

2. Special accelerated depreciation allowances to the steel industry for a period of five years to allow and encourage the industry to undertake an intensified modernization program to make up lost ground.
3. Streamlining of our anti-dumping laws to make the criteria for foreign dumping clearer and the legal process for securing relief less complicated and time-consuming.
4. Increase governmental pressure on non-tariff barriers to steel exports.

SOLUTION TO STEEL IMPORT PROBLEM

If the steel industry wishes to participate fully in the growth of the American economy and maintain a profit rate closer to average experience by the American manufacturing industry, the solution to its problem is inescapable. It consists of three fundamental steps:

1. Greater expenditures on research and development in order to step up the rate of cost reducing innovations.
2. The maintenance of the present high levels of investment in plant and equipment over the next decade.
3. The introduction of an aggressive and flexible price policy to maximize profits designed to maintain and even expand steel's market position both at home and abroad.

The steel industry today is faced with a critical choice. It must either meet the challenge of foreign steel, aluminum, cement and plastics with a positive policy, or else resign itself to a slow decline. The advocacy of quota protection is the counsel of despair. It is an unimaginative effort to preserve profit margins in a declining industry without attempting to deal with the factors that have prevented the industry from participating fully in the unprecedented growth of the American and world economies.

The steel industry's problems are capable of solution, but they require basic changes of policy.

STEEL'S MARKET LOSS

Imports are just one symptom of the steel industry's growing inability to meet competition, not just from imports, but from substitute materials, notably aluminum, plastics and cement. The steel industry is not only not growing as fast as our economy, it is not growing as fast as the industries that produce substitutes for steel. Between 1957 and 1966 steel output grew 36 percent while aluminum grew 100 per cent, plastic 86 per cent and cement 46 per cent. This loss of competitive ability is primarily the result of over a decade of inadequate investment in plant and equipment research. No amount of quota or tariff protection will eliminate these deficiencies and reverse the relative decline in the importance of the steel industry in the American economy.

An analytical diagnosis of the steel industry's problem suggests a radically different set of policies.

PRICE BEHAVIOR

Prices as well as technology have played an important role in the loss of steel's market position. Between 1947 and 1966 steel prices rose 115 per cent while the price of aluminum rose only 72 per cent, the price of cement 80 per cent and the price of plastics actually declined by four per cent. While U.S. steel export prices rose 3 per cent between 1957 and 1964, the prices of Common Market steel producers declined about six per cent.

FOREIGN COSTS

Several industry spokesmen have laid their problems at the door of the high wages being paid American steel-workers. The fact of the matter is that, in the period when steel imports have made their greatest incursion into the American market, foreign wages rates were, and still are, rising considerably faster than American wage rates.

In the appended study made by the author it was found that Japanese labor costs per ton of steel at the mill were \$16 lower than comparable American labor costs. However, when higher Japanese coke costs of \$4 a ton and ocean transport rates of \$18-\$22 a ton are added, they completely offset the initial labor costs held by Japan. Similar results were found for the European producers. When capital and non-labor costs are taken into account one arrives at the conclusion