Previous attempts had been made to ameliorate this situation and develop a continuous sheet mill but after the expenditure of many millions of dollars these attempts were discontinued and the equipment dismantled.

Fifteen years after the last of these attempts the American Rolling Mill Co. who had been conducting experiments purchased a blast furnace and steel plant at Ashland, Ky., for several million dollars, and proceeded to spend an additional $7,000,000 despite the previous unsuccessful attempts and misgivings of many. This Ashland installation was entirely successful and very startling to all of those in the sheet business and in view of the fact that the earlier attempts by others were failures, discovery and invention of a very high order were apparent and, therefore, patents were secured covering this development and the various details which go to make it complete.

As a result there has been close to $500,000,000 spent on mills of this type with a capacity of production of the order of 13,000,000 tons per annum.

Naturally such a startling, really revolutionary method of production of such a largely used commodity was viewed with much interest not only by producers but by consumers as well and, therefore, the American Rolling Mill Co. endeavored to direct the use of these inventions in such a way that it would not work a hardship on the 43,000 men employed in the old fashioned sheet mills in 1926. It would also provide the consumer of sheets with their requirements at a less cost, for instance, automobile fender sheets—0.0375 gage 39 x 80½—from $135 per net in 1923 to $59 this year, a reduction of over 56 percent.

It was discovered that due to this new process of rolling sheets that their quality both structurally and of surface were so much improved that it could appropriately be stated that it was an entirely new product lending itself to many subsequent fabricating operations that were previously impossible due to the variation from one to the other of sheets rolled by hand.

Of equally great importance it was also found possible to make these sheets of width and lengths so far greater than was the case by hand that the familiar automobile body top and other large surfaces can be made without joints or welding, reducing the cost and increasing the safety.

Thirteen steel companies in the United States have licenses and there are 23 continuous mills in their plants in operation and three in our own plants, and licenses were also issued to some foreign companies.

The list of those who have these mills in operation in their plants follows.

Mr. FELLER. May I suggest at this point that in "Exhibit No. 1349," [1] on page 20, there is a list which gives the size, which gives the year started, the size, and capacity, the annual capacity in gross tons. I think it might be just as well if you would read the names of the companies, too.

Mr. HOOK (reading):

Allegheny Steel Co.
Bethlehem Steel Corp.
Granite City Steel Co.
Great Lakes Steel Co.
Gulf States Steel Co.
Inland Steel Co.
Jones & Laughlin Steel Co.
Otis Steel Co.
Republic Steel Corp.
Weirton Steel Co.
Wheeling Steel Co.
U. S. Steel Corp.
Youngstown Sheet & Tube Co.[2]

CONTINUOUS ROLLING MILL LICENSE AGREEMENTS

Mr. FELLER. Mr. Hook, I wonder whether at this point for the convenience of the committee, you could describe generally a typical license agreement.

Mr. HOOK. They are now practically uniform, and I think I have covered that point in here to some extent, although I have and you have, of course, actual copies of all these license contracts, Mr. Feller. Here is the uniform license agreement, and here is the short form license agreement from which this was developed as we negotiated with these several companies. What do you want me to do?

Mr. FELLER. Briefly, these agreements provide for a license on the part of a particular steel company to operate these mills on which you have patents.

Mr. HOOK. That is right.

Mr. FELLER. That is generally what they provide.

Mr. HOOK. That is right.

Mr. FELLER. Each of these contracts, each of these license agreements, has in it a clause with reference to price.

[1] Included in Hearings, Part 18; list appears on appendix p. 10411.
[2] Mr. Hook evidently read from a different list.

Mr. HOOK. Correct.

Mr. FELLER. That is the substantial point of difference among the various types of contract?

Mr. HOOK. Substantially only one. I think if you would let me finish this statement and go back to that question maybe some of the other members might cover that. If I finish this statement you can cross-question me all you w[illegible]

These United States licenses w[illegible] granted over a period of years because some of the companies were reluctant to throw into the scrap heap their hand mills, but nevertheless it was inevitable, and the steel industry discarded equipment costing probably between one hundred and two hundred million dollars, but the improved quality, increased range of sizes, the removal of the human hardships, and reduced sales price compelled the change.

Of these 13 companies 8 are operating under a uniform license agreement which was prepared in 1937 and effective April 1, 1937. This license grants rights under 43 different patents and required the payment of 10 cents a ton royalty on only certain sizes of sheets, a small fraction of 1 percent of the selling price.

Those companies are Granite City Steel Co., Great Lakes Steel Co., Inland Steel Co., Jones & Laughlin Steel Corporation, Wheeling Steel Co., U. S. Steel Corporation, Youngstown Sheet & Tube Co.

The other five companies have very much the same form of license except that there are some minor modifications, which don't amount to anything. For instance, the Allegheny Steel Co. had patented a subsequent treatment of sheets that they claimed were infringed and we purchased these patents outright for a consideration which was a certain number of tons of sheets to be rolled annually before they started payments of the standard royalty.

The Gulf States Steel Co. have not as yet installed a continuous mill and they still have their original form of license.

In the case of Republic Steel Co. they had secured a patent on a method of hot rolling which they were using but there was no certainty that this method could be applied to the modern wide sheets. After paying the regular royalty for some considerable time—I think it was 2 years—when their patent issued it was turned over to us and they continue to pay a certain sum per annum.

The departures by the other companies from the standard form are of very minor importance, some of which have to do with a very pertinent subject, the fixing of prices on the material made by the patented process.

This was a matter that was given very great care and consideration from the very beginning.

First of all we secured what we consider the very best legal advice on the subject.

There had been so much controversy with regard to the fixing of prices of patented products and products made by patented processes that a very careful study was made of all of the authorities relating to the subject and of decisions of the various courts from the United States Supreme Court down, and we were advised that we had a right to a reasonable price control and we felt that it could not be successfully controverted especially if we ourselves conform, or in other words if we at some time set a minimum price below which the material should not be sold, we would bind ourselves not to sell at a lower price.

To make the matter perhaps a little plainer, we would not attempt to set the price, we would only state a price below which the material should not be sold, and we reserved the right to determine if it were desirable so to do, very carefully avoiding any obligation to set a minimum price.

On two occasions, on October 17, 1929, and April 18, 1931, the Federal Trade Commission were sent complete copies of all of the existing licenses, and they were returned with the comment:

They have found no necessity for the exercise of those remedial powers granted by law to this Commission.

In other words, there had apparently been a complaint of some kind, or an inquiry, as to whether or not these licenses were used for price control, and after an investigation by the Federal Trade Commission in both instances, we were given a complete bill of health, as it were.

Acting Chairman KING. Did you give the Federal Trade Commission copies of these contracts?

Mr. HOOK. Yes; they were given complete copies of all license contracts.

Mr. O'CONNELL. To the Federal Trade Commission?

Mr. HOOK. Yes, sir; at their request.

Mr. O'CONNELL. At their request?

Mr. HOOK. Yes.

Mr. O'CONNELL. It wasn't a volunteer submission?

Mr. HOOK. No; we didn't know there was a complaint. Some members of the department, I think, came to Middletown and discussed it with us and we gave them everything that they wanted. At the time they had use of our files.

In view of the fact that there were no decisions of the Supreme Court directly on this question, counsel for some of the companies, ostensibly at least, maintained that there was no merit in the argument and, therefore, some of the companies do not have anything relating to a price control in their contracts and this constitutes the major difference. The qualification of the price fixing clause in the present contract reads as follows:

5. In the event, but only in the event, that the LICENSEE is satisfied that it can legally agree to be bound by the provisions of this Article 5 then on and after the date of notifying LICENSOR to such effect it shall be a limitation and condition of, this license that the LICENSEE is only licensed and authorized, under said Letters Patents, or any reissue thereof, to sell the royalty bearing products at prices not less than those specified by the LICENSOR from time to time in accordance with the following conditions.

The conditions are here in this license contract.

Mr. FELLER. Mr. Chairman, in order to complete the record, the clause which Mr. Hook has referred to differs among the various contracts; I think the record should have the various different provisions. Mr. Hook stated that most of the contracts contain the provision that he just quoted.

There are four contracts which contain somewhat different provision. The contract with Bethlehem Steel Co. reads as follows:

In the event but only in the event that the licensee is satisfied to be bound by the provisions of this article 5, then or after the date of notifying licensor to such effect, it shall be a limitation and condition of this license that the licensee is only licensed and authorized to sell the royalty bearing product at prices not less than those specified by the licensor from time to time.

The difference between that and your standard form, I take it, is that the reference is not made to the licensee being satisfied that it can be legally bound, that is whether or not they think it is legal they have the discretion to decide whether or not they should be bound by that clause. Is that correct?

Mr. HOOK. Yes, sir.

Mr. FELLER. Going on to other clauses which are different, the Republic contract provides [reading]:

> It is a limitation and condition of this license that licensee is only licensed and authorized to sell the royalty product at prices not less than those specified by the licensor from time to time.

A similar clause is contained in the contract with Gulf States Steel Co., reference to which was made by Mr. Hook. That is now a subsidiary of Republic.

Mr. FELLER. Finally, the Otis Steel Co. contract which was entered into on April 1, 1937, provides [reading]:

> It is a limitation and condition of this license that the licensee is only licensed and authorized to sell the royalty bearing products at prices not less than those specified by the licensor from time to time.

That is very similar to the Republic Steel clause. Those are all the differences as far as I know. Is that correct?

Mr. HOOK. That is correct. I think that the members of the committee ought to understand that the Republic Steel contract is the original contract. It was never changed to a uniform or short form license because there was no reason, there were no changes in the conditions. In other words, the amount of royalty which they were continuing to pay was the same as it was originally, and in the case of the Otis Steel Co., for instance, they were offered the uniform-license contract which all the others have now, with those several exceptions, and they preferred the short-form license, which we had started out to use.

Mr. FELLER. Is that because they felt there was no legal obstacle as some of the others did?

Mr. HOOK. I couldn't tell you; probably on advice of counsel.

Acting Chairman KING. Are your contracts available to any corporation engaged in the steel business?

Mr. HOOK. Yes, sir.

Acting Chairman KING. That desires to use the patents?

Mr. HOOK. Yes, sir. In fact, every continuous mill in the United States is licensed with these contracts.

Acting Chairman KING. You have not denied licenses to any corporation that sought them?

Mr. HOOK. We have not.

Mr. LUBIN. Are royalties based upon the same principle in all cases?

Mr. HOOK. Yes.

Mr. LUBIN. They all pay the same royalty per ton?

Mr. HOOK. Absolutely; it is identical. Mr. Feller has reviewed those licenses.

Mr. FELLER. Yes. Incidentally, I think the committee might be interested in the arrangement which you have on your foreign licenses. Would you tell the committee briefly about those?

Mr. HOOK. We have two license contracts abroad. They are or were exclusive license contracts: The first one with Richard Thomas & Co., Ltd., of London, England, whose works are distributed over the English Isles, the largest of their plants being in South Wales. A new continuous mill of theirs which is operated under patents which we secured in England is located at Ebbw Vale, South Wales.

The license provided for a certain number of shillings per ton. I am perfectly willing to tell you what it is; there is no secret about it. It aggregates in all about 44 cents. It is divided into sections. Maybe I had better give you this summary that we prepared.

In 1935, the American Rolling Mill Co. entered into an agreement with Richard Thomas under which Richard Thomas was granted an exclusive license, also counsel and advice—by counsel and advice we mean this, they wanted our continued help and assistance in the operation of this mill after they put it into operation, and therefore that was part of the total consideration.

Acting Chairman KING. They wanted you to show them how?

Mr. HOOK. Yes.

Mr. HENDERSON. You have gone abroad several times on that particular thing, haven't you?

Mr. HOOK. Yes; I have.

Richard Thomas was granted exclusive license, also counsel and advice, at a total royalty rate of 22 pence per ton for the first 300,000 tons per annum and 12 pence per ton for all tonnage greater. In January 1936, this was modified and royalties computed in advance and paid for by Richard Thomas stock for the 300,000 tons per annum part. In other words, they wanted us to have a continuing interest in their company, and they proposed to us that they would pay us royalties in advance, giving them to us in stock, on the value of which we agreed at the time, on the minimum tonnage that they were to produce each year, the 300,000 tons I was talking about.

We have been advised by cable—we gave our manager authority to change it to some extent—that a revision in this contract has been made by which the stock was retained, the license was made a nonexclusive one, and an annual lump-sum payment for a period of 10 years was substituted for this arrangement on the 300,000 tons; they had had an exclusive right up to that time.

Summers—John Summers & Sons Co. of England—originally had an agreement with the American Rolling Mill Co. under which the American Rolling Mill Co. was to furnish technical data and information to Summers and certain operations were to be conducted in England by Summers and Armco as joint venturers. This agreement was canceled in 1938 and Summers was granted a sublicense with the approval of Richard Thomas under the British continuous mill patents. Now, in making that change and Richard Thomas giving up the exclusive right, there were certain adjustments made so that Summers Co. built and is building one of these continuous mills at Shotton, England, near Chester. That has to do with the English situation. I have a copy of it here.

There is one built in Germany. In 1935 the American Rolling Mill Co. entered into an agreement with Vereinigte Stahlwerke, corresponding to United States Steel Corporation in size and importance, I mean corresponding in that country to the Steel Corporation in this, granting an exclusive license under the continuous rolling-mill and cross-rolling patents with the right to sublicense others.

This license also obligates the licensee to protect and defend the patents against others. The royalty rate was 45 cents per metric ton, subsequently reduced to 30 cents per metric ton, with a minimum annual payment. They have one mill operating and are involved in a suit with another steel company at the present time.

I think that is the story unless you want me to amplify it.

Mr. FELLER. Mr. Hook, as you know, one of the matters with which this committee has been concerned has been this matter of price-fixing clauses in agreements, licensing patent processes or products. Would you give this committee the benefit of your views with respect to your feeling as to why you should have that provision or be permitted to have such a provision in the contract?

Mr. HOOK. Yes. I think that when an individual or a corporation takes the risk and spends large sums of money they should have that protection which would prevent those who came along afterwards from ruining their own situation, because it takes a good many years to get back the hundreds of thousands of dollars that you spend, for instance, on a development of this kind. It is impossible for me to state how much money we spent in the development. We took great risks, and it seems to me that that is what encourages a man to sacrifice and to spend money, and to think, and to plan, if he feels that over a period of time if he does develop something which is in the interest of the public—and all these things have been shown to be in the interest of the public—he won't be wrecked during the years that he is trying to get back the money that he has expended not only in the equipment but in experimental work. Therefore, we have reserved—I will answer the question you probably are going to ask me—in these contracts the right to set a price, and we felt as far as we ourselves were concerned, we were convinced that although it is a process patent, it would be pervectly legal for us to set a minimum price. We have not exercised that right, or didn't under the old contracts, and we did agree to these modifications in the price-control clause in line with the discussions that went on here a few minutes ago, because we didn't want to have litigation. What we wanted to do was to get these contracts uniform, and the royalty was so low, such a small mount, that it wasn't anything to fight over, and yet we felt that it was very important to retain in the contract at least the indication; certainly it shows very definitely that we feel that we have a perfect right legally to set a minimum price.

Mr. FELLER. Omitting the legal side, you are compensated for the trouble and expense and ingenuity which you have expended by your royalty at the time, and, as you said, that is very small. Why should you feel it necessary to protect the price structure of the industry when your royalty is such a small proportion of that price?

Mr. HOOK. We haven't. That is what I am saying. In our particular case we have not exercised it and the situation had not arisen where we felt that it was necessary. Assuming this situation——

Mr. FELLER. That is what I would like to know, what situation would be one where you would have done that.

Mr. HOOK. Assume, for instance, after licensing one or two companies and we were trying to recover some of the great expense that we had gone to, those companies had gone out and simply wrecked the market and sold so low that our losses plus what we invested in experimental work would be so great that it is conceivable we might be wrecked.

Mr. Feller. Losses on what? Do you mean your losses in the operation of your business as a roller of sheets?

Mr. Hook. Sure, the price that it might have been sold at.

Mr. Feller. What you were thinking about there was partly the protection of the royalties, but also the protection of your own business as a producer.

Mr. Hook. It wasn't a question of protecting the royalties. That takes care of itself. It was anticipating a situation which might arise where introducing a new method that was so revolutionary and which reduced the cost of the product, others might have been tempted to go out and establish a price that would have simply wrecked us, and we thought that we ought to have that protection, and I think we should have had, and I think that any patentee ought to have that protection, so if that condition arises he can protect his interests. Because if you don't give him that protection, then you kill that incentive to invent and develop new products.

Mr. Feller. I understand how these fears could have been in your mind at the time you granted your first licenses, but when this revision took place on April 1, 1937, did you still have those same fears then?

Mr. Hook. I won't call them fears. but we certainly wanted to reserve that right.

Mr. Feller. And you still want to reserve that right?

Mr. Hook. Sure, I do.

Mr. Feller. Assuming that the legality of this should become settled either by enactment of Congress or decision of the Supreme Court, and so that the condition contained in these price clauses should fall by the way, doesn't it mean that on all this tremendous tonnage, this extremely important part of the business of the steel industry, the matter of determination of the minimum price would be in your hands?

Mr. Hook. Well, on certain products.

Mr. Feller. All products rolled on a continuous rolling mill?

Mr. Hook. Oh, no. Those that come within what we call a royalty product range. If you have read that license contract you notice that.

Mr. Feller. Can you tell the Committee briefly what products those would be?

Mr. Hook. It shows right on the license contract.

Acting Chairman King. Do I understand you are questioning the reason assigned in the case of United States versus an electric company——

Mr. Feller (interposing). General Electric.

Acting Chairman King. Where Chief Justice Taft said in substance that this right was within the scope of the lawful patent monopoly?

Mr. Feller. No, sir. I am not questioning the decision or the language of the decision. What I am trying to have placed before the Committee now is the desirability from the standpoint of general economy and the standpoint of the operation of this industry of having price clauses of this kind in effect.

Acting Chairman King. That is to say, you are laying the foundation—probably that is too strong a term—to justify recommendation by this Committee to modify the patent law in this important particular?

Mr. FELLER. Senator, I am not laying the foundation for anything. The Committee has already had before it this very problem. It has looked at it from the standpoint of two industries, the automobile industry and the glass industry.[1] We have an extremely important industry in which it now appears that a similar problem exists, and I am adding, shall I say, a fagot to the bundle of information that the Committee has.

Mr. REYNDERS. May I ask one question? You had the choice, as I take it, to make this invention available to the entire industry or perhaps confining it to your own operations, and in doing so as a manufacturer you didn't want to sacrifice your own interest in the manufacture by making the invention available to the entire industry at a very small royalty?

Mr. HOOK. Correct, Mr. Reynders; you have helped the explanation very materially to date. In other words, in the beginning after we secured our patent, then it was up to the board of directors of the American Rolling Mill Co. to determine whether they were going to attempt to reserve that entirely to their own use or whether they were going to give it to the industry, those who wanted it and could afford to build the plants to use it, and we decided.

Mr. REYNDERS. By your decision some $500,000,000 was invested by the industry and in this process were 13,000,000 tons of capacity.

Mr. HOOK. Yes; but even more important than that, at the proper time we will bring out what it has meant economically to the industry in the way of better products and lower prices and increased wages.

Mr. O'CONNELL. Mr. Hook, along that line, I take it that the determination by your board of directors as to the extent to which you would make the patented process available and the conditions under which you would make it available to your competitors was determined by what the directors conceived to be the best interests of your company within the framework of existing law relative to the use to which patents may be made.

