

Japan than in the United States. If the year 1957 is given an index of 100, total labor costs per hour in 1966 stood at 145 for the U.S.; 177 for Germany; 206 for France; 169 for Belgium; 154 for Luxembourg; 219 for Italy; 221 for Holland; 156 for the United Kingdom; and 175 for Japan (in 1965). If, as the Chase Manhattan Bank's technical director for the metals industries reports in the August issue of "33" Magazine, current productivity trends favor the United States, there seems to be little justification for curbing steel imports at this time because of allegedly lower labor costs abroad.

(3) Finally, labor costs are only one component in the *total* cost of producing steel. Thus, a country can have higher labor costs than its competitors in world markets, and still have lower total costs. It can still be "cost-competitive". This indeed is the position of the American steel industry when it competes with imported steel in the U.S. market. According to Richard S. Thorn, associate professor of economics at the University of Pittsburgh, from where he has observed the steel industry for a good many years, "lower labor productivity, higher material costs and ocean freight charges result in a higher average cost for foreign steel at U.S. ports than for U.S. steel at the mill. In other words, American steel products are already, on the average, 'cost competitive' with imports." (*Challenge*, July/August 1967). Estimates are at best approximate, because the U.S. steel industry has consistently refused to disclose its per-ton costs of production: but domestic producers enjoy a rough cost advantage per ton of steel of \$2.40 for coke, \$2.40 for capital costs, and \$14.00 for transportation—sufficient to offset a labor cost advantage of \$18.40 per ton for European producers.

In sum, higher labor costs hardly constitute adequate justification for the imposition of new barriers to steel imports. The existence of the sizable transportation costs alone, which foreign producers must bear when selling in the U.S. market, would seem to be protection enough for an industry which claims to be efficient and progressive.

APPENDIX VI

STEEL IMPORTS AND PRICING

While the steel industry asks the government to protect it from foreign competition, it insists on the right to engage in persistent price escalation. The logic of its argument runs somewhat as follows: the only way to compete effectively against steel imports is through modernization of facilities and technological innovation. This requires sizable capital funds which can be obtained only through higher profits and higher prices. By increasing prices therefore the industry enhances its potential for effective competition. But such price increases are possible only, if the government excludes foreign competition either by protective tariffs, or preferably by quotas.

Roger Blough, in defending the industry's 1962 abortive price increase, clearly articulated this philosophy: "While the price rise might have appeared to intensify our competitive difficulties with cheaper foreign steel, that steel is usually priced in relation to ours anyway, and in the long run, the increase would have improved our competitive strength. By using the added profits produced by the price increase to help obtain the most modern and efficient tools of production, we could hope eventually to narrow the gap between American and foreign steel prices." (*Look*, January 29, 1963, p. 23) Thus, Mr. Blough proposed to meet the competition of cheaper foreign steel by *raising* prices.

This pricing policy, which seems almost deliberately designed to encourage imports, requires additional comment:

(1) U.S. steel producers do not compete among themselves in terms of price. It is simply not the custom of the industry. Instead of price competition, the industry follows a regime of strict price leadership and followership. It is a classic, textbook oligopoly.

(2) Since World War II, steel prices have been a consistent inflationary force in the American economy. Between 1947 and 1951, according to the Council of Economic Advisers, "the average increase in the price of basic steel products was 9 percent per year, twice the average increase of all wholesale prices. The unique behavior of steel prices was most pronounced in the mid-1950's. While the wholesale price index was falling an average of 0.9 percent annually from 1951 to 1955, the price index for steel was rising an average of 4.8 percent per year. From 1955 to 1958, steel prices were increasing 7.1 percent annually or almost