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U.S. Steel Corp.: We Make Profits, Not Steel

Prompted by the statement of a U.S. Steel spokesman that the business of the nation's largest steelmaker is "to make profits, not steel," Criton Zoakos, the U.S. Labor Party's Director of Intelligence, challenged Edgar Speer, U.S. Steel chairman, to a debate Dec. 5.

"Andrew Carnegie would turn over in his grave if he heard that," Zoakos said in making his challenge.

The comments in question were made at the emergency steel conference convened by Pennsylvania's Governor Milton Shapp in Pittsburgh last month.

The U.S. Steel spokesman outlined his perception of the industry's problems and his proposed solutions at a panel on capital formation:

"Unprofitability of steel production... the solution is to diversify, to get out of steel and into raw materials.

"Foreign imports... the solution is to strictly enforce antidumping laws and to change laws to make trade more fair.

"Cost-price problems — it costs too much money to produce steel and our prices are too low... the solution is to allow the price of steel to be greatly increased."

When a question came up about the possibility of modernizing and expanding the U.S. steel industry following the "Japanese model" — through low-interest government loans — the spokesman replied: "Let me make it perfectly clear. We do not want government subsidies. We do not want low-interest credit. Period."

True To Its Tradition

The policy put bluntly by the U.S. Steel spokesman in Pittsburgh, though startling, is perfectly consistent with the policy U.S. Steel has followed from its establishment in 1901. Practically from its inception, U.S. Steel's top officers have acted like bankers who make steel as a side line, not industrialists. Their primary interest has always been fast profits, not the expansion and technological improvement of the company's steelmaking operations.

Around the time Edgar Speer became U.S. Steel chairman in March 1973 he told *Fortune* magazine: "We could conceivably get to the point where steel would be a minor instead of a major segment of our business." He told *Forbes*: "I'll tell you what excites *me*. Raw materials. It's been the most successful diversification move in the past and offers the greatest single opportunity for the future."

At this point U.S. Steel's stock was selling for 32 — less than half of its book value — down sharply from 108 in 1959. No steel company was doing well at the time, but U.S. Steel's steel-making operations were more unprofitable than most, because of its older than average plant and equipment. As a solution to the corporation's financial troubles, the directors were not thinking about ways to modernize the corporation's steel-making facilities, but about getting out of steel. In fact, they were considering recruiting a chief executive officer to replace retiring Robert Blough from outside the corporation and outside the steel industry. They decided instead on Speer, who had been with the company for 34 years. Speer's attraction for raw materials must have impressed them.

"People don't recognize it," Speer told *Forbes*, "but we're one of the biggest independent mining companies in the world. We don't mine just for our own use: Of all mining ventures, 40 percent is for sales to others. By 1975-76 that will be 60 percent.

"In this country, where we mine 16 million tons of coal annually, we are either opening or have under construction 10 million tons of new capacity. About 8 million tons will be for outside sale. This is what's really exciting to me. We project that the requirements for minerals and fuels between now and the turn of the century will grow 300 percent."

U.S. Steel's plans to increase coal production immediately were disturbed by the 1974 recession and its aftermath; U.S. Steel coal production has hovered around the 16 million ton level since 1973. However, coal still figures large in U.S. Steel's plans for the future. The corporation owns or leases properties with an estimated 2.7 billion net tons of bituminous coal reserves — a major position. This explains why Edgar Speer was one of the first industry executives to praise President Carter's energy package, with its emphasis on conversion to coal.

And U.S. Steel's coal reserves are only one facet of its position in raw materials. The corporation has major positions in iron ore and other minerals, as well. In 1976 U.S. Steel formed its raw materials operations into a new line of business — "resource development." This business includes both domestic and foreign concerns, wholly or partially owned, and represented 17 percent of U.S. Steel's before-tax income in 1976.

When Edgar Speer became chairman in 1973, 20 percent of U.S. Steel's sales were from non-steel businesses. At that time he had intentions to expand the proportion considerably, and plow 20 percent of capital expenditures into non-steel areas in the future. According to U.S. Steel's 1976 annual report, about 29 percent of its $8.7 billion sales were from non-steel areas. Judging from the recent statements of U.S. Steel spokesmen, that proportion is going to continue to grow.

Accountants Run The Show

While some other steel companies, as exemplified by Inland Steel, were trying to improve their profitability by modernizing, U.S. Steel was digging itself into the area of raw materials, real estate, and related speculative areas. What was the basis of this policy difference? U.S. Steel's projected greenfield plant in Conneaut, Ohio, is the exception that proves the rule. The Conneaut plant was conceived as part of the rationalization of U.S. Steel's steelmaking operations — as replacement for vintage 1900 plants, not added capacity. At present the plans to break ground in January 1978 are off and the project has been all but suspended.