Mr. HOOK. Looking a long way into the future, sir. You make decisions not only on what is in the interest of your company at the time but over a long period of time—if it isn't in the public interest it isn't in your interest.

Mr. O'CONNELL. Always within the framework of existing patent law which was of sufficient importance that you felt justified in consulting with eminent counsel as to what lengths you could go.

Mr. HOOK. Correct.

Mr. HENDERSON. I have a little disagreement, Mr. Hook, maybe about the period. Do you mean over a long period, if it isn't in the public interest it isn't in your interest? That is what I got to wondering about in connection with those glass patents. I couldn't see that they were in the public interest. I was wondering how long it would be before the plain intent of the constitutional basis for those patents would be realized. Maybe it is just a question of the period I have in mind; maybe over a longer period that is so. But that does get to be a pretty serious question.

[1] See Hearings, Part 2.

One question I want to ask: Do you think if you people weren't manufacturing yourselves that you would have had this clause? If you just put it out on a royalty basis would you have been likely to have had it?

Mr. HOOK. Well, we never would have developed such a process if we hadn't been manufacturers ourselves.

Mr. HENDERSON. You have got about one-twelfth or one-thirteenth the capacity licensed now, have you not?

Mr. HOOK. I don't know what percentage.

Mr. HENDERSON. After you got your patents you did go on with other installations. After Ashland you had two more installations, didn't you?

Mr. HOOK. Sure.

Mr. HENDERSON. I am just asking out of curiosity whether or not, if you had made your choice after you built Ashland and had confined yourself to licensing and not to manufacturing, you would have felt any necessity for this clause.

Mr. HOOK. I am afraid I don't quite get you.

Mr. HENDERSON. Would your corporate purposes have been better served by no limitation on the price at which the products rolled could be sold, if you hadn't been in the business yourself? It does act as a protection to your own business, doesn't it?

Mr. HOOK. Sure.

Mr. HENDERSON. But if you weren't in the business——

Mr. HOOK (interposing). Oh, if we weren't in the business we probably would have tried to sell—just assuming for the moment that we were not manufacturers of sheets and Mr. Tytus had discovered this technique of rolling by a new process, something entirely new, it was a real discovery as a method of producing continuous sheets. Assuming that he as an individual had discovered that method and he wasn't a producers of sheets and had no intention of going into the business himself he would have gone out and probably sold it for the largest amount of money he could get. He would have sold it to a producer, probably of sheets, and that producer would have wanted to be protected, I think, for certainly a period of time, in case he needed that protection and therefore would have wanted just such a clause as we had in our original contracts.

Dr. LUBIN. May I ask you the same question in another way. You had the alternative of keeping that patent to yourself, developing your own mills, underselling all of your competitors because you had lower costs than they did under this process, or you had the other alternative of permitting your competitors to use your patents. Let's assume that your attorneys had said to you—this may be a very unfair question: if it is, don't answer it—"It is illegal to put this price clause; all you can do is charge a royalty in these contracts," would you then have been willing to make this patent available to your competitors?

Mr. HOOK. You are asking a question now some years after the fact and I don't know.

Dr. LUBIN. It might have changed your whole attitude.

Mr. HOOK. It probably would have changed very definitely our attitude.

Mr. HENDERSON. We didn't get what products you call royalty-bearing products.

Mr. HOOK. Perhaps I had better read this [reading]:

> The license fee which the licensee shall pay for the right to employ the invention of all or any one of license patents shall be computed as follows:
>
> "The tonnage of material produced on the rolling mill equipment of licensee, arranged for hot rolling by continuous process, which material shall be over 20 inches in width,"—

that is one of them—

> "and less than three-sixteenths inches in thickness, hereinafter called royalty-bearing products, shall be computed quarterly and from this tonnage,"—

and so forth.

Mr. HENDERSON. Anything over 20 and under three-sixteenths?

Mr. HOOK. Yes.

Mr. HENDERSON. Is subject to the royalty?

Mr. HOOK. That is right.

Mr. HENDERSON. So if they roll wide stuff they don't pay the royalty?

Mr. HOOK. Oh, no; they do.

Mr. HENDERSON. But not below 20.

Mr. HOOK. That is right. That was an arbitrary figure which we set.

Mr. HENDERSON. Did that have some relation to the maximum width being rolled by the hand process at that time?

Mr. HOOK. No, not the hand process, but it had relationship to what was done on strip mills prior to that time.

Mr. HENDERSON. Have you any idea what percentage of the total products do pay a royalty in any one year, to get some idea of the magnitude involved?

Mr. HOOK. No, I couldn't tell you. I have not computed the total tonnage and then computed the tons that we have been paid for.

Mr. HENDERSON. It would be pretty substantial?

Mr. HOOK. Well, I should imagine it would.

Mr. HENDERSON. On all sheets?

Mr. HOOK. Those that you call sheets.

Mr. AVILDSEN. Will you tell us what percentage of the production your company represents?

Mr. HOOK. About 3½ percent.

Mr. AVILDSEN. And your production is mostly sheets?

Mr. HOOK. Correct.

Mr. AVILDSEN. Who are the principal users?

Mr. HOOK. The automobile industry, of course, is the largest user, and the suppliers, fabricators of parts to the automobile industry. When we talk about the automobile industry we not only talk about the manufacturers of the motor cars themselves but those who supply parts to them, so taking the motor industry as a whole it is by far the largest user of sheets. Then there are other manufacturing industries such as the refrigerator industry, the stove manufacturers, and then through the jobbers all over the country who furnish the small tinner who does repairing. There are innumerable industries of that kind, but the major purchaser of sheets we make are the automobile manufacturers.

Mr. AVILDSEN. Is tin plate an entirely different thing? Does that go through these continuous mills too?

Mr. HOOK. Yes; the hot-rolled production where it is wider than 20 inches; and then the technique is used, the same technique is used in the cold reduction of the material.

Mr. AVILDSEN. I mean, you get royalty on all the tin plate?

Mr. HOOK. Not unless it is hot-rolled at a width wider than 20 inches.

Mr. AVILDSEN. Isn't the ordinary everyday tin plate made that way?

Mr. HOOK. No.

Mr. AVILDSEN. So that is not involved?

Mr. HOOK. Not very much tonnage.

Mr. FELLER. Some light plate for tinning is rolled.

Mr. AVILDSEN. Will you tell us whether you do any fabrication of the rolled products, such as fenders, semifinished parts of motor cars?

Mr. HOOK. No, we do not. What little fabrication we do is sold in some one or two small subsidiaries. It has always been our policy in our particular company, right or wrong, that we do not compete with our customers. It is just a matter of policy.

Mr. AVILDSEN. Mr. Hook, there has been a great deal of testimony here that there has been a large investment in new mills and equipment during the depression years. Could you give the committee the benefit of your explanation of this investment?

Mr. HOOK. Well, of course, the very large part of this large investment in the steel industry, if you will trace it back, you will find is in these new mills, these new continuous mills that have been brought about as a result of the development of this continuous mill process, approximately $500,000 000 up to date.

Mr. AVILDSEN. So that constitutes 80 percent of the new investment, 75 percent or more or less?

Mr. HOOK. Well, I should think it would. I have no figures on that, but I rather imagine it would run pretty close to 75 percent during the particular period.

Of course I rather imagine you are trying to ask me another question. I will ask it and answer it, because I heard a couple of questions this morning with respect to our ability to finance these investments during a period of depression when we were losing money. Well, those who lend you long-time money look over your past record of some 10 years, and the early money that was raised for these large installations were largely influenced by the record of the steel industry of the twenties. It is a different situation now.

Mr. AVILDSEN. In other words, a lot of this investment was made what year? When was the money raised to put in these continuous mills?

Mr. HOOK. It started in 1927; and in '30 there was a good deal of it, and '31 and '2 and '3, right through there, a large part of it was up there in the early years of the depression.

Mr. AVILDSEN. You don't think that if they had started out beginning in 1939 to raise this money they would have been so successful?

Mr. HOOK. I think you men who are familiar with the money market know what we would be up against in going to investment bankers today, and private corporate investors, to get money, with industry showing the record that this industry has shown.

Mr. HENDERSON. I have made a rough calculation. This report shows over seven million out of thirteen was installed in the beginning of 1936 and running through 1937.

Mr. Hook. Well, you see you arrange for your financing ahead of the time that you do the building. Nobody knows that better than you do.

Mr. Henderson. A lot of it was done from internal sources.

Mr. Hook. Sure.

Mr. Henderson. Then there was some borrowing and it was finished later, as I recall.

Mr. Hook. I am perfectly willing to comment, Mr. Henderson on our own experience in 1937. We raised $45,000,000, but the industry was getting back on an earning basis. In '36 we had earnings, in '37 we were showing excellent earnings. Quite frankly, we hit it just in time. I think if it had been 3 weeks later, there wouldn't have been any question but that we would have been unable to raise the $45,000,000.

Mr. Feller. Mr. Hook, in your statement, you refer to the effect of this new process in bringing down the price of automobile fender sheets, you spoke of. I take it you think that is beneficent, the fact that the advantages of technological improvement have been passed on to the consumer.

Mr. Hook. Well, of course——

Mr. Feller. You don't think that this reduction in the price of this particular commodity, automobile-fender sheets, has been a beneficent result of this technological development for which your company is largely responsible.

Mr. Hook. I wouldn't call it an absolute development along that line, but without this development there would not have been this tremendous reduction from $135 a ton in '23 to $59 in 1939.

Acting Chairman King. It is beneficent if it cheapens the price of the commodity.

Mr. Hook. Well, I think so.

Acting Chairman King. There may be some question as to whether automobiles are beneficent.

Mr. Hook. Well, I have a record here and of course Mr. Feller has a copy of this record, which I gave him, which shows that—we will take in 1936, I am talking about the average price received for all grades of sheets, not just any one, in which case you might say, "Well, yes, of course, you did produce, you are picking out an item, automobile fenders, in which there was very great reduction, but how about some other items?"

Coming down on the train I picked up out of my portfolio a record here, for instance, on 18-gage enameling iron for washing machines, and that is a specialty of ours. In other words, that is another patent that we developed some years ago. We discovered a method of making pure iron in an open-hearth furnace, therefore in that line we are the leaders. If we had a tendency to maintain a fictitiously high price, certainly it would have shown in our record over the years. In 1923 we got $152.55 a ton for that material and in 1938, $80 a ton. There is $72.55 a ton reduction between 1923 and 1938 on that item.

Now taking the average of all the products that we make, lumping them all together in an average price per ton of all we sold, this is the actual realizing price. We will take 1926, that is often used as a base; we started our plant, this first mill at Ashland, in 1924, and that year we got $95.51 a ton for our product, average; in 1926 it dropped to $83.18, 1929 it was down to $73.87.

Mr. FELLER. What commodity is that? Is that the sheet for the washing machine?

Mr. HOOK. No; this is the average of all. I gave you the washing machine sheets. Did you get it?

Mr. FELLER. Yes; I did.

Mr. HOOK. This is an average of all our products. During that period, as you remember, from '23 to '29, the price of manufactured products went up, not down, yet here is a case due largely to a technological development where the average price had gone down, in other words from $95.51 in 1924 to $73.87 in 1929, which was the biggest year the steel industry had ever had up until that time, and it kept on dropping down until 1933 when we got an average of $45.98.

We had very heavy wage advances there, and other raw material advances which increased our costs, and it rose to as high as $66.69 in 1937.

Acting Chairman KING. Was that due exclusively to increased wages and costs of your raw materials?

Mr. HOOK. I think it was, Senator. Of course you had a better market naturally and you got a better price. It dropped down so that the first 9 months of 1939 it was $61.06. There are the facts.

Mr. O'CONNELL. A few moments ago you referred to a particular product, I think it was the first one of this group you mentioned, which I understood you to say you were the leader in, and that had you had any desire of maintaining a fictitious price——

Mr. HOOK. Eighteen-gage enameling iron for washing machines, that goes into the homes; women are all interested in that.

Mr. O'CONNELL. You were the leader in the development of that?

Mr. HOOK. Yes.

Mr. O'CONNELL. Is it protected by a patented process?

Mr. HOOK. It is not now. That is the pure iron was protected for some years. That patent ran out in 1926, that is the iron patent.

Mr. O'CONNELL. Being the leader would you explain to me how you could have maintained fictitious or abnormally high price, higher than you did. I understood you to say you could have, that you were the leader.

Mr. HOOK. No; I didn't say we could have. Public opinion—there are a great many things that enter into the question of price, of course, as you know. You are trying always to sell your product, and naturally the first objective is to pay all your expenses and to pay some wages to your common-stock holders who are taking all the risks of your business, and then within the bounds of reason get a price to sell your product. If you make a price which is too high on an article of that kind of course you hold back the development of the sale of that machine upon which you are dependent for orders.

Mr. O'CONNELL. You mean if the price is too high it restricts the demand and you don't sell as much as you had hoped to?

Mr. HOOK. Correct.

Mr. O'CONNELL. When you were speaking of leadership, did you mean in the development or——

Mr. HOOK. In the market of that particular grade of material.

Mr. O'CONNELL. Were you the price leader in the sale of that?

Mr. HOOK. I think we have been for a number of years. For instance we have a product which we have recently developed which is a patented product. An engineer developed this thing and we sent for him clear over to Poland. We realized that it had great merit and we bought the rights. But we had spent, we did spend, approximately $300,000 before we ever marketed a sheet, in experimental work and developing and making what he had; he had the idea; another thing was to put the idea into practical operation. On that product we had to set a price, we had to estimate what the thing was going to cost us, and we set a price that we thought would sell the product. We couldn't make it too high. We missed some on the cost, but we are still studying price in connection with that particular product.

Mr. O'CONNELL. The one you just referred to before, I take it that is at least one steel product in which you think the demand is sufficiently elastic so that the price has a bearing, a real substantial bearing, on the demand?

Mr. HOOK. Yes. When you have wide differences in price, it has a very definite value, but when we talk about, for instance, an automobile, $5 a ton on sheets, it doesn't amount to anything on an automobile, and yet it means almost life and death to us as far as cost is concerned.

Mr. O'CONNELL. But this enamelware proposition, I have forgotten what you call it, you were in that case at least impressed with the desirability of having the price policy as regards that particular product which would be reflected in the maximum amount of demand.

Mr. HOOK. Most of that enameling iron goes into the field of what I term semidurable goods, in other words, stoves and ranges, refrigerators, and things of that kind.

Mr. O'CONNELL. As to which the demand is somewhat more elastic than some other things?

Mr. HOOK. Yes, naturally; you want to make a profit, you want to get enough for your goods so that you can pay all your expenses and, as I say, wages to your stockholders, and then not get your price to a point where it would in any way affect the sale of the product.

Mr. O'CONNELL. One of the factors in determining the price, other than the cost factors, because they in turn depend to some extent on volume, is the relationship between the price and the demand.

Mr. HOOK. Oh, sure, the demand affects your competition. It can't help but do that.

Acting Chairman KING. When do your patents expire under which you have developed this——

Mr. HOOK (interposing). These royalty contracts cease in 1944.

Acting Chairman KING. 1945?

Mr. HOOK. I will give you the exact date if you are interested.

Acting Chairman KING. That is sufficient.

Mr. HOOK. It is the fall of 1945.

Acting Chairman KING. Your patents, then, of course, have a lease of life until 1945?

Mr. HOOK. Correct.

Mr. O'CONNELL. May they have one after 1945? In fact, might there not be, as I heard happening in other industries, improvement patents held by your company which would have the effect of extending the life of your control?

Mr. HOOK. I am perfectly willing to answer quite frankly, sir, that we have no such idea at the present moment, unless there is some very decided improvement or new process. We have nothing in mind.

Dr. LUBIN. As I understand it, your patents are process patents.

Mr. HOOK. Correct.

Dr. LUBIN. Irrespective of who makes the equipment, or what kind of equipment you use, the process itself is patented and the royalty is based on that, so in the case of the Irvin Works, for example, even though their methods may be quite different from yours, the fact that they use a hot-rolling continuous process is the important factor in the picture.

Mr. HOOK. They use the technique involved in the rolling; yes. The invention was the method of doing it.

Representative WILLIAMS. You have given us the price during these various periods per ton. Does that reflect the cost of production? Have you the figures on the cost of production per ton during that same period?

Mr. HOOK. No; I have not, sir.

Representative WILLIAMS. Have you the cost as compared to what it was before your process was discovered and put into use?

Mr. HOOK. Well, costs have been affected not only by the reduction due to the reduction in rolling cost, but since that time we have had, of course, a very decided increase in labor costs of approximately 30 percent, or about one-third, since 1936, which very naturally affected the cost of your finished products.

Representative WILLIAMS. But on the other hand, hasn't this process itself displaced a great deal of labor?

Mr. HOOK. No; it has not.

Representative WILLIAMS. I was just going to ask you about that. How many men, before you discovered this process, were engaged in this particular business, and how many are now engaged in it?

Mr. HOOK. I am awfully glad you asked me that question.

Mr. FELLER. In this particular business, Congressman, you mean the making of flat-rolled products?

Representative WILLIAMS. In which this patent is used.

Mr. HOOK. I am very glad you asked me that question, because I have the information here to give you. I am speaking for the American Rolling Mill Co., our own company, at the present moment, and I will comment on the industry later. In 1923 we had 6,060 employees, and the number of employees per hundred tons of output was 1.36. In 1926, 6,876; 1929—now we are getting into the continuous mill operation—10,752; 1935, 10,444; 1938, 10,384; and in the first 9 months of this year the average number has been 10,322, and the number of employees per hundred tons, 1.46.

During the development of this process hours have been greatly shortened, so that more men have been employed, so you might—I will ask and answer the question at the same—so you might say, "Oh, well, that accounts for the increased number of men in the industry, due to the shorter number of hours requiring more men." Well, we have checked our own records. About 2 years ago I asked my assistant who is in charge of that end of our work, the labor statistics, and everything of that kind, to confer with other members of the industry who are operating under our continuous mill patents, because we had made this record up for ourselves showing a lower price, a better product, higher wages, higher annual wages, and more men employed, certainly covering the whole gamut.

Now, is that true with respect to the industry? Well, I haven't a complete report, but fortunately several of the mills are cooperating with us and they are still making studies, and we have from four companies that we have been comparing with and who have, during the last year—and this represents a very careful check of the year—in these four companies, and in the sheet, strip and tin-plate departments only, so as not to confuse it with the other part of the plant—there may be additions or other reasons for increases or decreases there, but right in these plants or departments where the continuous mills have been in operation, in these four companies, in 1926 they employed 11,769 men in those departments, and in 1937, 23,678 men, and their total pay roll went from $21,552,000 to $41,280,000, and their average weekly wages in 1926 were $35.77, and on the reduced number of hours their actual weekly wages were $34.49 in 1937, and if you use the National Industrial Conference Board index and adjust and get their real wages, then the real wages in 1926 were $34.30 per week, and in 1937, $38.97.

Yet during that period the average hours worked in 1926 were 52.3, whereas in 1937 it was 38.2; it was reduced from 52.3 to 38.2. Now in my assistant's report to me—and maybe this will be helpful because it brings out the point I think you are trying to get at—in 1926 the average hours worked per week in eight companies was 51.2. This is eight companies, in which we took all the departments, the above-mentioned four being included in the eight, was 51.2 hours per week, and in 1937 it was 37.1 hours, a reduction of 27.5 percent.

