

Coal, Iron and Steel Profits

[The following is a copy of a letter written by a gentleman in Washington to an official of the government in regard to the recent unprecedented advances in the prices of coal and of iron and steel products and suggesting that the government assume the control and supervise the operation of certain large steel, iron and coal corporations.—Ed.]

Washington, D. C., May 26.

Dear Sir:

Referring further to our conversation on the subject a day or two ago, and your suggestion that I give you a memorandum covering the points discussed in our talk, I now have the honor to submit the following:

We are now confident that the Liberty Loan will be a great success. Present indications are that it will be very largely over-subscribed. The government will therefore be able to collect for the first issue of bonds two billion dollars; and we also believe that the other three billions authorized by congress can be sold and on a favorable basis.

But how far will the proceeds of these bonds go towards paying the bills of this and other nations for the enormous volume of supplies and munitions which are being purchased every day? For the principal articles purchased we are now being required to pay from twice to four times the prices which prevailed less than three years ago. Therefore, in order to obtain these supplies, we are doing what is equivalent to selling the Liberty Bonds at 25c on the dollar, in buying steel at four times the price which prevailed in 1913; or we are selling bonds at the equivalent of 33c on the dollar, when we invest their proceeds in coal or wheat at three times the prices we paid in 1914.

This simply means, of course, that three billion dollars of Liberty Bonds at 1917 prices will buy only one billion dollars worth, or less, of supplies at 1914 prices.

Let us now see to whom the government and the allies are paying the extra four or five billion dollars, which represent the advance which has taken place in two and one-half years in coal and a portion of our steel products.

I have given some thought and study to this question, and I am quite convinced that these additional billions of dollars are not going to the wage earners of the country but that they are going principally into the pockets of the coal, iron and steel operators, corporations and trusts, and to speculators and middlemen who are all waxing fat beyond their fondest hopes or their wildest dreams.

I have some knowledge of the coal situation. Some years ago, as the chief executive of a certain large enterprise, I was accustomed to purchasing a million or so tons a year at prices ranging from 70c to a dollar a ton; and these prices prevailed up to a recent period. Since then there has been some advance in wages, but this advance in wages probably does not average more than somewhere between ten and thirty cents per ton, varying in different localities.

The price of coal at the mines has been jumped from 75c or a dollar a ton to \$4, \$5, \$6 and \$7 per ton. In other words, for every one dollar of increase in cost due to an advance in wages, there have been about twenty dollars added for other causes — principally the operator's greed and profit.

The production of coal in this country last year was about 600 million tons, and this year's production will be probably greater. Therefore, if we assume an average advance in the price of coal of \$4 per ton at the mines, the increase in our coal bill would be \$2,400,000,000.

Of this colossal advance, only a small fraction goes to the coal miner. The rest of the increase is taken by the coal operators, corporations and trusts, speculators and middlemen.

The coal operators made a reasonable profit on the coal which they sold to the navy three or four years ago under old contracts. Why should these operators now add to the old price, first the extra cost of wages, and then add to the net profits which they have formerly made 1,000 to 3,000 per cent additional profit?

When a coal operator who formerly made in normal times 15 cents per ton (and considered he was doing well in so doing) makes a net profit of \$4.50 per ton he has increased his net profits thirty fold, or 3,000 per cent.

In 1913, steel billets were quoted at \$19 a ton. This country made last year approximately 40 million tons. The steel trust and other steel concerns, working in perfect harmony, are now demanding \$80 to \$90 a ton for steel billets at Pittsburgh.

The principal steel makers own vast deposits of practically all of the ingredients required for the production of steel. Therefore, in order to produce a ton of steel, the only extra cost to them is the wage increase. A few dollars a ton would cover this increase in wages paid to their men; but for the same steel that they were glad to sell at \$19 or \$20 per ton in 1913 and 1914, they are asking an advance of—not a few dollars a ton to cover any increase in wages, but an increase of \$60 or \$70 a ton—more than 400 per cent in gross cost.

If the steel companies were making \$2 a ton profit by selling their steel at \$20, their present profit at \$85 or \$90 is probably close to \$60 a ton—or thirty times as great per ton as they formerly received—an increase in net of 3,000 per cent!

The steel manufacturers will claim that the cost of steel is very much more because of the increase in the price of coal and iron ore and other ingredients required in steel production. The answer to this is that the coal and iron ore and other ingredients are largely owned by them, and they, by concerted action, are advancing the prices of the steel elements; so that the real increase in cost to them is practically covered by the increase paid by them in wages.

This country made last year about 40 million tons of steel ingots. The production this year will probably be greater. If purchasers are to pay an advance of \$60 per ton, it means that the steel will cost the buyers and users in excess of what the same quantity would have cost on the figures of 1914, say, \$2,400,000,000.

Who are the beneficiaries of this enormous advance in the price of steel? The answer is largely the same as in the matter of coal—the profits are going principally into the pockets of the steel makers, the United States Steel Corporation and the other big corporations; it is not being distributed among the people, but the people, this government, and the allies, are being made to pay the bill.

