

that the average cost of foreign steel landed at U.S. ports is greater than that of domestic steel at the mill.

This does not mean that there are not Japanese steel plants with costs substantially below the average, just as there are U.S. plants. Nor that there are not specific foreign steel products produced at lower cost than corresponding American products but the differences are nowhere as great as those indicated simply by looking at differences in labor costs as some analysts would have us believe.

In short, American steel producers are already "cost competitive" with foreign producers.

However, "cost competitiveness" cannot be equated with price competitiveness. The rigid price policies followed by the American industry in which prices have with few exceptions moved in one direction have made the American steel market a "sitting duck" for foreign steel producers, as they slowly disjoint one segment of the market after another.

STEEL INVESTMENT

The most important factor that has led the steel industry to its present situation today, is inadequate investment in plant and equipment and research and development over the past decade. That might be a bitter pill for an industry to swallow whose investments have been two billion dollars a year over the past two years and are currently running over \$2.4 billion a year.

But steel's problems were not made in the last three years, but in the late fifties and early sixties when the level of investment was half as much as it is today.

While present steel investment of over \$2 billion annually is encouraging, it still does not provide final proof that the industry has committed itself to maintaining its present high levels of investment.

The industry has traditionally increased its investment when business was good and reduced it when business slacked off.

As a result of this cyclical investment policy the industry has not been able to replace its high-cost, inefficient steel making capacity as fast as necessary to remain competitive. One trouble of course is the world steel industry is a dynamic business where you have to run just to stand still market-wise.

The American steel industry has a substantial advantage over foreign steel producers in its almost unlimited access to the American capital market. While Europe may have developed a lead in the technology of steelmaking in the past decade, the international markets have gone to the countries which have had the capital to apply this technology, as well illustrated by the example of Japan.

The cyclical policy of investment of the American industry which has brought it to its present state has resulted from the fetish it has developed for self-financing. The industry has financed approximately 85 per cent of its gross investment from internal funds, largely profits and depreciation, compared to an average of 61 per cent for all manufacturing companies. If changes in working capital are excluded, the industry has financed almost 100 per cent of plant and equipment expenditures from internal funds.

The federal government should consider granting the steel industry emergency tax relief for a limited period of time in the form of accelerated depreciation allowances on new investment in order to assist the industry in reestablishing its international competitive position. While, in general, I am opposed to discriminatory tax treatment to any industry (in spite of the precedents found in our tax laws), I believe in the case of steel the benefits to the national interest outweigh the disadvantages by a sufficient margin to make this a desirable course of action—ininitely superior to the quota protection currently being discussed.

I suggest the steel industry be granted accelerated depreciation at the rate of 33 per cent the first year, 17 per cent the second year and normal rates in subsequent years on new investment made within the next five years. In short, 50 per cent of any new investment in the next five years could be written off in the first two years of its life.

This type of "shock treatment" should allow our domestic industry to "shake out" its obsolete, inefficient capacity and reduce its average costs to a level closer to those obtained in its current most efficient operations and set the stage for the pursuit of an aggressive price policy designed to regain steel's lost markets and penetrate new ones.

The real challenge to the industry will come when the present boom in steel subsidies, as it may already be doing. To maintain its present level of investment the industry will have to go to the capital market. Will it? On the answer to this question more than any other hinges the future of the American steel industry.