To compensate for this reduction in average hours worked per week, 25,826 additional men were required, just for the reduction in hours. The balance of the total increase amounting to 13,634 employees, or 34.3 percent of the total increase was required to handle the additional tonnage resulting from technological improvements, and increased markets.

In other words, we did actually increase the number of men employed by 34.3 percent in those eight companies. Now let us see in these four companies where we have the accurate records with respect to their sheet, strip, and tin-plate departments where the continuous mill process applies.

Acting Chairman King. The increase of rate was 30 percent plus?

Mr. Hook. More than that. I will give it to you exactly, sir.

Mr. O'Connell. The hourly rate?

Mr. Hook. Annual earnings. I would like to give you that in just a minute.

Representative Williams. Let me understand you. So far as the output is concerned, did I understand from your statement there that there has been an actual increase in the number of men employed per hundred-ton output?

Mr. Hook. Yes. Now that is due largely to the technological development beyond the hot-rolling process. In other words this has brought about not only a better product structurally as it comes off the continuous mill, but the demand of the industries being served has made it necessary to add large numbers in the processing departments beyond this point, so that in spite of the reduction in the number of hours having increased the number of men required, your total number of men per hundred tons of shipment has still kept very close to what it was originally, in fact actually in our case increased:

Mr. FELLER. You mean this, that because you can now sell more sheets through the fact that you can produce more because of this process, the employees who handle those sheets after they get off the mill and process them in various ways, shear them and so on, and that that number has been increased?

Mr. HOOK. Yes; very definitely, due to technological development in those departments. For instance today——

Mr. FELLER (interposing). That is something. How does technological development increase the number of men employed in that particular process in which the development has taken place?

Mr. HOOK. Why, because of the requirements—when I say technological developments it is our discovery how to treat a sheet to do these very difficult jobs.

Mr. FELLER. You mean because you have a new kind of annealing, for example, that is now demanded by customers, and therefore people are employed in doing that annealing job?

Mr. HOOK. Let me explain this to you, Mr. Feller. For instance, in the old hand mill before this process was developed an automobile sheet was pretty much an automobile sheet; in other words, you hot-rolled it and you gave it temper passes in the cold rolls, and you annealed it, and then you gave it a lot of passes through a two-high mill and they were able to stamp that sheet, make certain draws; let us say this glass here represents an article that you could stamp out of that sheet. Now, when the continuous mill came along, the structure was so superior that we could not only say stamp this glass in its present form, but put a flare on it and turn it inside out, and a few other things—that is exaggerating, but you know what I mean. Now then that encouraged, of course, development, particularly in the automobile industry where they kept requiring more and more difficult jobs to be done by these sheets.

Therefore we had to not only take this very superior sheet which came off the mill as a hot-rolled product, or as a cold-rolled product, but even go further and make a still superior sheet. We had to research and find out just exactly what we could do beyond that point to make it a still superior sheet. In other words, that required more heat-treating apparatus and all kinds of treatments, which we didn't know anything about in the early days.

For instance, 3 years ago we were making an automobile fender sheet of such superior quality that in 1926, before the development of the continuous process, we will say, or even in our early days of the continuous process, we just couldn't have made. In the case of a sheet made by the hand method there was no series of treatments that you could give it, there was no known method, there wasn't any way that you could treat that sheet to make it do the job which today we are doing through the production of millions of stampings.

Representative WILLIAMS. Well, is it right to say that the actual cost of production by reason of this process has increased, per ton?

Mr. HOOK. No, no. You have saved in your actual rolling operation, of course, a great deal of money per ton. I haven't the figures here, but it is a relative figure; but it is self-evident from the very fact that we have been able to produce sheets or sell the sheets at these continually decreasing prices. In other words, prices would not be decreased if we hadn't reduced our costs in various ways not only by reducing the hot-rolling cost on the mill, due to the continuous operation, but in addition by the reduction at other places all through the mill. We have been working our heads off, of course, to reduce costs.

Representative WILLIAMS. As far as the labor part of it is concerned, as I understand you, there has been very material increase in the cost per ton?

Mr. HOOK. Yes, there has been a material increase in cost, in the hourly cost, but in the actual labor cost on the rolling operation, that has been reduced because we get more tons per man-hour in the rolling operation.

Mr. AVILDSEN. I think, Mr. Hook, what is confusing here is that you state that the number of men required to produce 100 tons in a certain unit is greater now than before?

Mr. HOOK. I tried to make that clear.

Mr. AVILDSEN. So, therefore, Mr. Williams asks how could that be when you are paying a higher rate of wage and more men per unit. Now tell me this. Do you get some extra charges for these extra operations that these men perform? Do you charge extras to compensate for that?

Mr. HOOK. Oh, well, there are extras.

Mr. AVILDSEN. That are not represented in this price?

Mr. HOOK. No, no; that is the net realizing price. I was a little afraid maybe that would be confusing to you but I have to get back again and call your attention to the fact that we are talking about numbers of men per hundred tons of output, and that has been increased over what it would have been due to the shortening of the hours which I gave you here, for instance, in these four companies, of from 52.3 hours per week per man to 38.2. You see, just due to the decrease—for instance, in these 8 mills on which we have figures—in the average hours worked, 25,626 men would have been needed.

Representative WILLIAMS. But the fact is, as I understand you, that you still have more men employed in the business than you had before?

Mr. HOOK. Correct.

Representative WILLIAMS. And you are paying them a higher wage?

Mr. HOOK. Correct.

Acting Chairman KING. Let me ask if you have many more questions.

Mr. FELLER. I have one question.

Mr. HOOK. That is up to you, Senator. There are some things I imagine you might want to ask me on this question of price with respect to cost.

Dr. LUBIN. May I intervene at this point? Perhaps we can clarify this issue. As I understand it, your base year is '26, the year you used for comparison, '29, '36, and '38?

Mr. HOOK. For what?

Dr. LUBIN. Number of people employed.

Mr. HOOK. I can give you any number of years you want. Here is '23.

Dr. LUBIN. But you made the comparison for Congressman Williams to show that increase of 25,000. What years were those?

Mr. HOOK. That was '26 and '37.

Dr. LUBIN. Now part of that increase in employment between '26 and '37, as you say, is accounted for by the fact that your hours per week went down?

Mr. HOOK. That is right.

Dr. LUBIN. And you had to increase your labor force in part to offset that, although the new developments in production took care of part of that in addition, did they not?

Mr. HOOK. That is right.

Dr. LUBIN. So as far as your rolling mills were concerned per ton of steel produced, you need less labor now than you did in '26?

Mr. HOOK. Per ton.

Dr. LUBIN. But between '26 and '37, according to these figures on ingot production, if that is a good index for the industry as a whole, there was an increase of about 25 percent in output; you took '26 as a year and '37 as a year. In other words, the index of ingot output in '26 was about 115 and in '37 it was about 130, the average for the year?

Mr. HOOK. Yes.

Dr. LUBIN. So that this increase in number of people on your pay roll is accounted for for the most part, then, really, by this increase in output which would have required more men, whether you had new processes or not, plus the fact that hours have been shortened, but that shortening of hours had not been entirely offset by greater efficiency of the new rolling mills?

Mr. HOOK. Well, I gave you four companies where we related it right back to the tin-plate sheet, strip, and tin-plate department, so that that consideration that you are talking about would not be involved. In other words, what I was trying to show you was that we did not reduce the number of men employed; in other words, the number of men employed in the industry was actually increased and even if we had increased the tons during that period on all our products generally, if this development hadn't increased the use of the material, then we would have had less men.

Dr. LUBIN. In other words, let us put it this way: If the volume had remained unchanged and the hours had remained unchanged, you would have had fewer men?

Mr. HOOK. That is right.

Dr. LUBIN. But because volume had increased and hours had been shortened, it was just necessary to take on more people, so that the machine itself, assuming conditions identical with '26, would have displaced workers?

Mr. HOOK. That is right.

Acting Chairman KING. Mr. Hook, there will be no meeting of the committee tomorrow. The committee will stand in recess until Monday morning at 10:15 o'clock.

(Whereupon at 6 o'clock a recess was taken until 10:15 a. m., Monday, November 13.)

(Testimony on the Iron and Steel Industry is resumed in Hearings, Part 20.)

APPENDIX

Exhibit No. 1379

PRICES OF IRON AND STEEL PRODUCTS AND OF ALL COMMODITIES

BY MONTHS, 1913-1918

(JULY 1913 TO JUNE, 1914=100)

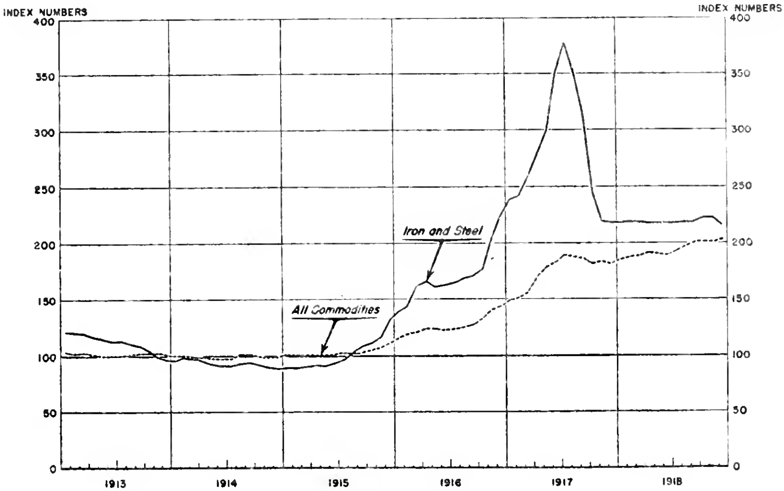


Exhibit No. 1380

IRON AND STEEL PRICES AND STEEL INGOT PRODUCTION

BY MONTHS, 1913-1918

(JULY, 1913 TO JUNE, 1914=100)

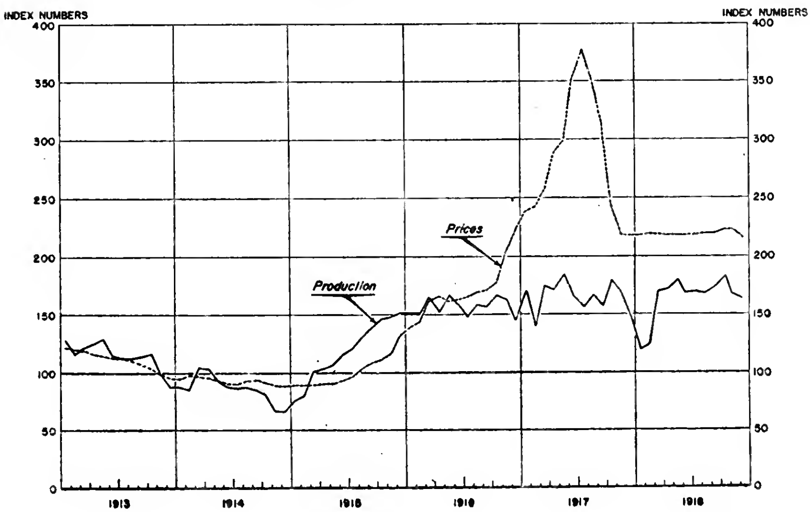


Exhibit No. 1381

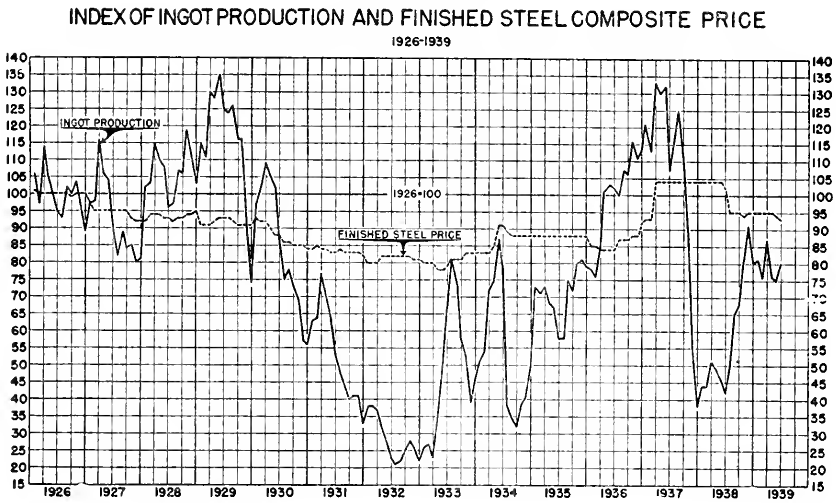


Exhibit No. 1382

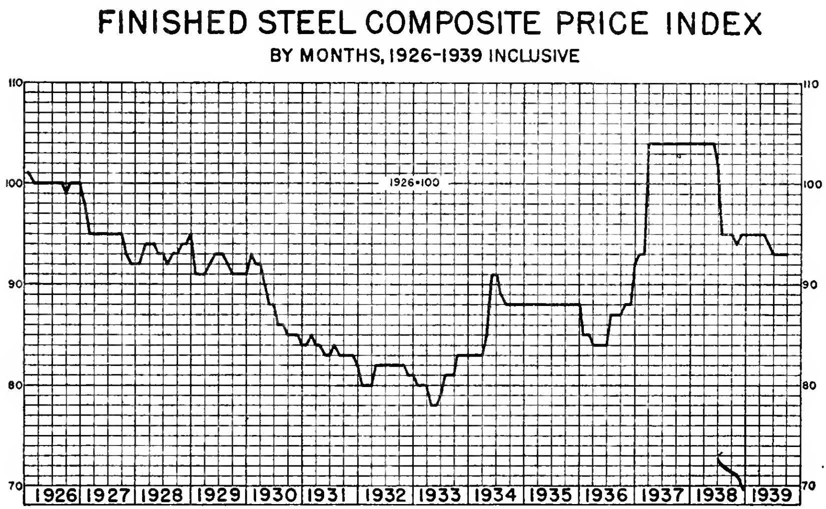


EXHIBIT NO. 1383

INDEX OF SEMI-MANUFACTURED ARTICLES AND FINISHED STEEL COMPOSITE
1926-1939

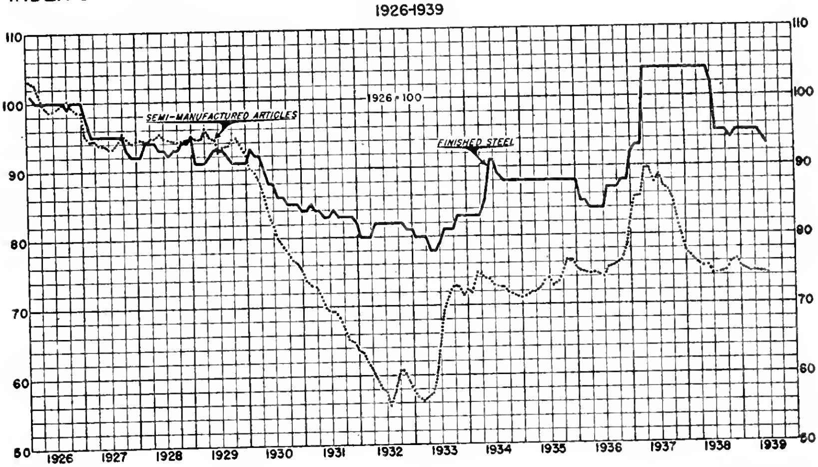


EXHIBIT NO. 1384

CARNEGIE-ILLINOIS STEEL CORPORATION

UNITED STATES STEEL [SEAL] CORPORATION SUBSIDIARY

General Offices: Carnegie Building, Pittsburgh, Pa.

B. F. FAIRLESS, *President*

NOVEMBER 20, 1936.

Mr. ROBERT GREGG,
Vice President, United States Steel Corporation,
71 Broadway, New York, N. Y.

DEAR SIR: The price situation for the First Quarter of 1937 has been studied very carefully, because of the increased costs which face us, and it is very strongly recommended that we announce immediately, effective as of December 1st, prices as represented by the attached memorandum on business taken for shipment during the First Quarter of 1937, which memorandum also shows the present prices for comparison. The factors that make it imperative to take immediate action are briefly as follows:

(1) Labor costs under the program which became effective November 16th will add very materially to our manufacturing costs of all commodities. Exact information concerning this increase in costs due to the new labor program has been compiled by Mr. Vogt, and you no doubt have received a report from him.

(2) The materials we use in our manufacturing processes, and for plant and equipment maintenance, will show a decided increase in cost as evidenced by preliminary reports which have already been received from sources normally supplying these materials.

(3) *Tin Plate.*—No change in the selling price is proposed and it is estimated our manufacturing costs will be increased by about $5.00 per ton. Therefore, shipments during the year 1937 will show a $5.00 per ton reduction in profit to us.

(4) *Sheet Mill Products.*—A review of this product shows very clearly an increased cost of about $4.00 per ton. At present selling prices, under favorable operating conditions, the large tonnage items show the following losses:

Blue Annealed, 16 gauge and heavier	No profit.	
Hot Rolled Annealed, 17 gauge and lighter	$1.50/$2.00	per ton loss.
Single Pickled, all gauges	$2.50/$3.00	per ton loss.
Tack Plate, all gauges	$3.00	per ton loss.

These losses are on a Carnegie-Illinois integrated net mill basis.

(5) There has been no time in the history of the Steel Industry where the Trade has been so outspoken in regard to possible price changes, and we can say with confidence that they are expecting at least the advances we propose. It is imperative that this question be settled quickly in order that the Trade may know what their raw materials cost will be, and permit them to adjust their price programs accordingly.

(6) December 1st is recommended as the effective date for First Quarter business, and an immediate announcement would, we believe, have a very beneficial physchological effect on the consuming trade at this time. In fact, inquiries from the trade as to our price position for the First Quarter, are becoming very numerous and our trade is pointing out to us that it is imperative we make an immediate decision in order that they may prepare their own business programs.

(7) Average increase in price would represent approximately $3.00 per ton, but it is difficult to estimate this accurately owing to the variations in commodities ordered from time to time. From past experience, however, it would be fair to state that these prices would represent this average increase to us.

In conclusion, while this proposed price advance is to become effective on December 1st on business for first quarter shipment, we will not be benefitted by this change to any great extent until February, owing to obligations that will carry us well into, and in some cases through, the month of January at present prices.

Yours very truly,

(Signed) B. F. Fairless,
President.