The report of the United States Steel Co. for the first quarter of 1917 shows that for the month of March, 1917, the net earnings of that corporation were over \$43,000,000. This is at the rate of considerably more than 500 million dollars per annum — although it is understood that the March earnings were nothing like as great as they are expected to be hereafter, because the steel trust was still furnishing its products under many old contracts made at lower prices; and it is suggested that, if the March business had been done on the basis of today's prices for steel and iron, the net earnings of this one corporation would be closer to the rate of one billion dollars a year than 500 millions.

The significance of these figures may be better appreciated when we consider that the total capitalization of the United States Steel Corporation is about 1,500 million dollars; and that 6 per cent on this entire capitalization (including the vast amount of common stock which was given for "good will") would be only \$90,000,000, so that the company is already earning at about the rate of more than five times as much as is required to pay 6 per cent on its entire capitalization.

The records also show that the big steel companies are now quoting wire rods, Pittsburgh delivery, at \$100 per ton. This compares with \$25 per ton about two years ago. Plain wire (needed by the allies abroad and farmers at home) in January, 1915, was quoted at \$1.35 per cwt. Today's quotation for wire is \$3.45 per cwt., while structural steel shapes, Philadelphia delivery, were quoted in January, 1915, at \$1.10 per cwt., and are now priced at \$4.40—four times what they were two years ago.

Lead has advanced from \$3.90 in July, 1914, to \$10.50 today; and tin has also doubled in value. Bessemer iron quoted in July, 1914 at Pittsburgh, at \$10.25 per ton, is today being quoted at \$44.95 per ton.

As I have illustrated in the case of the United States Steel Corporation, the profits

which are being realized at this time are simply colossal and beyond any possible justification; but the masses of the people and this government are beginning to suffer; the Allies have been bleeding grievously for the past eighteen months because of the unconscionable prices which American business men and manufacturers have been exacting of them.

The question is, will this government permit these conditions to continue? I earnestly and devoutly hope that congress will adopt legislation which will enable the President to control not only the prices of food products but the prices of all basic materials and also of certain other manufactured products.

The problem is a great one and involves careful study and painful research; but it can and must be solved. I dread to think of the business convulsions which must follow if this riot of inflation is not curbed and controlled. We have the foundations in this country for a healthy, permanent and enduring prosperity; but our opportunities are being abused or disregarded and we are in danger of rearing a sham and temporary edifice on stilts.

We should be ready and prepared for the time (to use another simile) when the engine of our aeroplane may be stalled, and if we do not volplane back to earth, which we have yet time to do, we will fall perpendicularly, and the effect of such a fall is usually fatal.

The time has arrived when the brake should be absolutely put upon further advances in prices of products. Let us profit in this respect by the wise course which has been adopted by the European nations. The nation which most quickly adopted the price control was Germany, and that is the nation which has succeeded most effectively in conducting its war efficiently without financial help from the outside.

It would of course, be possible for this country to adopt a dual, or alternate, system of price control, so far as manufactured articles go. First, we might notify manufacturers that the prices to be charged for products shall be such as to provide a profit of not more than so much per ton, or per other unit of measure; or, secondly, in the case of some great producing plants, coal mining and steel, iron and copper manufacturing, we might commandeer the plants for the time being and place them under government supervision and regulation with full control over prices.

I have spoken of the terrific advance in coal, iron and steel, but in other articles of much importance advance has also been enormous. It appears that we produced last year approximately two billion pounds of copper. The price of copper as late as 1915 was about 13c a pound; the price today is about 33c a pound. In other words, the value of the copper output had advanced from about 260 million dollars to about 660 million dollars.

And so on, through the whole range of the materials and products which have been so vitally necessary to the nations of Europe, who have been fighting our battles and theirs and for the cause of civilization and all humanity. We have been draining their financial resources while the Germans were drawing their blood, and we have fattened beyond all precedent, to our shame.

The unprecedented advance in the price of materials was the immediate result of the frantic efforts of England, France, Russia and Italy to obtain munitions and supplies, the possession of which was absolutely necessary for their continued existence as free peoples, and they paid to our manufacturers any price that was demanded. Has not the time come for us to take counsel and restore prices to a more natural and normal level?

If we do not do our duty now, we will suffer serious consequences, and we will not have the consolation of saying that we were not warned. Knowledge drawn from history and the experiences of all the past shows us clearly the folly and danger of disregarding sound economic laws, and of neglecting such plain duties as those which we owe to our own people and to our suffering allies in such times as these.

May I, in conclusion, remind you of these lines of Dr. Johnson:

"For why did Woolsey on the steeps of Fate
On weak foundations raise the enormous weight?
Why but but to sink beneath misfortune's blow
With louder ruin to the gulfs below."

Let us pray that no such fate shall await us.
Pardon me for imposing upon you this long