

CURES ALL THE ILLS OF MAN OR BEAST



—From the New York World.

Federal Trade Commission Scores Lumber Industry

(Issued by the Federal Trade Commission Washington, Feb. 19, 1921.)

Pursuant to the request of the Honorable William M. Calder, Chairman of the Committee on Housing and Reconstruction, that information in regard to the lumber industry which the Federal Trade Commission deems to service be forwarded from time to time to said committee, there are herewith transmitted certain documents and letters, together with this summary of matters therein contained. The summary, however, rests in part upon data transmitted to the committee on January 10th and to a small extent upon certain documents still retained in this commission's files. The commission also has large quantities of supporting data which it is unnecessary to now transmit to the committee. The letters without signature were carbon copies from the files of the lumbermen who wrote them, and who can be identified if the committee so desires.

The letters and documents relate chiefly to the activities of the Southern Pine association, of New Orleans, La., which represents a larger production than any other association, and comprises mills in Oklahoma, Arkansas, Texas, Louisiana, Mississippi, Alabama, Georgia and Florida.

The operations of the Southern Pine association center around the use of a device known as a trade barometer, by which, through concerted action, the association instructs its membership how to restrict production and thereby to increase the price of lumber, by an artificial control of supply as balanced against current demand.

This barometer is issued to the members of the association weekly. It is portrayed on the right hand side of a sheet of paper and consists of a bulb out of which arise three perpendicular tubes. The first tube

is designated by the word "orders," the second by the word "production," and the third by the word "shipments."

In order to make the information portrayed by the barometer striking to the eye, red colors are used in the bulb and tubes.

Whenever the members see that the red in the middle tube entitled "production" stands higher than the red in the first and third tubes known as "orders" and "shipments," they see at once that production must be decreased on the theory that if it is not, there will be an over supply in the market which will force down prices.

If, however, the barometer shows that the red of the middle tube, indicating production, is below the red in the other two tubes, indicating orders and shipments, then the members see that supply is below demand and that higher prices can be obtained.

This device for restricting production was inaugurated in 1915. At that time there was printed on the upper left hand corner of the barometer and just outside of the "order" tube the words "Market Advancing." Directly opposite in the upper right hand corner and just outside the "shipment" tube appeared the words "Increase Production." On the lower left hand corner were the words "Market Declining," and just opposite, on the lower right hand corner the words "Decrease Production."

Thus the height of the red color in the respective tubes automatically indicated which of these instructions were to be applied.

The theory of the device was described by Mr. Charles S. Keith, president of the association, in a letter of September 18, 1915, to J. B. Kirby, as follows:

"The association will shortly get out a weekly barometer, which has been submitted to our counsel and

which meets with their approval. This barometer will automatically forecast market conditions, and it is based on orders received and shipments made. Where the shipments exceed the orders, it indicates an advancing market, and whenever the reverse is true it indicates a falling market. Then once a month we will get out another barometer based on the production, which will indicate an advancing market when shipments are in excess of production, and a falling market when the reverse is true, advising increase of production when the orders and shipments are in advance of production and a decrease in production when the production is in excess of orders and shipments. This will give the information graphically."

Shortly after the barometer was circulated among the association members, Mr. W. H. Bissell, president of the Wausau-Southern Lumber company, wrote to Mr. Charles S. Keith, president, and Mr. J. E. Rhodes, secretary and manager of the Southern Pine association, advising that the words "increase production," be taken off, stating that "this is just the condition that we wish to avoid." Following this he said, "is it not possible that some of our members might construe your weekly letter, bearing this label, as advice from our association, to cut loose and resume night sawing with their mills?" and again, "Some cautionary advice should be inserted bringing home to our members the truth of the old adage, 'Do not kill the goose that lays the golden eggs.'"

Mr. Bissell's advice was followed and the four phrases, "market advancing," "increase production," and "market declining," "decrease production," were removed. Mr. Keith informed Mr. Bissell in a letter of November 1st, 1915 as follows:

"In preparing the barometer, the attorneys thought that if we were going to show 'decrease production' thereon, 'increase production' ought to go on too; So while we are now advising our people what to do, the barometer itself will tell the story."

It should be stated that while these four phrases were removed, there still remained beneath the barometer the following language:

"TRADE BAROMETER"

"Whenever shipments or orders are below production, experience indicates an over-production, with consequent lowering of values.

"Experience indicates that whenever shipments or orders are above production, values increase, provided production does not increase at a greater ratio than shipments or orders."

The foregoing quotation appeared beneath the barometer continuously until October, 1919.

It should be noted in respect to the date, October, 1919, that at this time the commission was preparing to make an investigation of the lumber industry as requested by the department of justice but had not yet actually begun. However, the fact of this request had been ascertained and had been spread through the industry. Shortly after this, the language just quoted was removed.

In order to inform the members what information the association had upon which it moved the red up or down in the tubes, there was set forth on the same page to the left of the barometer, a summary of figures reported from the association mills. These figures showed the total amount of orders on hand, the total orders received during the week, the total shipments for the week, and then by subtracting the shipments from the orders, showed the balance of orders on hand.

The statement further showed, in percentages, whether and how much shipments were exceeding production; orders exceeding production; orders exceeding shipments, and whether there was an increase in

orders compared with the last report. There was also other pertinent information tending to inform the members how to read the barometer.

In the early barometers, the association took as a base the actual production and compared the orders and shipments with it. Subsequently, the orders, shipments, and actual production were compared with an assumed normal production. This normal production was arrived at by taking the production for a certain number of months.

In addition to the barometer there was a continual correspondence carried on between various members, stressing the idea of decreasing production and the beneficial results that would accrue to the members of the association by such action. The activities of the association were also supplemented by trade journals which gave out information such as were portrayed by the barometer and through editorials urged the members to regulate their production according to the barometer.

Finally to enable the membership more effectively to secure the fruits of their system of curtailing the production, representatives of the leading concerns held frequent meetings at which market conditions, including the supply and demand as reflected in the barometers, were discussed, and harmonious action on prices arrived at. At one meeting in particular, as evidenced by correspondence hereto attached, "the consensus of opinion on price" was "that conditions justified an advance, * * *," and that new price lists would "be out the first of next week carrying these advances."

As disclosed in the documents sent to the committee, the plan is for each mill to regulate its current production in accordance with the current total demand, as shown by the orders and shipments of all mills, and to cut down production immediately and proportionately to any excess in the total production over total orders position of any individual mill. At one meeting the members took a rising vote unanimously to the effect that each would regulate his own individual production according to the common plan, and keep it within the limits of demand as shown by the association. This theory was explained and urged upon the membership at great length by association leaders during 1915 and 1916, during which time two pronounced curtailment movements were organized and carried out. The barometers were inaugurated and are now used for the purpose of securing the more effectual execution of the plan.

For more than a year during the war, the Southern Pine association restricted the circulation of its barometers to the membership. This was for the purpose of preventing the buyers of lumber securing market information which would lead them to reduce their purchases in the expectation of lower prices. At the time such action was taken, the production was exceeding the sales. This action was taken over the protests of association leaders who had warned that such restriction would constitute an admission of manipulation. As late as March, 1920, Mr. Chas. S. Keith, for four years president of the Southern Pine association, referred to the restriction of the barometers' circulation as being evidence of manipulation under such circumstances.

From time to time since the formative period of 1919-1916, the association leaders have urged the membership to regulate their production according to the demand as indicated by the barometer, so that prices could be advanced or at least prevented from receding. A striking instance of this occurred early in 1918, when the world war was approaching its climax. The president of the Southern Pine association, addressing the members, said:

"When you see production exceeding shipments and stocks of lumber