Comparison of fourth quarter 1936 and proposed first quarter 1937 prices at Pittsburgh

	Advance Per Ton	Present	Proposed
Rerolling Billets, Blooms and Slabs	$2.00	$32.50	$34.50 G. T.
Sheet Bars	$2.00	$32.50	$34.50 G. T.
Forging Bloms, Billets and Slabs	$1.00	$39.50	$40.50 G. T.
Hot Rolled Carbon Steel Skelp	$2.00	$1.825	$1.925 100#
Hot Rolled Carbon Steel Bars and Small Shapes	$3.00	$2.075	$2.225 100#
Hot Rolled Alloy Steel Bars	$4.00	$2.575	$2.775 100#
Hot Rolled Alloy Steel Billets, Blooms and Slab's	$4.00	$51.50	$55.50 G. T.
Hot Rolled Carbon Steel Strip	$4.00	$1.975	$2.175 100#
Hot Rolled Carbon Steel Structural Shapes	$3.00	$1.925	$2.075 100#
Hot Rolled Carbon Steel Plates	$3.00	$1.925	$2.075 100#
Hot Rolled Sheets—10 gauge base	$4.00	$1.975	$2.175 100#
Hot Rolled Annealed Sheets—24 gauge base	$4.00	$2.625	$2.825 100#
Cold Rolled Sheets			
(Primes with seconds arising)—10 gauge base	$4.00	$2.625	$2.825 100#
(Primes with seconds arising)—20 gauge base	$4.00	$3.075	$3.275 100#
American Vitrenamel—10 gauge base	$3.00	$2.475	$2.625 100#
American Vitrenamel—20 gauge base	$3.00	$3.075	$3.225 100#
Galvanized Sheets—24 gauge base	$4.00	$3.225	$3.425 100#
Galvanized Corrugated 26″ Wide after standard 2½″ Corrugations—24 gauge base	$4.00	$4.090	$4.340 Square
Long Ternes Unassorted—24 gauge base	$4.00	$3.525	$3.725 100#
Tin Mill Black Plate—28 gauge base Hot Rolled and Annealed	$4.00	$2.775	$2.975 100#
Tin Plate	None	$5.275	$4.875 Base Box
(This does not represent a change in Tin Plate, but rather a discontinuance of the deduction that became operative under the Steel Code and the NRA.)			
U. S. S. Sheet Piling	$3.00	$2.275	$2.425 100#
U. S. S. Zee Piling	$3.00	$2.375	$2.525 100#
Tie Plates	$2.00	$40.50	$42.50 N. T.
Steel Axles for Cars or Locomotives	$5.00	$2.925	$3.175 100#
Standard Rails weighing over 60# per lineal yard Shipping Mill [1]	$3.625	$36.375	$40.00 G. T.
Splice Bars for Standard Rails weighing over 60# per lineal yard—Shipping Mill [1]	$3.00	$2.55	$2.70 100#

[1] In our opinion it is too late to get any advantage of an increased price in the first half of 1937. We do not see how we can avoid taking orders up to January 1 for shipment through the first half at present price. New price should apply on any sales made after January 1 for shipment during 1937.

EXHIBIT No. 1385

[Western Union telegram]

1937 Feb. 19 PM 2 29

Received at CXDA58 Chgo 19
ROBT. GREGG
USS NYK:

Our price for foundry pig iron now effective is $18.50 base furnace Ironton Utah Stop We have made careful survey and have concluded this price should be advanced one dollar per ton and unless you instruct to contrary will make this advance effective for 2nd quarter Pls advise.

W. A. ROSS
COL.

$18.50 2.

EXHIBIT No. 1386

TELEGRAM

Via Private Wire System

UNITED STATES STEEL CORPORATION

AND SUBSIDIARY COMPANIES

Sent

FEBRUARY 20, 1937

W A Ross Columbia Steel Co
Russ Bldg San Francisco Cal Via XD Chgo

Your wire Pig iron price Why not make advance two dollars instead of one Advise

ROBERT GREGG
USS

EXHIBIT No. 1387

[Copy of letter]

CARNEGIE-ILLINOIS STEEL CORPORATION

UNITED STATES STEEL [SEAL] CORPORATION SUBSIDIARY

(Notation:) 225
75
———
300

(Stamped:) Refer with previous file to: A. H. W., Jr. R. G. L.

MARCH 10, 1937.

J. H. McKown
A. H. Warren, Jr.

RECOMMENDATIONS FOR THE REVISION OF PRICES FOR HIGH TENSILE STEELS

Pursuant to your request, we have the following recommendations to make:

	Pittsburgh	*Chicago*
COR-TEN		
Plates	3. 80	3. 85
Shapes	3. 70	3. 75
MAN-TEN		
Plates	3. 15	3. 20
Shapes	3. 05	3. 10
SIL-TEN		
Plates	3. 00	3. 05
Shapes	3. 00	3. 05

Cor-Ten: It is evident that our cost of production of plates is $4 to $5 per ton over the price of standard shapes. Unquestionably when the new 100″ semi-continuous mill at Homestead gets on a more regular basis, the cost of plates will be brought down, possibly a differential of $2 per ton. If no revision is made in the price of Cor-Ten and the prices on other commodities advance, it will in a sense be an admission on our part that the price of Cor-Ten is already too high and does not warrant an advance. We think that we should offset any possible criticisms of this character and, therefore recommend modest advances to the bases as above indicated.

Man-Ten: On a basis of our first-quarter pricing on this grade we maintained a differential of $5 per ton between plates and shapes. We believe the new plate mill at Homestead will narrow this difference and consequently recommend the smaller spread as above indicated.

It must be remembered that Structural Silicon Steel Astm-A-94, specifies silicon .20 min. with no mention of manganese. However, to produce the required tensile strength of 85,000 lbs., a manganese range of 1.25 to 1.70 is used, which is similar to that of Man-Ten. Man-Ten, therefore, is similar to Astm-A-94, except that manganese is shown. It follows, therefore, that the same can command only a slight advance over Sil-Ten by reason of its slightly higher tensile strength.

Sil-Ten: We believe that the prices on Sil-Ten for the second quarter should be advanced $4 per ton on both shapes and plates. The regular extra for silicon steel is 75¢ per 100 lbs., and we believe this is the proper diffierential between the price of ordinary carbon shapes and plates and similar commodities in Sil-Ten.

NOTE.—The old spread of $9 per ton between Cor-Ten structural shapes and Cor-Ten strip appears to be excessive and has affected the marketing of our Yoder Mill products, since the latter have been built up from a strip base. Yoder Mill sections are competitive with hot rolled structural shapes, and the resultant price has not been particularly attractive to the trade. This angle might be taken into consideration when Cor-Ten strip prices are established.

EXHIBIT No. 1388

AMERICAN STEEL & WIRE COMPANY

SUBSIDIARY OF UNITED [SEAL] STATES STEEL CORPORATION

Rockefeller Building, Cleveland

C. F. BLACKMER, *President*

NOVEMBER 12, 1936

Mr. H. L. HUGHES,
Vice President, United States Steel Corporation,
71 Broadway, New York, N. Y.

DEAR SIR: Referring to phone conversation of yesterday, my recommendations as to Sales Prices are to make the following increases:

Wire Rods	$3.00 per gross ton
Bright Basic and Bessemer Wires	2.00 per net ton
Premier Spring Wire, including other High Carbon Wires	3.00 ditto
Wire Nails	4.00 ditto
Barbed Wire	4.00 ditto
Woven Wire Fence	3.00 ditto
Bale Ties	3.00 ditto
Cold Rolled Strip	Either $2.00 or $3.00 per ton, according to what is done on Hot Rolled Strip.
Galvanized Wire	$1.00 per ton in excess of Bright Wire.

Other miscellaneous wire products, such as Fine Wires, etc., in the usual proportion.

I have shown an advance of $3.00 per ton for Wire Rods. This, I understand, is the same advance that is to apply to Bars.

I have only recommended $2.00 for Basic and Bessemer Wires because of the desire to lessen, as much as possible, the spread between Rods and Drawn Wire. There is a tendency for Wire users to install machinery and draw their own wire. I think a lessening of the spread between Rods and Wire will discourage them to some extent from putting in their own drawing equipment.

Premier Spring Wire has been increased $3.00. There was no increase in October when Bessemer and Basic Wire was increased $2.00 per ton; moreover, during the past we have made very drastic reductions in the price of Spring Wire; therefore, I do not believe that $3.00 is out of line.

Nails and Barb Wire have been entirely too low; therefore, I recommend an increase of $4.00 per ton.

My recommendation would be that these prices be put into effect as quickly as possible; that is, some day next week. As to whether they apply for the first quarter of 1937 would somewhat depend upon the plan effective for Bars, Sheets, etc.

Mr. Merriman agrees to all the above recommendations.

Yours truly,

(Signed) C. F. BLACKMER,
President.

P. S. We inadvertently omitted Posts in the foregoing, I would recommend an advance of $2.00 per ton. I feel that this is about all we can increase on this product due to keen competition from many Steel Post Manufacturers and competition from Wood Post Manufacturers. C. F. B.

EXHIBIT No. 1389

[Copy]

NEW YORK, *June 24, 1938.*

MYRON TAYLOR,
Morgan Bank, Paris, France.

The following releases made this afternoon Quote Carnegie Illinois Steel Corporation announces reduced prices effective immediately Delivered F. O. B. cars Pittsburgh and Chicago in carload lots as follows

		Pittsburgh	*Chicago*	
Rerolling billets blooms slabs	per gross ton	$34. 50	$34. 60	
Sheet bars	per gross ton	34. 50	34. 60	
Forging blooms billets slabs	per gross ton	40. 50	40. 60	
Hot rolled carbon steel bars and small shapes	per 100 lbs	2. 275	2. 18	
Hot rolled alloy steel bars	per 100 lbs	2. 825	2. 83	
Hot rolled alloy steel billets blooms and slabs	per gross ton	56. 50	56. 60	
Hot rolled strip	per 100 lbs	2. 175	2. 18	
Hot rolled carbon steel structural shapes	per 100 lbs	2. 125	2. 13	
Hot rolled carbon steel plates	per 100 lbs	2. 125	2. 13	
Hot rolled sheets	per 100 lbs	2. 175	2. 18	
Hot rolled concrete reinforcement bars cut lengths	per 100 lbs	2. 075	2. 08	
Cold rolled sheets (primes with seconds arising)	per 100 lbs	3. 225	3. 23	
USS sheet piling	per 100 lbs	2. 425	2. 43	stop

Prices on other products will be announced later Stop The new prices are approximately on the same level as those in effect prior to 1928 Stop The price reductions are made to meet competitive conditions and with the hope that such reductions will stimulate a demand for steel products Stop Mill prices of these products are identical at the mills in both Pittsburgh and Chicago a revision which has been made because of increased production facilities and greater diversification of products in the Chicago district Unquote Stop Quote Tennessee Coal Iron and Railroad Company announces reduced prices effective immediately delivered F. O. B. cars Birmingham in carload lots as follows

Rerolling billets blooms and slabs	$34. 50 per gross ton
Forging blooms billets and slabs	40. 50 per gross ton
Hot rolled carbon steel bars and small shapes	2. 275 per 100 lbs.
Hot rolled strip	2. 175 per 100 lbs.
Hot rolled carbon steel structural shapes	2. 125 per 100 lbs.
Hot rolled carbon steel plates	2. 125 per 100 lbs.
Hot rolled sheets	2. 175 per 100 lbs.
Hot rolled new billet steel concrete reinforcement bars cut lengths	2. 075 per 100 lbs.

Prices on other products will be announced later Stop The new prices are lower than those in effect prior to 1928 Stop The price reductions are made to meet competitive conditions and with the hope that such reductions will stimulate a demand for steel products Stop Prices of these products at the Birmingham mills are now identical with mill prices of Carnegie Illinois Steel Corporation for like products at Pittsburgh and Chicago Unquote Regards

STEELSTET

Exhibit No. 1390

[Submitted by U. S. Steel Corporation]

Comparative quoted base prices for steel products, September 27, 1938

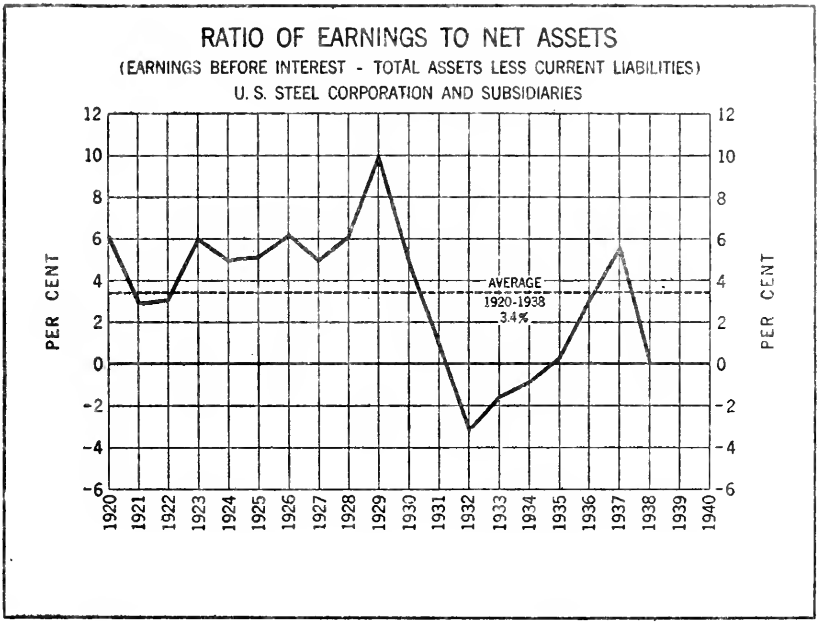
[Prices are f. o. b. mill Pittsburgh except as noted]

Labor rate		44¢	44¢	35¢	42½¢	48½¢	47¢	47¢	47¢	52½¢	62½¢ Plus overtime		
		Oct. 1926	Oct. 1929	June 1933	Nov. 1933	July 1934	Mar. 1935	July 1936	Oct. 1936	Dec. 1936	May 1937	July 1938	Sept. 1938
Pig Iron, Basic, Youngstown	G. T.	18.00	18.50	15.00	17.00	18.00	18.00	19.00	19.00	20.50	23.50	[1] 19.50	19.50
Pig Iron, Fdry. #2, Youngstown	G. T.	18.50	18.50	15.50	17.50	18.50	18.50	19.50	19.50	21.00	24.00	20.00	20.00
Pig Iron, Fdry. #2, Birmingham	G. T.	20.00	14.50	12.00	13.50	14.50	14.50	15.50	15.50	17.00	20.00	16.00	16.00
Blooms, Billets, Slabs	G. T.	35.00	35.00	26.00	26.00	27.00	27.00	30.00	32.00	34.00	37.00	34.00	34.00
Sheet Bars	G. T.	36.00	35.00	26.00	26.00	28.00	28.00	30.00	32.00	34.00	37.00	34.00	34.00
Wire Rods	G. T.	45.00	40.00	35.00	35.00	38.00	38.00	38.00	40.00	43.00	47.00	43.00	43.00
Skelp	100#	1.90	1.85	1.60	1.60	1.70	1.70	1.80	1.80	1.90	2.10	1.90	1.90
Standard Rails, fob mill	G. T.	43.00	43.00	40.00	37.75	36.375	36.375	36.375	36.375	39.00	42.50	42.50	40.00
Railroad Tie Plates	N. T.	45.00	43.00	35.00	38.00	38.00	38.00	38.00	40.00	42.00	46.00	46.00	43.00
Railroad Track Spikes	100#	2.80	2.80	2.15	2.40	2.40	2.40	2.60	2.75	2.90	3.15	3.15	3.00
Plates	100#	1.90	1.95	1.55	1.70	1.80	1.80	1.90	1.90	2.05	2.25	2.10	2.10
Structural Shapes, Std	100#	2.00	1.90	1.60	1.70	1.80	1.80	1.90	1.90	2.05	2.25	2.10	2.10
Bars, Merchant	100#	2.00	1.90	1.60	1.75	1.80	1.80	1.95	2.05	2.20	2.45	2.25	2.25
Pipe, Std. 1" to 3" (base price, per card discount)	100#	3.70	3.80	2.90	3.25	3.60	3.60	3.05	3.05	3.05	3.55	3.15	3.15
Strip, Hot Rolled	100#	2.30	1.90	1.575	1.75	1.85	1.85	1.95	1.95	2.15	2.40	2.15	2.15
Sheets, Hot Rolled #10 Ga.[2]	100#	2.40	2.20	1.50	1.75	1.85	1.85	1.95	1.95	2.15	2.40	[2] 2.15	2.15
Sheets, Galvanized #24 Ga	100#	3.85	3.50	2.775	2.85	3.10	3.10	3.20	3.20	3.40	3.80	3.50	3.50
Tin Plate, Cokes	100#	5.50	5.35	4.25	4.65	5.25	5.25	5.25	5.25	[3] 4.85	4.85	5.35	5.35
Wire Nails	100#	2.65	2.40	1.85	2.10	2.60	2.60	2.10	2.05	2.25	2.75	2.45	2.45
Wire, Drawn, Bright	100#	2.50	2.40	2.10	2.10	2.30	2.30	2.40	2.50	2.60	2.90	2.60	2.60
Wire Fence, Woven (Key Price)	100#	65.00	65.00	50.00	55.00	63.00	63.00	58.00	60.00	63.00	70.00	67.00	67.00

[1] Chicago and Birmingham differential over Pittsburgh eliminated.
[2] June, 1938—Under new classification, now quoted as "Hot Rolled Sheets", with revised extra card.
[3] 7½% discount eliminated.

Exhibit No. 1391

[Submitted by U. S. Steel Corporation]



Since 1920, the ratio of earnings of U. S. Steel Corporation to the combined investment of stockholders and bondholders has averaged approximately 3.4%. For the past ten years the ratio has been slightly less than 2%.

Ratio of earnings to net assets—U. S. Steel Corporation and subsidiaries

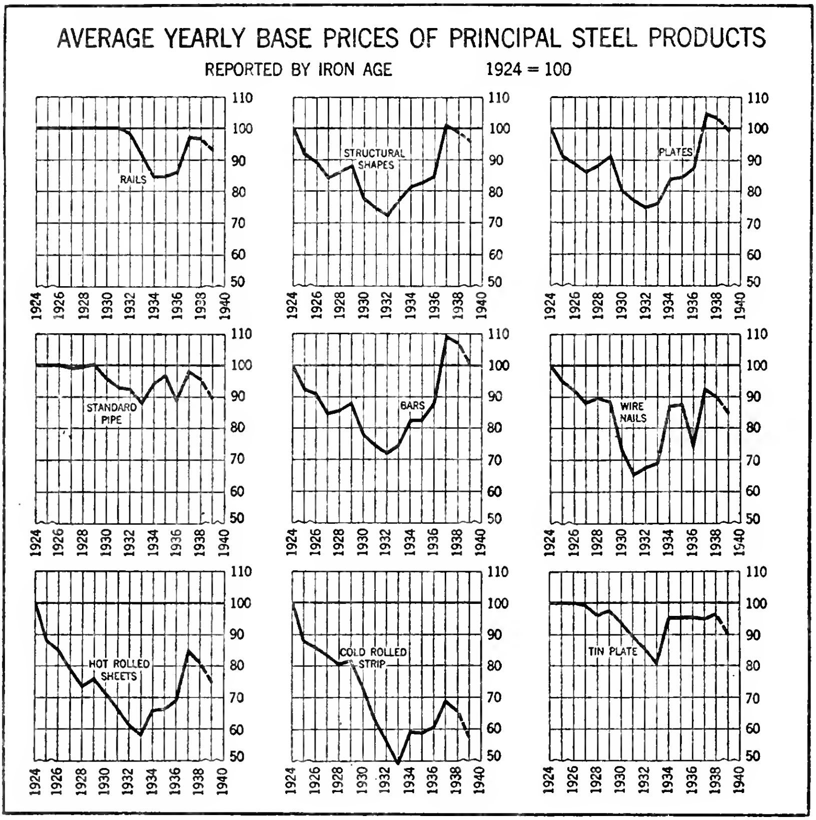
Year	Earnings (Before Interest)	Net Assets (Assets less Current Liabilities)	Ratio of Earnings to Net Assets	Year	Earnings (Before Interest)	Net Assets (Assets less Current Liabilities)	Ratio of Earnings to Net Assets
1920	$139, 043, 581	$2, 273, 801, 768	6. 12%	1930	110, 061, 667	2, 277, 566, 636	4. 83%
1921	65, 109, 283	2, 254, 856, 754	2. 89	1931	18, 507, 766	2, 214, 480, 212	0. 84
1922	68, 020, 445	2, 241, 899, 632	3. 03	1932	[1] 65, 862, 244	2, 110, 235, 191	[1] 3. 12
1923	136, 718, 703	2, 283, 479, 677	5. 99	1933	[1] 31, 336, 670	2, 047, 876, 024	[1] 1. 53
1924	112, 377, 701	2, 291, 235, 548	4. 90	1934	[1] 16, 616, 728	2, 027, 821, 920	[1] 0. 82
1925	117, 711, 771	2, 328, 725, 168	5. 05	1935	6, 106, 488	1, 752, 870, 594	0. 35
1926	143, 425, 343	2, 333, 017, 257	6. 15	1936	55, 501, 787	1, 760, 418, 809	3. 15
1927	113, 960, 340	2, 324, 660, 536	4. 90	1937	100, 085, 446	1, 801, 398, 218	5. 56
1928	139, 919, 784	2, 329, 514, 233	6. 01	1938	544, 874	1, 632, 017, 676	0. 03
1929	212, 536, 930	2, 157, 164, 530	9. 85				

[1] Indicates loss.