In general, however, new investment in plant modernization and expansion was shunned on the basis

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of purely accounting considerations. The accountant's mentality that prevails at U.S. Steel dictated that new investments would have to yield a high enough return to maintain the going rate of return on *total* investment — including past investment on now obsolete capacity and non-productive investment on antipollution equipment. On the heels of such considerations, U.S. Steel, with its enormous asset base, led the way in getting out of steel production and getting into "high profit" areas like natural resource development and real estate.

U.S. Steel's outlook is exemplified by its attitude to the Jordan process — an ironmaking process, where the substitution of a blast of pure oxygen to a coke oven doubles iron output and yields a usable, nonpolluting top gas. Robert Jordan, in fact, was employed by U.S. Steel as a chemist when he developed the process in 1966. Jordan unsuccessfully tried to sell U.S. Steel on the idea of adopting the process he had discovered, with its obvious advantages of doubling productivity. When the division chief who had been Jordan's supervisor at U.S. Steel was questioned in 1976 about why U.S. Steel never even tried out the process, he indicated that "Jordan was a bit ahead of his time as far as U.S. Steel was concerned." He admitted that Jordan's concept was "technologically feasible and, in fact, could be converted without too much trouble or great expense... (but) with the relatively fixed rates of steel production, the concept is not economical."

Morgan: U.S. Steel's Banker

To fully understand U.S. Steel's zero-growth outlook, one must recognize the close relationship which has continued uninterrupted since 1901 between U.S. Steel and J.P. Morgan. In the early years of this century the Rothschild-linked House of Morgan imported the "British System" into U.S. industry in trustifying the steel industry, the pacesetting industry in the economy. Over the last decade Morgan Guaranty Trust has taken the lead in funneling capital out of the productive economy into the "high profit" area of international loans: the Eurodollar market. It is no wonder that for the last decade U.S. Steel has looked forward to a future of stagnant steel consumption.

The story of J.P. Morgan's takeover of the Carnegie Steel Co. in 1901 is a story in itself. The continuing close relationship is exemplified by the double interlock between U.S. Steel and the bank: David Roderick, U.S. Steel's president, sits on the International Council of Morgan Guaranty; John M. Meyer, Jr. chairman of the Directors Advisory Council of Morgan, sits on the executive, finance, and audit committees of the steel company. U.S. Steel's lawyer is White and Case, the old Morgan law firm. Its stock registrars are Morgan and Mellon Bank. In 1975 Morgan held 3.35 percent of U.S. Steel's stock in its trust department, a major holding of such a large firm. Other British input into U.S. Steel is its directorate interlock with Inco, Ltd., the Rothschild-controlled Canadian nickel company. Henry S. Wingate, former chairman and chief executive officer of Inco, sits on both U.S. Steel's executive and finance committees.

The Morgan-British input also shows up significantly in Bethlehem Steel, the country's second largest producer, which is second only to U.S. Steel in pursuing a zero-growth policy. Lewis Foy, Bethlehem's chairman, is also a director of J.P. Morgan. Ellmore Patterson, chairman of Morgan, sits on Bethlehem's board of directors. Morgan is one of Bethlehem's stock registrars. In March of this year Bethlehem signed a credit arrangement to borrow up to $300 million from a syndicate headed by Morgan. Foy is also a director of Brinco, Ltd., another Canadian mining firm with major Rothschild input.

—Lydia Dittler

Nonproductive Gov't Spending Compounds U.S. Economy's Ills

Strong indicators of U.S. industrial stagnation and collapse have prompted the Carter Administration, along with Federal Reserve Board chairman Arthur Burns, to accelerate a policy of using large doses of federal government spending as a temporary cure to prop up the U.S. economy.

BUSINESS OUTLOOK

This short-term method of stimulating demand by shoveling money into the economy is intended to give the White House chimera of "economic recovery" an additional few months' lease on life by keeping the bottom from falling out on the official GNP figures. Already in the third quarter figures for 1977, "more than half of the increase in real GNP stemmed from a step-up in government spending," Morgan Guaranty Trust's newsletter reports. The spending increases were in the areas of defense, CETA jobs, and agricultural price supports.

Whatever its very short-term effects, Carter's huge package of nonproductive government spending will generate a hyperinflation by late winter that will blow the dollar to bits and close down world industrial capacity.

Without considering solutions of increased production and world trade, industrialists are faced with the short-term choice of bailing out the economy by any means necessary or suffering an immediate and total collapse. In an atmosphere of hyped up federal spending, inflation, and quick-fix tax cuts, it is likely that corporations will go for price increases.

The noted chief economist for Fidelity Bank, Lacey Hunt, summarized the situation confronting the depression-squeezed corporations in the *Wall Street Journal* Dec. 2: "companies will have a hard time getting price relief to cover higher costs. But they'll