III. Profits

A. Mr. Graham asserts that American steel companies "have been more interested in expanded profits than in modernization of their plants." Domestic steel companies are obviously interested in increasing their profits. That is one of the objectives of the very high levels of capital expenditures. Actually, however, just opposite of Mr. Graham's assertions has been occurring recently. Profits earned by 14 of the largest 15 domestic steel companies during 1967 were lower than those earned in 1966 and also lower than those earned in 1965.

B. Rather than being conflicting objectives, plant modernization and profits are closely related objectives. For example, facility improvements are made with the hope and expectation of earning a profit. Prospects of profits are necessary to attract either new debt capital or new equity capital. Other factors being equal, the greater the profits available for reinvestment in the business, the faster improvements can be made in productive efficiency.

C. During recent years, the domestic steel industry has ranked near the bottom of all industries in terms of rates of return on investment. This restricts domestic steel companies' ability to invest in more efficient facilities at a faster rate not only from internally generated funds but also from externally generated funds from investors obtained in competition with companies in all other industries.

IV. Plant Modernization

A. Mr. Graham cites the modernization undertaken during recent years by the German steel industry as an example which the domestic industry should follow. From this, one would conclude that the German industry has been investing money in new facilities at a rapidly increasing rate and that just the opposite is the case in the United States. Actually, exactly the reverse of this has been happening during recent years. As shown below, capital expenditures by U.S. steel companies increased by 120 percent during the 1963–67 period, whereas they have declined by 45 percent in West Germany and by 43 percent in to the total ECSC.

CAPITAL EXPENDITURES BY IRON AND STEEL INDUSTRIES

[Dollars in millions]

Year	United States	West Germany	E.C.S.C.
1963	$1,040.0	453.1	1,479.5
1964	1,600.0	379.3	1,315.3
1965	1,822.5	311.6	932.3
1966	1,953.0	292.0	837.5
1967	2,292.0	247.1	837.6
Percent change (1963–67)	+120	−45	−43

B. In light of the above, it is apparent that the American steel industry has been doing exactly what Mr. Graham and other critics of the industry advocate. However, as the recent Senate Finance Committee's staff study on "Steel Imports" pointed out, "Unless the new investment in fixed assets produces cost savings in excess of