Earnings are before interest but after all other charges, including all taxes.

EXHIBIT No. 1392

[Submitted by U. S. Steel Corporation]



Considerable flexibility exists in steel prices. Not only do steel prices fluctuate widely but, also, prices of different steel products fluctuate in varying degree and direction.

As compared with 1924, prices of steel today are generally lower, whereas wage rates are roughly 30% higher.

[Reported by Iron Age]

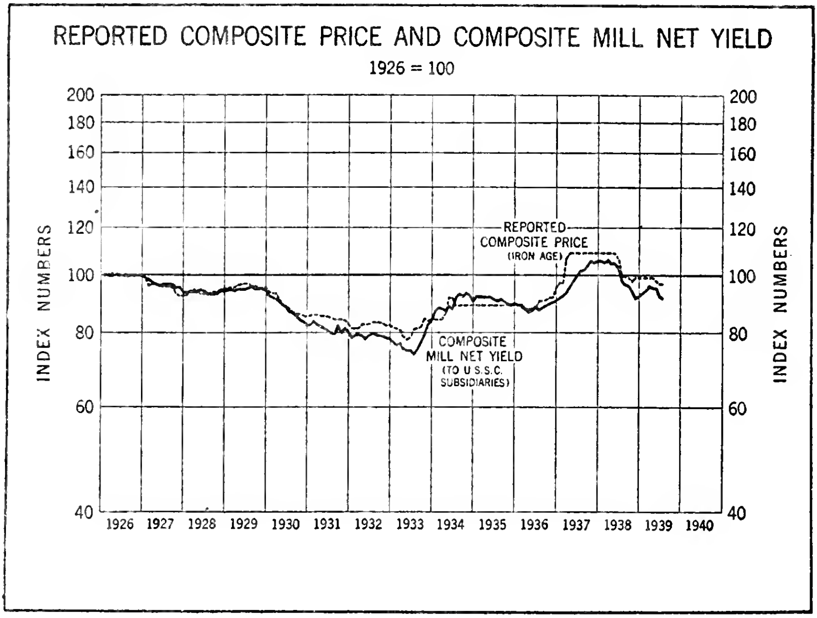
Year	Rails: Dollars per Gross Ton	Rails: 1924=100	Structural Shapes: Cents per Pound	Structural Shapes: 1924=100	Plates: Cents per Pound	Plates: 1924=100	Standard Pipe: Dollars per Net Ton	Standard Pipe: 1924=100	Bars: Cents per Pound	Bars: 1924=100
1924	43.00	100.0	2.19	100.0	2.12	100.0	70.30	100.0	2.20	100.0
1925	43.00	100.0	1.99	90.9	1.91	90.1	70.30	100.0	2.02	91.8
1926	43.00	100.0	1.95	89.0	1.88	88.7	70.30	100.0	2.00	90.9
1927	43.00	100.0	1.83	83.6	1.82	85.8	69.57	99.0	1.84	83.6
1928	43.00	100.0	1.87	85.4	1.87	88.2	69.84	99.3	1.87	85.0
1929	43.00	100.0	1.92	87.7	1.93	91.0	70.30	100.0	1.92	87.3
1930	43.00	100.0	1.69	77.2	1.69	79.7	67.45	95.9	1.71	77.7
1931	43.00	100.0	1.62	74.0	1.62	76.4	65.29	92.9	1.63	74.1
1932	42.44	98.7	1.57	71.7	1.57	74.1	64.89	92.3	1.57	71.4
1933	39.26	91.3	1.68	76.7	1.61	75.9	61.63	87.7	1.64	74.5
1934	36.37	84.6	1.78	81.3	1.78	84.0	66.32	94.3	1.81	82.3
1935	36.37	84.6	1.80	82.2	1.80	84.9	68.40	97.3	1.81	82.3
1936	36.59	85.1	1.85	84.5	1.85	87.3	62.01	88.2	1.93	87.7
1937	41.86	97.3	2.21	100.9	2.21	104.2	69.17	98.4	2.40	109.1
1938	41.77	97.1	2.17	99.1	2.17	102.4	67.00	95.3	2.35	106.8
1939 [1]	40.00	93.0	2.10	95.9	2.10	99.1	63.00	89.6	2.21	100.5

Year	Wire Nails: Dollars per Keg	Wire Nails: 1924=100	Hot Rolled Sheets: Cents per Pound	Hot Rolled Sheets: 1924=100	Cold Rolled Strip: Cents per Pound	Cold Rolled Strip: 1924=100	Tin Plate: Dollars per Base Box	Tin Plate: 1924=100
1924	2.89	100.0	2.79	100.0	5.00	100.0	5.50	100.0
1925	2.72	94.1	2.45	87.8	4.39	87.8	5.50	100.0
1926	2.65	91.7	2.37	84.9	4.30	86.0	5.50	100.0
1927	2.54	87.9	2.20	78.9	4.17	83.4	5.48	99.6
1928	2.58	89.3	2.04	73.1	4.03	80.6	5.25	95.5
1929	2.57	88.9	2.12	76.0	4.06	81.2	5.35	97.3
1930	2.10	72.7	1.99	71.3	3.64	72.8	5.19	94.4
1931	1.88	65.1	1.86	66.7	3.13	62.6	4.94	89.8
1932	1.95	67.5	1.71	61.3	2.80	56.0	4.69	85.3
1933	1.99	68.9	1.62	58.1	2.48	49.6	4.43	80.5
1934	2.52	87.2	1.85	66.3	2.96	59.2	5.25	95.5
1935	2.53	87.5	1.85	66.3	2.95	59.0	5.25	95.5
1936	2.13	73.7	1.92	68.8	3.02	60.4	5.25	95.5
1937	2.67	92.4	2.35	84.2	3.49	69.8	5.22	94.9
1938	2.60	90.0	2.25	80.6	3.31	66.2	5.31	96.5
1939 [1]	2.44	84.4	2.08	74.6	2.88	57.6	5.00	90.9

[1] Data for 1939 are on basis of first 8 months.

EXHIBIT No. 1393

[Submitted by U. S. Steel Corporation]



Base prices of steel, as indicated by the composite price reported by Iron Age, have shown considerable flexibility since 1926.

There has been even more fluctuation in the mill net yield, i. e., the amount received per ton by the U. S. Steel Corporation subsidiaries on the various products after deduction of cost of delivery. The mill net yield index declined from an average of 100 in 1926 to a low of 73.5 in 1933. The increases in prices in 1937 were the result of increased wages and other costs.

Factors tending to lower mill net yields with respect to reported base prices are principally (a) reductions from base price, (b) excess of actual cost of delivery over freight added to base price in computing the delivered price, (c) quantity discounts and (d) deductions for quality, size, etc. Factors tending to raise mill net yield with respect to reported base prices are principally (a) extras for special finish, quality, size, heat treatment, etc., and (b) extras for small quantity.

Reported composite price and composite mill net yield

[1926=100]

	1926		1929		1932		1935		1938		
	Composite Price	Mill Net Yield	Composite Price	Mill Net Yield	Composite Price	Mill Net Yield	Composite Price	Mill Net Yield	Composite Price	Mill Net Yield	
Jan	100.3	99.8	94.7	94.2	81.2	78.6	88.8	92.1	108.5	105.4	Jan
Feb	100.0	100.0	94.7	94.2	81.1	79.1	88.8	92.0	108.5	105.1	Feb
Mar	100.3	99.6	94.7	93.9	81.2	79.3	88.8	91.9	108.5	105.9	Mar
Apr	100.1	100.2	96.0	94.3	82.4	78.7	88.8	91.9	108.5	104.3	Apr
May	99.5	100.1	96.2	94.2	82.4	77.7	88.8	92.0	108.3	104.4	May
Jun	99.7	99.8	96.6	94.3	82.4	79.2	88.8	91.2	106.2	102.7	Jun
Jul	100.0	99.8	96.2	95.0	82.7	79.5	88.8	90.5	99.4	97.9	Jul
Aug	100.0	99.5	95.6	95.4	82.7	79.3	88.8	90.8	99.4	96.2	Aug
Sep	100.0	99.9	95.4	94.5	82.7	79.0	88.8	90.0	99.0	95.9	Sep
Oct	100.0	99.6	94.9	94.3	82.5	78.8	89.1	89.6	97.4	93.7	Oct
Nov	100.0	99.9	94.7	94.3	82.0	78.2	89.1	88.8	98.7	91.6	Nov
Dec	100.0	99.8	95.2	94.0	82.0	77.9	89.1	89.6	98.7	92.2	Dec
	1927		1930		1933		1936		1939		
Jan	98.5	98.7	93.4	92.4	81.4	77.0	89.1	89.0	98.7	93.2	Jan
Feb	95.9	98.0	92.8	91.6	80.9	76.0	88.1	89.1	98.7	94.1	Feb
Mar	96.5	97.0	92.7	91.2	80.6	76.6	87.3	87.6	98.7	95.8	Mar
Apr	96.2	96.6	90.6	89.9	78.5	75.0	87.6	86.4	98.7	95.1	Apr
May	95.7	95.9	88.8	88.9	77.8	74.5	87.6	87.1	97.5	94.8	May
Jun	95.5	96.4	88.2	88.0	78.6	74.6	87.8	88.2	96.6	92.1	Jun
Jul	95.4	96.3	87.2	86.6	81.1	73.5	90.3	87.3	96.6	91.4	Jul
Aug	95.4	96.3	86.3	86.0	81.3	75.0	90.3	88.1	--------	--------	Aug
Sep	95.0	95.9	85.9	85.0	81.6	77.2	90.5	88.8	--------	--------	Sep
Oct	93.0	94.9	85.6	83.7	84.2	79.4	91.4	89.6	--------	--------	Oct
Nov	92.1	95.2	85.4	83.3	83.5	82.6	91.4	90.0	--------	--------	Nov
Dec	92.1	93.5	84.8	82.0	84.0	83.5	95.0	90.6	--------	--------	Dec
	1928		1931		1934		1937				
Jan	92.3	93.4	85.4	82.2	84.0	87.1	97.1	91.4	--------	--------	Jan
Feb	93.7	93.4	85.6	83.2	84.0	88.1	97.1	92.3	--------	--------	Feb
Mar	94.1	93.3	85.6	82.3	84.0	87.4	106.2	93.3	--------	--------	Mar
Apr	94.0	93.4	85.3	81.8	85.9	87.1	108.5	95.8	--------	--------	Apr
May	93.0	94.3	85.3	81.4	91.5	88.5	108.5	98.0	--------	--------	May
Jun	93.0	93.8	84.8	80.4	91.5	87.4	108.5	99.8	--------	--------	Jun
Jul	92.6	92.9	84.4	79.9	88.8	91.8	108.5	101.6	--------	--------	Jul
Aug	93.3	92.4	84.0	79.8	88.8	92.9	108.5	101.9	--------	--------	Aug
Sep	93.3	92.7	84.0	81.9	88.8	91.9	108.5	103.4	--------	--------	Sep
Oct	93.7	92.9	84.0	80.0	88.8	93.3	108.5	105.7	--------	--------	Oct
Nov	94.2	93.9	83.8	81.3	88.8	92.5	108.5	104.8	--------	--------	Nov
Dec	94.5	93.7	82.5	80.2	88.8	89.9	108.5	105.3	--------	--------	Dec

The reported composite price index is based upon the Iron Age composite price, which is an arithmetic average of the reported base prices of eight representative finished steel products.

The composite mill net yield index represents the amount, relative to that for 1926, received per ton by U. S. Steel Corporation subsidiaries (after freight) from sales of a representative constant assortment of all principal products.

EXHIBIT NO. 1394

TENNESSEE COAL, IRON AND RAILROAD COMPANY

UNITED STATES [SEAL] CORPORATION SUBSIDIARY

General Offices: Birmingham, Ala.

CREIGHTON M. KONKLE, *Auditor*

(Stamped:) Office of Chairman, finance committee, Sept. 26, 1938, 9:30.

SEPTEMBER 23, 1938.

Re Effect of June Price Decline—July vs. March.

Mr. E. M. VOORHEES,
Chairman, Finance Committee,
United States Steel Corporation,
71 Broadway, New York, N. Y.

DEAR SIR: Replying to your letter of August 10th, asking that Mr. McEwen prepare an analysis overall to show the effect of the price decline and the elimination of differential:

I attach hereto a statement prepared by Mr. McEwen covering the major products and comparing the figures for July with March. This statement shows that on the products exhibited our average reduction for July was 5¢ per ton under the decrease reflected by the published reductions.

Yours truly,

(Signed) C. M. KONKLE,
Auditor.

CMK:F:C.
Original—Air Mail.
Copy—Regular Mail.

Approximate effect of elimination of base differential and reduction in base sales prices effective June 24, 1938, on sales values of principal products sold by T. C. I. and R. R. company sales responsibilities basis of net sales prices for March 1938 (prior to reduction) and July 1938

Code		Tons Shipped	Actual net sales prices		Increase or decrease July from March		Decrease if on basis of published reduction						Difference between actual and published reduction	
							Elimination of base differential		Reduction in price		Total			
		July	March	July	Per Ton	Amount	Per Ton	Amount	Per Ton	Amount	Per Ton	Amount	Per Ton	Amount
012	Blooms, Billets, Slabs	52.16	50.04	45.78	4.26	222.20			3.00	156.48	3.00	156.48	1.26	65.72
070	Skelp	297.35	52.50	46.59	5.91	1,757.34							5.91	1,757.34
100	Rounds and Squares (Bars)	970.21	56.98	50.08	6.90	6,694.45	3.00	2,910.63	4.00	3,880.84	7.00	6,791.47	.10	97.02
100	Flats—6″ Wide and Under × .250″ and Thicker	605.16	59.30	47.93	11.47	6,880.67	3.00	1,815.48	4.00	2,420.64	7.00	4,236.12	4.37	2,644.55
100	Structural Shapes—Under 3″	358.05	58.62	54.71	3.91	1,399.97	3.00	1,074.15	4.00	1,432.20	7.00	2,506.35	3.09	1,106.38
110	Concrete Reinforcing Bars—New Billets	1,817.76	43.47	41.80	1.67	3,035.66	1.00	1,817.76	7.00	12,721.32	8.00	14,542.08	6.33	11,506.42
110	Concrete Reinforcing Bars—From Off Heats and Discards	423.22	42.25	38.69	3.56	1,506.66	1.00	423.22	7.00	2,962.54	8.00	3,385.76	4.44	1,879.10
120	Cotton Ties	2,347.46	62.38	47.51	14.87	34,906.73			9.95	23,357.23	9.95	23,357.23	4.92	11,549.50
150	Plates—Sheared	3,936.20	50.28	46.14	4.14	16,295.87	3.00	11,808.60	3.00	11,808.60	6.00	23,617.20	1.86	7,321.33
180	Structural Shapes	3,359.47	50.75	47.17	3.58	12,026.90	3.00	10,078.41	3.00	10,078.41	6.00	20,156.82	2.42	8,129.92
240	Tie Plates—Hot Punched	2,033.66	48.43	48.76	.33	671.11							.33	671.11
250	Splice Bars—For Heavy Rail	181.65	70.53	71.62	1.09	198.00							1.09	198.00
260	Railroad Track Spikes—Cut	142.96	68.37	67.39	.98	140.10							.98	140.10
351	Hot Rolled Sheets—Not Cold Rolled for Surface	1,015.40	76.72	53.78	22.94	23,293.28	3.00	3,046.20	3.00	3,046.20	6.00	6,092.40	16.94	17,200.88
352	Hot Rolled Sheets—Cold Rolled for Surface After Annealing	1,532.51	70.75	62.13	8.62	13,210.24	3.00	4,597.53	3.00	4,597.53	6.00	9,195.06	2.62	4,015.18
380	Galvanized Flat Sheets	1,347.09	91.83	83.47	8.36	11,261.67	3.00	4,041.27	6.00	8,082.54	9.00	12,123.81	.64	862.14
382	Galvanized Formed Sheets	5,591.46	97.35	90.66	6.69	37,406.87	3.00	16,774.38	4.00	22,365.84	7.00	39,140.22	.31	1,733.35
600	Woven Fence	1,603.09	89.25	80.95	8.30	13,305.65	3.00	4,809.27	5.00	8,015.45	8.00	12,824.72	.30	480.93
620	Barbed and Twisted Wire	659.34	73.25	71.52	1.73	1,140.66	3.00	1,978.02	5.00	3,296.70	8.00	5,274.72	6.27	4,134.06
630	Nails, Bright Standard (Except Cement Coated)	1,821.82	67.66	61.25	6.41	11,677.87	3.00	5,465.46	5.00	9,109.10	8.00	14,574.56	1.59	2,896.69
631	Nails, Cement Coated	120.22	90.13	72.96	17.17	2,064.18	3.00	360.66	5.00	601.10	8.00	961.76	9.17	1,102.42
633	Nails, Galvanized, Standard and Miscellaneous	83.61	121.05	114.70	6.35	530.92	3.00	250.83	5.00	418.05	8.00	668.88	1.65	137.96
634	Staples	97.14	76.87	70.09	6.78	658.61	3.00	291.42	5.00	485.70	8.00	777.12	1.22	118.51
670	Wire, Annealed Coarse	111.75	79.41	72.02	7.39	825.83	3.00	335.25	5.00	558.75	8.00	894.00	.61	68.17
675	Wire, Galvanized, Coarse Wiped	82.67	97.81	85.93	11.88	982.12	3.00	248.01	5.00	413.35	8.00	661.36	3.88	320.76
	Total	30,591.41	67.91	61.36	6.55	200,355.34	2.36	72,126.55	4.24	129,811.57	6.60	201,938.12	.05	1,582.78
	Percent to Total Sales Value for July Shipments at March Prices					9.64		3.47		6.25		9.72		.08

Bureau of Statistics, September 14, 1938.
TME/s.

Exhibit No. 1395

[Prepared by the Department of Justice for the Temporary National Economic Committee]

Pricing of Steel Products

Uniform Extras and Deductions

Prices of steel products are delivered prices made up of three elements: base price, extras and freight. 'Extras' are those charges made by the steel producer for variations from a given norm in the physical specifications, chemical analysis, processing or quantity of any steel product. In many instances, most commonly with respect to quantity purchases, corresponding deductions are allowed. Printed schedules of these extras and deductions are issued by the major producers in loose-leaf book form. Extras and deductions, though changed from time to time, ordinarily fluctuate even less than the base prices of steel commodities. Whether the change in extras accompanies or is made independently of a change in base prices, it is obvious that the net invoice price is necessarily affected. A reduction in base price accompanied by an advance in extras may produce a net increase in the invoice price. The importance of extras and deductions as a factor in the total price is therefore substantial.

RATIO OF EXTRAS TO TOTAL PRICE

According to an analysis made by the Department of Justice for the Temporary National Economic Committee, the extras in a group of ten selected products shipped in the month of February, 1939 amounted to 9⁹⁄₁₀% of the total invoice delivered value of these products. This average covers a wide range, from .7% in the case of cold rolled sheets to 29.7% in the case of cold rolled strip. The figures as to each product and the aggregate for the group appear in the following table:

Product	Total invoice delivered value	Tons	Extras per ton	Extras as percentage of delivered value	Extras as percentage of calculated base price
Sheet and Tin Plate bars	$248,875	8,198	$0.05	(1)	(1)
Wire Rods	1,220,140	27,141	2.56	5.7%	6.4%
Plates	4,749,948	96,443	4.02	8.2	9.5
Heavy Structural Shapes	3,802,049	79,921	1.89	4.0	4.6
Sheets and H. R. & H. R. Ann	9,866,083	190,910	9.70	18.8	24.5
Strip, H. R.	3,298,084	67,896	6.04	12.4	15.2
Sheets, C. R.	5,176,127	82,919	0.45	0.7	.08
Strip, C. R.	1,660,086	17,728	27.79	29.7	45.0
Tin Plate (95# box) [1]	2,975,082	29,036	−4.02	−3.02	−4.0
Plain Wire, Drawn	995,309	17,166	3.96	6.8	7.8
All Products	$33,991,783	617,358	$5.43	9.9%	11.6%

[1] Extras on tin plate are quoted per base box rather than per unit of weight. Base boxes lighter than 100 lbs., take deductions, or "negative" extras, and boxes heavier than 100 lbs., take "positive" extras.

IDENTITY OF EXTRAS

In the course of its investigations for the Temporary National Economic Committee the Department of Justice has examined the extra books of 25 steel companies applicable to 16 steel products. Obviously all of the products are not manufactured by each of the companies; some concerns produce but one of them. The companies whose extra books were studied included 7 of the 10 largest producers.[1] The products included plates, shapes, wire, tin plate, black plate for tinning, merchant bars, concrete reinforcing bars, hot rolled sheets, cold rolled sheets, hot rolled strip, cold rolled strip, galvanized sheets, sheet piling, rails, skelp, wire rods.

[1] The companies were: Acme Steel Company, Apollo Steel Company, American Steel & Wire Company, American Rolling Mill Company, Bethlehem Steel Company, Atlantic Steel Company, Continental Steel Corporation, Carnegie-Illinois Corporation, Columbia Steel Company, Firth-Sterling Steel Company, Granite City Steel Company, Greer Steel Company, The Eastern Rolling Mill Company, Inland Steel Company, Keystone Steel & Wire Company, Jones & Laughlin Steel Corporation, Otis Steel Company, Sheffield Steel Corporation, Superior Steel Corporation, Sharon Steel Corporation, Wickwire Spencer Steel Company, The Stanley Works, Sweet's Steel Company, Tennessee Coal, Iron and Railway Company, Wheeling Steel Corporation, Youngstown Sheet & Tube Company.

With respect to each of the products examined the extras and deductions announced by every manufacturer of the product were found to be identical. Without exception the extras and deductions applicable to these products are uniform as between all producers of each. The only qualification to be made relates to specifications of a given product not rolled by a particular producer. In some cases lags in publication of changes in extras resulted in differences for limited periods. Otherwise it can accurately be said that throughout the steel industry extras and deductions are uniform for all producers.

EXTRA CHANGES SINCE N. R. A.

Although there have been minor revisions in extras from time to time since the end of the code period, by far the most significant change took place in May of 1938 when size limits of light flat rolled products were completely redefined and simplified and revised extras were published. An indication of the overlapping of product classifications that existed prior to this date can be seen on Chart 1. This chart covers the overlapping of major products only. In fact, the range of sizes described by this chart encompasses some eight or nine flat rolled uncoated products which were priced by using ten different base prices and seven different extra lists.

The conditions leading to this reorganization are described in a circular letter issued by the Carnegie-Illinois Steel Corporation to all sales managers on May 26, 1938:

"In the range of sizes described above (⅜" to 86" wide and gages 8 to 30 inclusive) there were eight different products being named, specifically: Cold Rolled Strip, Cold Rolled Commodity Strip, Cold Rolled Sheets, Cold Rolled Tin Mill Black, Hot Rolled Strip, Hot Rolled Sheets, and Hot Rolled Tin Mill Black Plate. These products were priced by using ten different base prices and seven different Extra Lists.

"The result of this condition was a state of confusion, and before our current announcement was made a buyer could purchase as many as five different Cold Rolled Products by name at five different prices, which products were identical in most cases in so far as their physical characteristics were concerned."

Chart 2 indicates the size limits of Hot Rolled Flat Steel products after the change had been made. As is indicated on this chart much of the overlapping has been eliminated by the change.

The cumulative effect of the above changes together with the price reductions of June, 1938, on the prices of hot and cold rolled sheets is shown on Table I. Analysis of this table reveals the extent to which extra changes may affect prices. In the case of both products the net effect of the extra changes as to many sizes and gages was to diminish substantially the published base-price reduction of twenty-five cents per hundredweight. In other sizes and gages the reduction was augmented by the change in extras. In a few instances the net price after the reduction was actually increased by the new extras. In general, had the new extras been applied without a reduction in base prices the net effect would have been to substantially increase the price of the products effected.

That this result was contemplated at the time of the change in extras appears from the Carnegie-Illinois circular letter of May 26, 1938:

"We applied our new Lists of Extras and Deductions to our last year's business (1937) and found that by using a constant base price there was an increase in the net of approximately $1.20 per ton for Cold Rolled products and $1.04 per ton for Hot Rolled Products; therefore, in order that we would not have to announce an increase in our average prices we made a reduction of $2.00 per ton in the base price for the Third Quarter."

Thus, although the average effect was to decrease prices slightly, certain customers were faced with slight increases in price. Quoting from this letter again:

"The buyer of Flat Rolled Products in the widths 24" to 48" will receive an increase in most gages, and, therefore, you will undoubtedly receive some complaints from this trade, but you can assure any buyer that the adjustment in the average price for all sizes is slightly downward."

UNIFORMITY OF THE MAY, 1938 CHANGE

The extras included above as well as the extras and deductions on other items are at all times, as has already been pointed out, strikingly uniform among the various companies which publish extra books. A review of the announcements of new extras at the time of the general changes in May, 1938 reveals the same uniformity.

Extras on Hot Rolled Sheets, the sample selected, were identical for all items reported. The actual date of release varied from May 18 to June 13, as follows:

	Date of Release
Carnegie-Illinois Steel Corporation	May 18, 1938
Tennessee Coal, Iron & Railroad Co	May 18, 1938
Columbia Steel Corporation	May 18, 1938
Continental Steel Corporation	May 18, 1938
Granite City Steel Corporation	May 18, 1938
Jones & Laughlin Steel Corporation	May 18, 1938
Otis Steel Company	May 20, 1938
Bethlehem Steel Company	May 23, 1938
American Rolling Mill Company	May 23, 1938
Inland Steel Company	June 13, 1938
Apollo Steel Company	June 13, 1938

OVERLAPPING PRODUCT GROUPS AT PRESENT TIME

Although most of the product overlapping was eliminated in the changes of May 18, 1938, skelp [2] dimensions continue to overlap those of strip, sheets, bars, and plates. This is indidated on Chart 2. Skelp prices are in all cases lower, and in some dimensions as much as $1.75 per hundred pounds lower than those of these similar products. Skelp prices, however, are not available to all buyers who are users of flat rolled steel falling within the skelp dimension limits. Rather, only manufacturers of pipe, tubes or couplings may purchase this product at skelp prices.[3] Thus, a pipe manufacturer could purchase flat rolled steel 5/16 inches thick, 7 inches wide and 16 feet long for $1.90 or base, whereas any other buyer of this particular product would have to purchase "plate" which would be priced $2.10 base, plus $1.55 width extra, or $3.65 per 100 pounds.[4]

QUANTITY EXTRAS AND DEDUCTIONS

Prior to May of 1939 most flat rolled products including hot rolled, cold rolled, and galvanized sheets, hot rolled strip, cold rolled strip and bars carried quantity deductions ranging from 5 to 15 cents per 100 pounds on orders over 25 net tons. In May 1939 all of these quantity deductions were eliminated on each of the above mentioned products except merchant bars, where the quantity deductions are still applicable.

On the following products there are neither extras nor deductions for quantity listed:

Plates up to July 1, 1938 [5]
Skelp
Heavy Shapes up to July 1, 1938 [5]

Base quantities on various steel products now vary as shown below:

Wire Rods	5 gross tons or over
Hot Rolled Sheets	7,000 lbs. or over
Cold Rolled Sheets	7,000 lbs. or over
Galvanized Sheets	7,000 lbs. or over
Hot Rolled Strip	7,000 lbs. or over
Cold Rolled Strip	7,000 lbs. or over
Plates	6,000 lbs. and over
Heavy Shapes	6,000 lbs. and over
Merchant Bars	6,000 lbs. to 25 net tons (then discount)
Black Plate for Tinning	5,000 lbs. and over
Tin Plate heavier than 195#	5,000 lbs. and over
Tin plate 195# and lighter	100 base boxes and over
Wire	1,000 to 39,999 lbs. in carloads.

[2] The semifinished material used in the making of pipe.
[3] Prices here indicated are Pittsburgh base, plus size extra only.
[4] Skelp extra books carry a notation to this effect.
[5] On July 1, 1938, quantity schedules were first published for plates and shapes listing extras for quantities under 6,000 pounds.

EXTRA CHANGES BY PRODUCT

The actual changes in extras in the following products are examined in greater detail under the product headings:

1. Hot Rolled Sheets
2. Cold Rolled Sheets
3. Galvanized Sheets
4. Hot Rolled Strip
5. Cold Rolled Strip
6. Black Plate for Tinning
7. Tin Plate
8. Plates

HOT ROLLED SHEETS

Prior to May 1938 there were two categories of Hot Rolled Sheets (hot rolled sheets—16 gage and thicker; and hot rolled annealed sheets—17 gage and lighter) each taking separate base prices. On May 18, the two categories were combined each taking the same base (hot rolled sheet base). At this time the extras were completely revised and significantly increased on those sizes which were formerly covered in the hot rolled annealed category. Because there was also a revision in bases and in base prices at this time the true effect of these changes can only be ascertained by combining base prices and size extras. The results of this analysis have been summarized above.

COLD ROLLED SHEETS

The changes in extras on Cold Rolled Sheets since the code have closely paralleled those of Hot Rolled Sheets. Cold Rolled Sheets like Hot Rolled, were sold on two bases (light and heavy) prior to the May 1938 change. At this date they too were combined into one classification and the extras were completely revised. Here, as was the case with hot rolled sheets, the various sizes were affected differently. Heavy gage sheets up to 48″ wide were made $1.00 a ton higher in price whereas some of the lighter gages were decreased as much as $10.00 per ton. Inasmuch as the published base price drop on Cold Rolled Sheets in the latter part of June 1938 was 25 cents per hundred pounds, the effect of both extra and base price changes together was on the average downward. In most cases, however, the price decrease was minimized by the change in extras.

GALVANIZED SHEETS

The only change of significance in this commodity was in the order quantity extras in which extras on orders of less than carload lots were increased 10 cents per 100 pounds in August of 1937 and increased again in June of 1938.

HOT ROLLED STRIP

The extra changes on Hot Rolled Strip are shown in the tables which follow. The extra changes on this product have not been of great consequence with the exception of the elimination of quantity discounts which took place in May of 1939. The revision of size extras which so greatly changed sheet prices did not greatly effect strip. Prior to May 1938, flat rolled products in certain gages up to 24″ wide were classed as strip. After this date any material wide than 12 inches and under 1/4 of an inch thick was classified as sheet.

COLD ROLLED STRIP

The quantity extras and deductions on Cold Rolled Strip and the changes therein were the same as on Hot Rolled Strip. There were no other changes in Cold Rolled Strip of any consequence.

BLACK PLATE FOR TINNING

Black plate for tinning extras have not changed to any appreciable extent over the period covered, but the limits of this category have been rather drastically reduced. As was shown on Table 1, much of the overlapping of product categories prior to May 1938 affected this product.

TIN PLATE

Extras on Tin Plate are quoted per base box instead of by weight as in the case of the other flat rolled steel products. The weights of these base boxes vary from 55 pounds to 195 pounds and over. The base classification, however, as has been pointed out, is the 100-pound base box of coke tin plate. Charcoal plate in all cases take extras. The deductions quoted for base boxes lighter than 100 pounds do not necessarily represent less expensive specifications. In fact, the price for cokes sold in boxes lighter than one hundred pounds is actually higher per pound than for the heavier base boxes. The *deductions* for cokes lighter than 100 pounds have been increased as much as 50 cents during the period since NRA. Charcoal *extras*, on the other hand, have been increased on all grades and sizes during the period covered. The actual changes which have taken place, as in the case of other products, vary among the different sizes and gages.

PLATES

Extra changes on plates since the code have been neither frequent nor great. Thickness extras for heavy plates were increased from base to 10 cents and 15 cents in February and quantity extras for orders under 6000 pounds were also published for the first time at this date. At this same date extras on the U. S. Navy high tensile welding quality specification were increased 50 cents per 100 pounds. There were no *decreases* in plate extras during this period.

TABLE I.—*Net Effect of Changes in Size Extras, May 1938, After Reductions in Base Price, June 1938*

HOT ROLLED SHEETS

		Range of Net Change in Total Price	
		Maximum	Minimum
Number of specifications where actual increase in extras diminished amount of base price reduction [1]	82	$0.20	$0.05
Number of specifications where actual increase in extras resulted in net increase in price despite base price reduction [1]	21	0.20	0.05
Number of specifications where actual decrease in extra increased amount of base price reduction [1]	61	0.45	0.30
Number of specifications where change in extra left base price reduction [1] unaffected	204		

COLD ROLLED SHEETS

		Maximum	Minimum
Number of specifications where actual increase in extra diminish amount of base price reduction [1]	140	$0.21	$0.05
Number of specifications where actual increase in extra resulted in net increase in price despite base price reduction [1]	21	0.20	0.05
Number of specifications where actual decrease in extra increased amount of base price reduction [1]	57	0.45	0.30
Number of specifications where change in extra left base price reduction [1] unaffected	26		

[1] Base price reduction at Pittsburgh was $0.25.

EXHIBIT NO. 1396

CARNEGIE-ILLINOIS STEEL CORPORATION

UNITED STATES STEEL CORPORATION SUBSIDIARY

General Sales Department, Pittsburgh, Pa.

CIRCULAR LETTER

MAY 26, 1938.
Letter 10a–K–38

Prices—Flat Rolled Steel Products.

To All Managers of Sales:

The numerous requests which we have received from you and from our customers concerning our new method of pricing Flat Rolled Products suggest the advisability of covering this subject in detail.

Before making our announcement last week we made a study of the relationship of these products based upon our production experience during 1937. This study covered the prices of uncoated flat rolled products in that range of sizes from ⅜″ wide to 86″ wide and in gages from 8 to 30 inclusive.

The Steel Industry produced 9,606,491 tons of steel in this range of sizes last year.

In the range of sizes described above there were eight different products being named, specifically: Cold Rolled Strip, Cold Rolled Commodity Strip, Cold Rolled Sheets, Cold Rolled Tin Mill Black Plate, Hot Rolled Strip, Hot Rolled Sheets, Hot Rolled Annealed Sheets, and Hot Rolled Tin Mill Black Plate. These products were priced by using ten different base prices and seven different Extra Lists.

The result of this condition was a state of confusion, and before our current announcement was made a buyer could purchase as many as five different Cold Rolled Products by name at five different prices, which products were identical in most cases insofar as their physical characteristics were concerned.

Therefore, as the basis for our study, we prepared a chart which we are sending to you with the request that you and your salesmen study it carefully so as to be prepared to answer questions raised by your trade.

This chart must not be distributed to the trade, but should be returned to us here in Pittsburgh within thirty days.

Now, if you will refer to the chart, we will attempt to explain it.

On Page 1 we have listed four different Cold Rolled Products in gages from 8 to 30 and in sizes from 2″ to 86″. The abbreviation in the second column from the left—"COMM"—means Commodity Cold Rolled Strip. The prices inserted in each block are not extras taken from our Lists but are figures which represent the difference between the second quarter base price of $3.35 for Cold Rolled Sheets Mill Run in 20 gage and the second quarter net price for each respective product.

In other words, Page 1 reflects the old pricing method, whereas, if you will turn to Page 2, you will see immediately what we have done in the interest of simplification; that is, instead of having several different prices apply to the same product in a given size we now have only one price.

The figures on Page 3 represent the difference between the old net prices and the new net prices for a specific size when the second quarter base price is used; in other words, if a buyer should ask you what the difference is between the second quarter price and the third quarter price for a certain size of a Cold Rolled product, you can immediately refer to Page 3 and give him the figure outlined there, but, of course, you must make an adjustment downward of $2.00 per ton in that figure in order to take care of the reduction in the base price which was just announced.

Page 4 covers Hot Rolled Sheets, Hot Rolled Annealed Sheets, Hot Rolled Strip, and Tin Mill Black Plate. The figures in each block represent the difference between $2.40 base and the second quarter net price for each specific product. Again, you will note discrepancies between products and the condition of "overlapping".

Page 5 reflects the new method of pricing and you will note that we now have just one price for any one product in any one size.

The figures on Page 6 are the difference in the net prices of each product, and if a buyer should ask what change has been made you simply have to refer to this page and to the size involved and give him the figure, except that the figure must again be reduced by $2.00 per ton in order to take care of the adjustment downward in the base price.

On all pages of this chart where no plus sign precedes the figure it indicates an extra, a straight line means no change, and a minus sign before certain figures, of course, represents a reduction.

In addition, in the interest of simplification, we have made a realignment of these products insofar as the sizes covered by each one is concerned. This subject will be clearly covered in our new "Manufacturers' Standard Practice" when issued.

We applied our new Lists of Extras and Deductions to our last year's business and found that by using a constant base price there was an increase in the net of approximately $1.20 per ton for Cold Rolled Products and $1.04 per ton for Hot Rolled Products; therefore, in order that we would not have to announce an increase in our average prices, we made a reduction of $2.00 per ton in the base price for the Third Quarter.

With a reduction in the base price of $2.00 per ton for Cold Rolled Sheets, this, of course, means that our third quarter prices for this product, 20 gage, 24" to 48" wide, represent a net increase of $100 per ton; and we will undoubtedly receive numerous complaints concerning this adjustment from our trade, although the average price, when the narrow and wide widths are taken into consideration, is an adjustment downward.

On Page 1 of your chart you will note in 20 gage, 24" to 48" wide, that we have the word "Base" inserted, because that was a base size, and opposite the word "Adjusted" you will note a figure of 15¢, which is the increase of $3.00 per ton in this range.

Our customers have been directing our attention to the high extras applicable to Cold Rolled and Hot Rolled Sheets in widths wider than 48".

Our production experience during 1937 indicated that these extras could be reduced somewhat, and, therefore, you will note by referring to your chart that substantial reductions have been effected.

The buyer of Flat Rolled Products in the widths 24" to 48" will receive an increase in most gages, and, therefore, you will undoubtedly receive some complaints from this trade, but you can assure any buyer that the adjustment in the average price for all sizes is slightly downward.

We know that we are going to have a state of confusion from now until our second quarter shipments are completed, which confusion is brought about by the fact that we will be selling from two sets of base prices and two sets of Extra Lists during this period, but this confusion should disappear with the completion of our second quarter shipments.

Very truly yours,

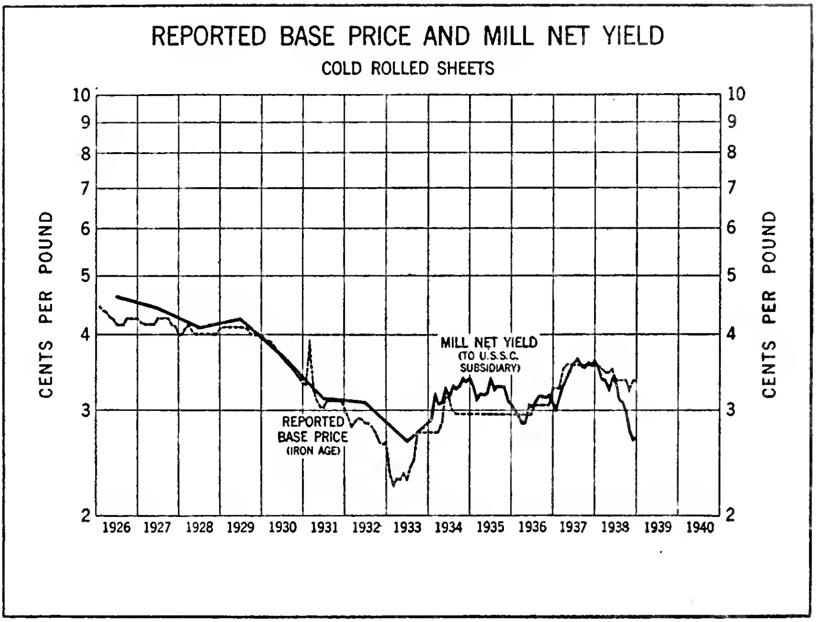
AVERY C. ADAMS,
Manager of Sales—Sheet Division.

A. C. A.
Approved:

THOMAS J. HILLIARD,
General Manager of Sales

EXHIBIT No. 1397

[Submitted by U. S. Steel Corporation]



Base prices of cold-rolled sheets, as reported by Iron Age, have declined considerably since 1926 as well as having shown considerable fluctuation during the period.

The monthly mill net yield, i. e., the amount per pound received by the U. S. Steel Corporation subsidiary after deduction of cost of delivery, has shown even more fluctuation than the published base price. The mill net yield curve prior to 1934 appears to fluctuate less than the reported base price because it is based on annual averages, monthly data not being available.

Over the period the mill net yield has declined from an average of 4.61¢ per pound in 1926 to a 1938 low of 2.67¢ per pound, a decrease of 42%.

Factors tending to lower mill net yield with respect to reported base price are principally (a) reductions from base price, (b) excess of actual cost of delivery over freight added to base price in computing the delivered price, (c) quantity discounts and (d) deductions for quality, size, etc. Factors tending to raise mill net yield with respect to reported base price are principally (a) extras for special finish, quality, size, heat treatment, etc., and (b) extras for small quantity.

(Data, on which this chart is based, appear on next page.)

Reported Base Price and Mill Net Yield—Cold Rolled Sheets

[Cents per pound]

	1926		1929		1932		1935		1938		
	Base Price	Mill Net Yield	Base Price	Mill Net Yield	Base Price	Mill Net Yield	Base Price	Mill Net Yield	Base Price	Mill Net Yield	
Jan	4.45		4.10		2.90		2.95	3.26	3.55	3.54	Jan
Feb	4.38		4.10		2.80		2.95	3.10	3.50	3.36	Feb
Mar	4.35		4.10		2.86		2.95	3.18	3.45	3.35	Mar
Apr	4.28		4.10		2.90		2.95	3.17	3.45	3.24	Apr
May	4.24		4.10		2.89		2.95	3.19	3.50	3.38	May
Jun	4.15	[1] 4.61	4.10	[1] 4.23	2.85	[1] 3.07	2.95	3.36	3.35	3.32	Jun
Jul	4.15		4.10		2.85		2.95	3.24	3.35	3.12	Jul
Aug	4.15		4.08		2.81		2.95	3.27	3.35	3.08	Aug
Sep	4.25		4.00		2.75		2.95	3.27	3.35	2.97	Sep
Oct	4.25		4.00		2.65		2.95	3.27	3.23	2.78	Oct
Nov	4.25		4.00		2.63		2.95	3.10	3.35	2.67	Nov
Dec	4.25		3.98		2.65		2.95	3.06	3.35	2.69	Dec
	1927		1930		1933		1936				
Jan	4.18		3.90		2.35		2.95	3.00			Jan
Feb	4.15		3.90		2.25		2.95	2.93			Feb
Mar	4.15		3.88		2.30		2.95	2.85			Mar
Apr	4.15		3.80		2.30		2.95	2.85			Apr
May	4.15		3.75		2.34		2.95	3.05			May
Jun	4.25	[1] 4.41	3.65	[1] 3.68	2.29	[1] 2.66	2.95	3.03			Jun
Jul	4.25		3.60		2.40		3.05	3.07			Jul
Aug	4.25		3.60		2.47		3.05	3.15			Aug
Sep	4.25		3.50		2.75		3.05	3.15			Sep
Oct	4.15		3.45		2.75		3.05	3.13			Oct
Nov	4.12		3.38		2.75		3.05	3.17			Nov
Dec	4.00		3.30		2.75		3.25	3.08			Dec
	1928		1931		1934		1937				
Jan	4.00		3.30		2.75	2.88	3.25	3.00			Jan
Feb	4.08		3.90		2.75	3.17	3.25	3.12			Feb
Mar	4.15		3.24		2.75	3.06	3.49	3.27			Mar
Apr	4.04		3.10		2.85	3.08	3.55	3.35			Apr
May	4.00		3.03		3.15	3.23	3.55	3.48			May
Jun	4.00	[1] 4.09	3.02	[1] 3.12	3.15	3.16	3.55	3.57			Jun
Jul	4.00		3.10		2.99	3.27	3.55	3.63			Jul
Aug	4.00		3.10		2.95	3.25	3.55	3.54			Aug
Sep	4.00		3.10		2.95	3.28	3.55	3.52			Sep
Oct	4.00		3.10		2.95	3.38	3.55	3.58			Oct
Nov	4.00		3.10		2.95	3.34	3.55	3.54			Nov
Dec	4.08		3.02		2.95	3.39	3.55	3.61			Dec

[1] Yearly average.

Base prices are as reported by Iron Age and are monthly averages of weekly figures. Iron Age data are for 20 gauge cold rolled sheets at Pittsburgh from September 1926 to April 1938; data prior and subsequent to that period have been adjusted to that gauge.

Mill net yield is a weighted average of yields of plants of U. S. Steel Corporation subsidiaries, which represents net sales of cold rolled and automobile sheets to domestic market (after freight) divided by number of tons shipped, converted to cents per pound. Data are for plants of American Sheet and Tin Plate Company prior to 1937, and thereafter for Vandergrift and Gary plants of Carnegie-Illinois Steel Corporation.

"Exhibits Nos. 1398–1408" are included in Hearings, Part 20.

"Exhibits Nos. 1409–1417" are included in Hearings, Part 26.

"Exhibit No. 1418" is included in Hearings, Part 27.

EXHIBIT No. 1419

All Kinds of Fabricated Structure Steel—"Designs Submitted" | PROMPT SERVICE | Miscellaneous Iron Work

IRVINGTON STEEL & IRON WORKS

ENGINEERS, FABRICATORS AND ERECTORS

485–493 Lyons Avenue—Irvington, New Jersey

(Notation: W. B. Rfd. E. G. G.

MAY 10, 1938.

Mr. E. G. GRACE,
Bethlehem Steel Co.,
25 Broadway, New York City.

DEAR SIR: I have always been an admirer of yours, and still have the highest regard for your initiative and good judgment.

I wonder if I, a small business man, engaged in the steel industry, may give my viewpoint to you, hoping that by this measure, you as a leader in industry can make the start to bring back recovery, and dispel this present recession.

Reports show that your company, working only 32% of capacity, for the first quarter of this year, was able to make a profit of over Nine Hundred Thousand Dollars. Now, if such is true, why can't the steel companies reduce the selling price of steel.

The lower cost will increase, I am certain, production. This lower price will be an incentive for the automobile manufacturer to buy; the building industry to wake up from its lethargy, a number of other industries, too numerous to mention here to wake up, and create jobs for millions of jobless, which in turn creates added business for you, and still give you a profit because of the increased production.

If less time were spent in Washington, and in the Courts, but more time at our desks; the workers problems our problems, our problems the workers; and Mutual Co-operation with Government, Bankers, Other businesses, and with Labor. We can soon rid ourselves of the Dreaded Old Man of the Sea, who hangs so tenaciously from our shoulders.

Can't we give it a try?

Respectfully yours,

(Signed) A. KATCHEN,
Secretary to the Irvington Steel & Iron Works.

EXHIBIT No. 1420

MAY 15, 1938.

Mr. A. KATCHEN,
Secretary, Irvington Steel & Iron Works,
485 Lyons Avenue, Irvington, New Jersey.

DEAR MR. KATCHEN: I have your letter of May 10th suggesting, in view of our first-quarter showing, the possibility of aiding recovery through a price reduction for steel products.

You are somewhat in error as to our figures, as the operation on which we showed a profit was somewhat higher than the 32% you mention, and today's operation, both with us and others, is below first-quarter operations.

To comment specifically on your suggestion, I think the opportunities for stimulating business through price reduction should be looked at from the point of view of the steel industry as a whole rather than the case of a single company. As a matter of fact, during the first quarter Bethlehem was one of only two or three companies in the entire industry that showed any earnings on preferred stock. Inasmuch as our preferred stock is cumulative and we earned only a part of it in the first quarter, even in our case, though our showing was satisfactory under existing conditions, we failed to earn our full preferred dividend, which we really look upon as a fixed charge. In the case of the industry as a whole it is all the more true that the first-quarter operations were not such as to make a price reduction feasible. Moreover, even if it were feasible, it is a serious question whether that is the proper course to pursue, since with such narrow margins in the industry today reductions in prices would inevitably entail readjustments in wage rates, which starts the whole structure of buying power downward.

I appreciate the spirit in which you have written, but I personally do not feel that the cure for our troubles lies in that direction.

Sincerely yours,

——— ———.

EXHIBIT NO. 1421

ADDRESS BY ERNEST T. WEIR, CHAIRMAN OF NATIONAL STEEL CORPORATION AND PRESIDENT OF THE AMERICAN IRON & STEEL INSTITUTE, ON "PROFITS AND PATRIOTISM," AT THE ANNUAL MEETING OF THE AMERICAN INSTITUTE OF STEEL CONSTRUCTION, WALDORF ASTORIA HOTEL, NEW YORK CITY, TUESDAY, OCTOBER 1939, 8:00 P. M.

Mr. Chairman, Members and Guests of the American Institute of Steel Construction:

First, I wish to express my sincere appreciation of the honor you have conferred upon me in inviting me to be your speaker tonight. As a representative of the steel industry, I feel perfectly at home among you. It would be difficult to find any two branches of industry in which the relationship is closer, the interdependence is greater, or the mutuality of interest is more apparent than they are between your industry and mine. Our industries are important sources of supply to each other and therefore important consumers of each other's products. Our most important problems are parallel in nature. So I believe that in our discussion tonight there will be thorough understanding. We speak the same language.

It was in mid-summer that I received and accepted the invitation to speak at this meeting. That is not so very long ago. But even in this age, when violent change is the rule rather than the exception and when we are all somewhat accustomed to lightning overturns in conditions, it would have taken a prophet to have pictured 90 days ago the world and national environment in which our meeting is being held tonight.

Three months ago we were still in a depression frame of mind. Subnormal business, agricultural surpluses, relief, unemployment, taxation—these were paramount subjects of interest and concern as they had been in each of the previous months of this decade. Then, overnight as it were, came the change in spirit, outlook and actual conditions that is remarkable even in a time which, as I said, takes change for granted. Action of the stock market became strongly reminiscent of pre-October, 1929. Buyers began bidding against each other for commodities. In industry—notably the steel industry—worry about getting orders was replaced with worry about filling orders. Workmen on part time or layoff came back to full schedules. Increased retail trade quickly showed that expended production was having its effect on consumption—that the upward spiral was starting.

Now I would be the happiest of men if I could believe that this activity was sound. Nothing would please me more than the ability to say at this moment that I am convinced we have entered that genuine economic revival so long awaited that the broken threads of progress have at last been tied together, that America has resumed the continuous march to higher and better living standards that characterized our country in most of the years since its birth. But I do not believe and cannot say this. We may as well face facts. It is true that the course of business has been upward since 1938, but without sound fundamentals mere increase in volume cannot be sound. And however pleasant it may be as a respite from depression, the present greatly increased business activity does not have its base on an economic foundation which can support sustained and genuine prosperity. It is a war boom. Despite the fact that the great bulk of activity to date has been exclusively domestic activity, it owes its existence to a single circumstance—the existence of war in Europe.

The point does not need to be labored. The real jump in the business curve coincided with the declaration of war. On the commodity and stock markets the greatest activity was in the commodities and in the stocks of companies most likely to be affected by the initial demands of war. The activity of non-war business can be ascribed partly to increased consumer purchasing as the result of increased employment, but mostly to the rush to protect inventories against material shortages and higher prices. Wall Street gives a clue to the slenderness of the reed which supports this boom every time it goes up on war news and goes down on peace news. And if a real peace were declared tomorrow, do any of you think we would not be right back where we were two months ago; that orders now piling on top of one another would not be canceled; that inventories would not go back to their previous subnormal levels?

At this moment, I do not believe that any in this group or very many in the general public are deceived as to the elements supporting the present increased activity. And so long as its impermanent and unsubstantial nature is recognized, the so-called recovery holds little avoidable danger. But if war continues and if under war's stimulation, business activity continues and grows greater, there is serious danger. Memory can be very short. A year or so of good employment, good wages and good business in general could lull us into the belief that war prosperity had solved depression problems for us. Even those with clearer heads and longer memories, those who kept in mind the fact that another depression waited at the end of the boom, would equivocate by saying to themselves, "let's cross that bridge when we come to it."

Already there can be noticed a disposition to regard the depression as something already past or, at least, on the way out. From Washington, which so recently was almost exclusively concerned with matters of domestic economy, about all the news which makes front pages now concerns foreign affairs or is closely related to them. The activities which gave real promise of correcting some of the New Deal's most glaring failures, and of alleviating some of the conditions created by the New Deal which prevent sound recovery, have become sidetracked or lost to public view since the spotlight has been shifted to war. The mere fact that our attention has been diverted from the familiar depression problems does not mean that they are not still present. They have not disappeared; they have merely been glossed over by a surface prosperity which rests on a foundation about as firm and strong as the filling in a cream puff. These basic problems are domestic problems. They may be affected by but they cannot be solved by conditions and events outside of our borders. While they remain unsolved we may enjoy artificial and transient prosperity, but we will not and cannot have a genuine, sustained recovery. They must be solved, and the only successful solutions will be those which conform to American principles of life and of government.

I will not attempt a general discussion of our domestic problems. But I do wish to direct your attention to one which is most important and to which practically all our other problems are related. I refer to the problem of profits in industry. There is a school of thought which is opposed on principle to profits, the profit motive and the profit system. This school is well represented in Washington. According to its lights, it has done effective work. Its success is evidenced by much New Deal legislation in which the effect, if not the stated purpose, is direct restriction of profits, or restriction of the free operation of the private enterprise system—which is the profits system.

Now it is not unexpected to find antagonism toward profits coming from zealots or political demagogues who believe or profess to believe that our present economic system cannot be saved and is not worth saving. But it is surprising to find antagonism toward profits—or at least, a seeming antagonism—expressed not in theory but by deed in the very quarter where you would expect to find the most stalwart champions of the profits system. I refer to management of industry. In many cases during recent years, management, by consistent failure to earn anything approaching adequate profits, has acted as though it, too, considered profits an evil. For example we need look no farther than the steel industry and the steel construction industry.

I understand that in your industry the period from 1910 to 1929 is accepted as a period of steady and profitable growth. From 1910 to 1919 you had an average volume of approximately 1,700,000 tons and by 1919 had built the industry's capacity to 3,190,000 tons. In the 1920's growth continued; capacity increased to 4,800,000 tons by 1929 with average volumes of 2,600,000 tons for the 10-year period and 3,150,000 tons for the period from 1925 to 1929. Since 1929 your industry's capacity has held close to 4,800,000 tons but the volume of business has sharply contracted—to such an extent, in fact, that the average annual volume for the past five years has been 300,000 tons less than in the period from 1910 to 1919.

In the steel industry the situation has been roughly parallel, although over long periods the steel industry has enjoyed better average utilization of capacity than has been the case in the steel construction industry. However, its operation from year to year has been extremely spotty, ranging from a high of 93 percent of capacity in 1916 to a low of 19.5 percent in 1932, with stops at most points in between. Despite this seesawing in volume, the steel industry's capacity has increased almost without interruption and a total of almost 50 percent since 1914, which is the first year from which we have continuous records. Despite consistent losses by the industry, the increase in capacity continued through the past ten years, and last year it reached 71,594,000 tons—the highest point in history—even though volume was only 39.5 percent of that capacity.

I know I am telling you nothing new when I say that the basic trouble of your industry and mine is rooted in this discrepancy between capacity and volume. In your industry, during the past five years, you have had about four tons of capacity bidding for each ton of available volume. In the steel industry, during the same period, the capacity-volume ratio was almost two to one. I think it is a safe generalization to say that income is related to volume while expense is related to capacity. In the past ten years, low volume and high capacity have been prevailing conditions of business, and under the usual methods of doing business, the net result has been net loss.

Assuming constant efficiency, I can see only three methods by which our industries can convert their loss position to a profit position. Increased income could be realized from increased volume, from reduced costs resulting from reduced capacity, or from increased return on existing volume. Let us keep the third method in the back of our minds for a moment and consider the first two methods.

Increase volume? Unlike many other industries there is little of a practical nature that our industries can do to increase the demand for our products. No amount of "selling" on our part can influence the decisions to build skyscrapers or bridges or decisions to build them at one time rather than another. Even the improvement of our products and the reduction of costs and prices through higher efficiency cannot be made to immediately affect volume. They do increase the use of our products and ultimately they expand our markets. But, essentially, they are long range influences which cannot be exerted as a leverage on volume at any desired time. The forces that raise or lower our volume are far beyond the range of our direct control. So, unlike other industries, and particularly consumer industries, we do not have available to us the means to increase volume and with it income and profits.

Reduced capacity? This step has been urged by some theorists. Supposing it to be in accord with the vital needs of our national economy, would it be economically feasible? Let us postpone consideration of whether there actually is too much capacity, and ask just how reduction of capacity could be accomplished. Would it be arranged by having some companies go out of business? Or would all companies get together and agree to eliminate capacity on a percentage basis? Of course, whatever the method, elimination of capacity is just another way of saying destruction of capital. Capacity is plant buildings, blast furnaces, open hearths and blooming mills, or, it is riveters and other fabricating and erecting equipment. Effective reduction of capacity could mean only physical destruction of some of these things, and with it destruction of the investment they represent. I might point out that there is excellent precedent for this drastic method of establishing temporary balance between supply and demand. It was precisely the method enforced by the New Deal in the slaughter of little pigs and the plowing under of crops a few short years ago, for which you and I and every other American are still paying the bill.

Yes, capacity *could* be reduced. It would be possible though painful. But *should* it be? Who knows enough to say that capacity is too high and to tell us to what point it should be reduced? Certainly the construction industry's 1929 capacity was not out of line with its volume of that year and the years just preceding. The fact that its full capacity was needed then is an indication that it will be needed again. The past two years in the steel industry afford a vivid illustration of the problem of capacity. In 1938, less than two-fifths of the steel industry's capacity was used. In 1939, nine-tenths of its capacity is being drawn upon and if the present movement continues the steel industry's capacity will be unequal to demand. If steel capacity had been reduced to a level proportionate to 1938 volume, what would be the position of the steel industry and steel users today? This points up the whole question of capacity. In your industry and mine, capacity cannot be shifted according to fluctuations in volume, yet in years of lowest volume the full capacity must be maintained to meet the highest demands that may be made upon it at any time.

In all modesty, I believe we may say of both our industries that not only have they maintained the ability to deliver quantity when it was needed, but also have never stopped in their efforts to improve quality. May I suggest that in so doing, our industries have rendered a valuable public service for which they are entitled to a reward somewhat better than year after year of loss.

In the light of this, let us go back to the first method suggested as a means by which loss can be converted to profit. That is, to increase the return from the prevailing volume. This means getting better prices. I realize that this is what has been condemned as "maintenance of a rigid price structure" by the long-on-theory, short-on-experience economists in the bureaus down in Washington and in other places. The proposition is a very simple one. It means only that you must charge a price, under any given condition, which covers all of your costs—including the cost of carrying unused capacity—and returns a reasonable profit. If you fail to charge such a price, you must give something away. And in business, if you continue to give something away for very long, you eventually give the business away. No one is justified in asking business to do this. I can see nothing wrong—morally or economically—in business asking prices for its products and services that cover costs and yield a reasonable profit.

Yet in many branches of industry, and in the steel industry particularly, the price policy, if it can be so called, has been a total failure. In the steel industry, from 1930 to 1939, while the industry was investing $2,100,000,000 of new money to maintain and improve its plant and equipment and to improve its products, it was losing a total of $90,000,000. This money came from only one place—out of the pockets of stockholders. I do not know the details of the construction industry, but I understand your situation is about the same.

Now there is only one place to put the blame for this. And it is not on government. Government is indirectly but not directly responsible. Government has increased the costs of business, has added new costs, and has created the general conditions which have deprived business of satisfactory volume. But government has not yet assumed the control over prices which would make it mandatory for business to operate at a loss. No, the direct responsibility for non-profitable business must be placed squarely on the doorstep of industry's own management.

Management has not been profit-minded. Instead, it has attempted to conduct business on a basis of losing as little as possible. It has resorted to dodges and stratagems with which we are all too familiar—such as deliberate acceptance of unprofitable business in the hope that the increased volume will cut overhead costs enough to make it possible to break even or escape with a small loss while holding an old customer or getting a new one. It has justified acceptance of business at a loss on the theory that this unprofitable business would pay in the long run by helping to maintain plant, equipment and personnel. No such attempts to rationalize acceptance of business at a loss can be right. Losing business remains losing business. It produces a loss in the first instance and, human nature being what it is, when one producer gives an unwarranted price, competitors meet competition. The result is that the concession sets a new industry-wide price still farther below the level of profits and even of costs. This procedure has been taking place in industry during the past ten years. Management, which after all is hired by the stockholders to make profits, has failed in its principal duty.

Yet the cure for this condition—in your industry, in mine and in all others not controlled by government—is in the hands of management. Management simply has to determine now and at all other times that it will not accept business at a price which does not include costs and a reasonable profit. In saying this, I am not suggesting that companies in an industry get together and agree on prices. There are many phases of business on which companies can cooperate through their trade associations to their own and the public benefit. Price is not one of them. A price policy is one that must be established by each individual company in accordance with cost and other factors peculiar to that company. The job of each individual company is to see that its prices cover its own costs, not empirically established average costs of its industry.

Where this is done, prices inevitably gravitate to the point at which the more efficient producers can cover costs and make a profit. Lower prices established by this method are economically sound. Any immediate advantages to more efficient and disadvantages to less efficient producers soon even out, because less efficient producers are compelled to increase efficiency at least to the point where they can stay in business. Lower prices that result from efficiency benefit producers and consumers alike, but lower prices that are due to sacrificed profits and costs rob stockholders, ruin companies, degrade standards of the industry, and actually threaten existence of the system of private enterprise.

No company has the right to look to anyone but itself for profits. Under government such as we have today, management may not be able to control all of its costs nor to influence general conditions of business. But certainly there is nothing to prevent the top management of any company from deciding that no one in that company shall accept unprofitable business. That is management's job. If it cannot do the job, then it is unworthy of its trust. It should be and deserves to be replaced. I say with all the emphasis that I can muster, that our profit problem is our own. Each of must must find its solution in our own back yard. Know our costs, see that our efficiency is at least as high as our competitor's, then determine that regardless of volume, regardless of the practices of any other company, we will do business only at prices that include costs and a reasonable profit.

The duty to earn profits is not solely an obligation to stockholders. It is a duty to employees, to communities in which plants are located, to customers, and finally, to the country. There is a strong popular belief that profits and wages are opposed to each other—that one can be increased only at the expense of the other. Of course, the opposite is true. Records of poor times and prosperous times in the United States show that wages and profits go up and down together. Furthermore, the highest wages have been paid consistently in the industries and companies with the best profit records. All evidence points to an affinity between profits and wages. It is obvious that a profitable company is under neither temptation nor necessity to reduce wages or resort to sweatshop practices in the effort to make ends meet. The profitable company not only gives higher and steadier wages and better working conditions to employees, it also contributes to the prosperity and progress of the community of which it is a part.

From the standpoint of the customer also, the profitable company is best, even though it may have inflexible ideas about prices. It is under no pressure to cut corners on quality. It is able to carry on development work, without hope of immediate return, which produces an eventual improvement in quality and a permanent lowering of costs that is of far more importance to customers than any temporary price concessions. On all counts, profitable business is the only good business for all concerned.

And there is an even more important aspect of profits. That is, the relation of profits to the American system. The American system is the profits system. Free private enterprise is the material foundation which supports the American system of life. Freedom of enterprise means that the American is free to work and to earn, to save and to invest. So long as the individual citizen has control over his savings, can make his own decision to invest or not to invest, it is obvious that he will invest only when he considers investment an advantage. Usually he will invest only when he has reasonable assurance of preservation of his capital, an appropriate return, and the possibility of appreciation. Preservation of capital, return and appreciation all depend on profits. During most of its history, American industry has been so successful that investment in it has been made not only willingly but eagerly. The result has been constant growth, improved methods, expanded employment, higher wages, better standards of living—all the evidences of a thriving, healthy economy.

There is no need to describe to you the contrast in conditions during the past ten years, when industry has been operating at a loss. Unprofitable business does not attract investment and during these years, although we have had our greatest national hoard of potential capital, it has lain idle. A constant stream of investment must flow into industry—not only into established industry, but even more into growing industry and into newly created industry. This is essential to replace obsolescent industry and industry that has attained maturity, and beyond replacement, to provide additional employment for a growing population and to to supply the demands for better standards of living for our entire population. But when established industry is unable to earn profits, private individuals will not put their savings into any kind of industry. And when the constant flow of vitalizing new investment stops, business stagnates, unemployment spreads, the economic system goes to pieces.

We have witnessed the results of non-profitable business from the beginning of the depression. People can stand hopelessness and suffering just so long. They soon demand that something be done about it. And they will listen to the first demagogue who says he can do something about it. The solution of the demagogue, of course, is "Let the government do it." The government is now "doing it" to quite an extent. Take agriculture, for instance. One man in Washington can tell millions of farmers what to plant and how much to plant, and he has power to reward those who do as they are told and to punish those who prefer their own judgment. And if you think the same type of control over ...estment is not contemplated, read some of the testimony before the ... EC... Once government gets control over investment in its hands, there will be no freedom of private enterprise in any business above the level of a corner grocery store.

This is why profits have far greater meaning and importance than the satisfaction they give to management and stockholders, the support they contribute to wages, employment and improved efficiency, the stimulation they provide to progress. By failing to earn profits, business men repudiate and endanger the American system. Without profits you cannot have the profits system, and without the profit system you cannot have the system of free private enterprise which is the American economic system. Upon the American economic system depends the continuance of the American system of political and personal freedom—for these three kinds of freedom are inseparable. In no country on earth have political liberty and personal liberty survived the destruction of the economic liberty of the people. And if the gentlemen in Washington, who are so intent on making America over, ever get their hands on the controls they want, we do not know exactly what will happen. But we may be sure our system of life will not be the American system—and also that it will not work any better than it has in other nations where one man or a small group has assumed the power to do the thinking and directing for an entire people.

Apropos of this subject of governmental control, a most significant newspaper article appeared just yesterday. This article filled two columns of type and in it anonymous gentlemen who were described as "President Roosevelt's principal economic advisors" were quoted as threatening dire consequences to the steel industry if the various companies should advance prices. Now, as I have said a number of times before, whatever price action is to be taken, is a matter to be decided by individual companies. And I believe that their decisions must be based on urgent economic necessity rather than upon political threats from Washington.

Recently, as you know, the steel industry has been confronted with a serious problem created by sharp advances in prices of most raw materials used in the manufacture of steel. The greatest advance has been that for scrap, which moved up $8.00 a ton since early August. If the industry produces as much steel in 1940 as it did in 1937, the consumption of purchased scrap would exceed 12,000,000 tons. At the present cost of scrap, such a consumption would add at least $96,000,000, or about $2.40 a ton, to the cost of products made for sale.

Scrap is the outstanding example of cost increase, but it is only one of the materials essential in steel making in which the price has been soaring in the past two months. To mention but a few: ferro manganese has advanced 25%; tin, 17%; zinc, 35%; fuel oil 18% and coal 10%. These are not exceptions; there have been price increases in all materials used in the making of steel.

Despite such radical increases in costs, increases in the prices of finished steel for fourth quarter delivery have been made by only a few companies—those whose raw material needs had not been covered before costs started to go up. In line with a firm policy of making no price advances that are not strictly warranted by higher costs, no increase in prices was made by the great majority of steel companies.

I wish to point out that these higher raw material costs have been offset only in part by the currently increased rate of operation. I do not now foresee any increase in prices which will fully cover these greater costs. However, I have no doubt that most mills will at some time find it necessary for their own existence to recover at least some part of these increases.

The profit experience of the steel industry provides the background against which this radical increase in the price of raw materials should be considered. The average net profit of the entire industry, before dividends, in the last three years has been only $4.07 a ton of products produced for sale. After preferred dividends which are a fixed charge, net dividends were only $2.14 in this period. In the first six months of 1939, net profits before perferred dividends were $1.71 per ton, while after dividends, they were 27 cents a ton.

These figures show conclusively that the steel industry has no margin from which to absorb any large increase in costs. What I have just related is the economics of the situation. Costs and prices in the steel industry are hard, unyielding facts which cannot be changed at will to conform to political desires in Washington.

I do not say that the earning of profits, in itself, will solve the problems of America. Many governmental handcuffs and leg irons must be stricken from business if it is to have the freedom, confidence and courage which were the main-springs of its former drive and accomplishment. Also there are many internal improvements which business must make to adapt itself to a changing world. But these things must come slowly if soundly through a process of education and legislation. Making profits is something you can do now—and the establishment of business on a profit basis will be a long step in the right direction.

During this talk I have referred a number of times to "reasonable profits." You might ask, "what are reasonable profits?" My answer is that a reasonable profit is one that is in proportion to the risk to capital and to the costs involved in a particular business—a profit that is sufficient to attract the necessary continuous stream of new investment. The percentage, of course, must be determined by the nature of the particular industry concerned and the prevailing conditions of business as a whole. In general, we may observe that in the past ten years, with business in a stalemate, profits averaged only 2.7 percent of invested capital. Judging from results, this is not reasonable. In 1928 and 1929, which are considered boom years in which the American people enjoyed unparalleled prosperity, and the full use of savings was attracted, profits averaged seven percent. Again judging by results, these profits must have been reasonable.

The thing of present importance is that business men do not confuse profits that may be earned without too much effort under existing conditions with profits that must be earned under *any* conditions. Business men must prepare now to keep their companies in a profit position in the trying times that await the cessation of war. What is true of profits is true of unemployment and all our other problems. At the end of this war, whenever it comes, these problems will be there waiting, and redoubled in size and in gravity. If this sounds like the voice of Cassandra, I regret it, but I am convinced it is true. We have a chance if we don't go soft. We have a chance, if we keep these problems as fresh in mind as they were a few short weeks ago—as fresh in mind as they are to the fellow who is still out of a job. We have a chance if we keep hammering everlastingly to see that these problems are met with sound domestic solutions. We have a chance if America stays out of war.

If America goes into war, I am afraid that none of us here will live to see again the freedom which we once so calmly regarded as our natural birthright. War this time places at stake not only American lives and treasure, but the very principles which have made Americans the world's first real race of freemen.

Our credit structure now strains under a federal debt of about forty-five billions. Add to these billions the many billions more that would be poured into a war venture and what would happen? Capitalism would be expected to foot the bill for this as it is for everything else. When it failed, as it would, what would be blamed? You know the answer. The capitalistic system, of course. Out with it! Let's try another! What other? I don't know the answer to that. But I do know that the collectivist idea has made deeper inroads in American government than anyone would have thought possible a few short years ago. I know that in event of war we can expect a degree of regimentation and control by government that is now unthinkable, and I know that the conditions that will follow war will be much less conducive to the return of individual freedom than they will be to the flowering of collectivism with its inevitable climax—dictatorship.

The present, imperative duty of any real American is to keep America out of war. The second duty—and it is almost as important—is to insist that begining *now* this country must find American solutions to American problems. As citizens, we can do our part toward these ends. As buisness men, we can do something more. Everyday, in our own offices, we can do our part to preserve the profit system—the system which represents one of the three fundamental American liberties—by seeing that our *own* companies *earn a profit.*

It is my earnest hope that we leave with one thought fixed firmly in mind—for our own sake, for our employees and communities, for our industries, and finally, for our country, may we go forth and earn a profit.

SUPPLEMENTAL DATA

The following letter and statement are included at this point in connection with testimony on p. 10591, supra.

BETHLEHEM STEEL CORPORATION

Cunard Building, New York, N. Y.

F. A. SHICK
Comptroller

In reply refer to
BFA-39-A.

(Stamped:) Received Jan. 23, 1940. Temporary National Economic Committee.

BETHLEHEM, PA., *Jan. 20, 1940.*

JAMES R. BRACKETT, ESQ.,
Executive Secretary, Temporary National Economic Committee,
281 Apex Building, Washington, D. C.

DEAR SIR: In compliance with the request made by Senator King, as Acting Chairman of the Temporary National Economic Committee, of Mr. Grace when he was on the witness stand at the hearings before the Temporary National Economic Committee on November 9, 1939, we are sending to you herewith a Statement of Consolidated Aggregate Tax Accruals of Bethlehem Steel Corporation and its Subsidiary Companies, including its share of its Subsidiary Companies not consolidated and of Ore Mining Companies partially owned.

In view of the statement made at the time by Commissioner Henderson to the effect that a statement similar to the one desired from us had been furnished by United States Steel Corporation, we have secured from that Corporation (hereinafter referred to as U. S. Steel) a copy of the statements showing the information regarding taxes which it filed with the Committee, so that we might be sure to give the information corresponding to that which it furnished. As you will note, however, in the enclosed Statement, we have shown a breakdown of Federal taxes which is a little greater than that shown in the statement furnished by U. S. Steel, referring particularly to its statement entitled "Taxes U. S. Steel Corporation and Subsidiaries"; but, assuming as we do that the items in that statement under the heading entitled "State and Local (Excl. Social Security)" do not include amounts of taxes such as those payable to the New York Unemployment Insurance Fund, then you will readily be able to prepare from the statement which we are enclosing a statement that will correspond to such statement of Taxes filed by U. S. Steel.

To be more specific, as we understand the above-mentioned statement of U. S. Steel, the amounts of taxes which are shown therein for the various years under the heading "State and Local (Excl. Social Security)" correspond to the amounts of taxes for the respective years shown against the title which is numbered 1 in the enclosed statement; the taxes set forth in such statement of U. S. Steel under the heading "Federal (Excl. Social Security)" correspond to the aggregate for the respective years of the taxes set forth in the enclosed statement against the titles which are numbered 2, 3 and 5, respectively; and the taxes set forth in such statement of U. S. Steel under the heading "Social Security" corresponds to items against the title which is numbered 4 in the enclosed statement.

Trusting that you will find that the enclosed statement is in satisfactory form, we are,

Very truly yours,

BETHLEHEM STEEL CORPORATION,
By (Signed) F. A. SHICK, *Comptroller.*

Encl.

Bethlehem Steel Corporation and Subsidiary Companies (Including its Share of its Subsidiary Companies not Consolidated and of Ore Mining Companies Partially Owned)—Consolidated Aggregate Tax Accruals

	Total for 5 years 1924–1928 inclusive	Total for 5 years 1929–1933 inclusive	Year 1934	Year 1935
(1) State and local taxes (exclusive of State unemployment and other State Social Security taxes)	$28, 153, 087	$30, 768, 356	$5, 428, 009	$6, 101, 483
(2) Federal capital stock tax	646, 523	204, 303	203, 351	369, 297
(3) Federal excise and miscellaneous taxes	187, 322	151, 907	60, 696	120, 193
(4) Federal and State unemployment, old age and railroad retirement taxes				
Total	28, 986, 932	31, 124, 566	5, 692, 056	6, 590, 973
(5) Federal taxes on income	9, 454, 587	7, 309, 093	432, 218	921, 978
Grand total	$38, 441, 519	$38, 433, 659	$6, 124, 274	$7, 512, 951

	Year 1936	Year 1937	Year 1938	Total for 5 years 1934–1938 inclusive
(1) State and local taxes (exclusive of State unemployment and other State Social Security taxes)	$6, 726, 414	$7, 796, 440	$7, 360, 341	$33, 412, 687
(2) Federal capital stock tax	439, 760	606, 208	229, 699	1, 848, 315
(3) Federal excise and miscellaneous taxes	501, 885	102, 074	64, 170	849, 018
(4) Federal and State unemployment, old age and railroad retirement taxes	1, 317, 812	4, 994, 791	4, 574, 090	10, 886, 693
Total	8, 985, 871	13, 499, 513	12, 228, 300	46, 996, 713
(5) Federal taxes on income	3, 047, 475	6, 187, 612	954, 848	11, 544, 131
Grand total	$12, 033, 346	$19, 687, 125	$13, 183, 148	$58, 540, 844

1/20/40.

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