In this statement Commissioner Mead indicated that in addition to the matter of pricing practices the Federal Trade Commission is concerned with three other problems raised by the steel industry—the problem of forward integration through acquisitions of customers, and the problem of the adequacy of steel capacity. Commissioner Mead indicated that each of these problems may well result in a substantial lessening of competition in the steel industry itself but in the much broader area of metal fabrication.

A legislative means to deal with the second of these problems is now before the Congress in the form of H. R. 2734, a bill to amend section 7 of the Clayton Act. This bill, which bears my name, has already passed the House but is awaiting action by the Senate. This bill will close the wide-open loophole in the Clayton Act whereby large corporations easily evade the original purpose of Congress in allowing other firms by the simple means of purchasing their assets rather than in addition to their capital stock. Although all of Commissioner Mead’s statement should be of interest to every Member of Congress, that part of his statement deals with this problem of acquisitions and mergers should be of particular interest in view of the present state of legislation on this matter.

The statement follows:

Although steel producers have been engaged in this practice (i.e., buying up their own customers) since the earliest days of the industry, this form of expansion was rather limited in scope up until about 1930. That time, however, ushered in a period of the steel producers in promoting mergers had largely been expended in bringing together other steel companies, i.e., horizontal mergers; and in the process of building up their own sources of iron ore, coal, and related products—i.e., backward vertical acquisitions. In commenting on the apparent disinclination of the steel companies to enter the fabricating fields, E. S. Mead, a prominent writer on corporate finance, stated in 1930 that:

"Vertical consolidation in the steel industry stopped short of material of other industries. The steel corporation sells its products to machine tool builders, building contractors, automobile manufacturers, manufacturers of appliances, national railroads, public utilities, and a variety of other industries which use steel as raw material in their operations. The steel corporation has not, however, gone into these industries either to own or operate. It stops short at the line of rails, sheets, plates, billets, wire, oil-well machinery, etc."

The acquisitions by Bethlehem Steel during this period followed somewhat this same pattern, with the exception that Bethlehem has been more active in purchasing firms engaged in the fabrication of structural steel. Since 1930 Bethlehem Steel has acquired the following producers of fabricated and finished goods:

2. Levering and Carrigues Co., another firm engaged in the fabrication of structural steel and erection of buildings.
3. Hay Foundry and Iron Works, a third firm engaged in the fabrication and erection of iron and steel.
5. Taubman Supply Co., a firm engaged in manufacturing and selling oil-company supplies.
8. The Buffalo Tank Corp., a manufacturer of steel storage tanks and other welded plate products.
9. Butler Steel Manufacturing Corp., one of the nation’s largest manufacturers of steel drums.
10. Atlas Steel Barrel Corp., another producer in the same field.
12. Union Shipbuilding Corp., another company in the same field.
15. Shoemaker Bridge Co.

In his testimony before the Committee Mr. Celler sets forth the effect of these forward acquisitions has been to give the steel companies almost complete dominance over the fabricating field. Such is the case of steel producers, which since the war, has been absorbed almost in its entirety by the large steel producers, a movement which was succinctly described by Iron Age as follows:

"Long, long ago, in the infancy of the railroads postwar, and long before, the manufacture of heavy steel barrels and drums was a rather volatile business firmly in the hands of the number of highly individualistic enterprises. When these fabricators had started on a precarious shoestring and were justifiably vocal in their pride of success in the classical Horatio Alger pluck and luck tradition. But a few weeks ago, the purchase of Benet Mfg., Chicago, by the United States Steel Corp., pretty well completed the capture of this drum and barrel end by the giant major steel producers. Some 87 percent of the business, representing about $45,500 tons of steel consumption yearly has been corralled by Bethlehem and the remaining 64,400 tons of independent capacity will probably re-
Today, the country's leading steel producer is the Bethlehem Steel Corp., based in Bethlehem, Pennsylvania. In the steel drum industry, U.S. Steel shares the Pacific coast region on a 50-50 basis with Bethlehem Steel. It is the leading steel producer in the region, and it is one of the leading producers in the Chicago-Cleveland-Pittsburgh region. Bethlehem, through Rheem Manufacturing Co. (owned by 20 percent of U.S. Steel's stock) not only divides the Pacific coast region with U.S. Steel, but also is a leading producer in the important Atlantic coast region, where it accounts for more than 40 percent of the steel drum industry. In addition, it is an important factor in the Houston-New Orleans region. All told, six leading steel companies now own more than 80 percent of the heavy steel drum capacity of the United States.

There are, of course, many other fabricating fields in which the effect of the forward acquisitions by the steel firms has not been as complete as in the steel drum industry. Among these is the stamping industry in which the steel companies have also entered to a significant though lesser extent. The stamping industry provides an example that might be called "partial absorption" by which steel companies have operated to virtually "complete absorption," represented by the steel drum industry. But even in this case, the competitive position of the smaller fabricators has been seriously undermined by the effect of the acquisitions.

The stamping industry, which produces a great variety of parts for other industries such as automobiles, farm machinery, refrigerators, radios, and even kitchen utensils, used to develop almost entirely in the hands of independent stampers. In recent years, however, the large steel companies have entered the field through forward absorption. In speaking before a meeting of the Cleveland District Pressed Metal Institute, Mr. Tom Smith, president of the Pressed Metal Institute was reported in Iron Age (April 29, 1948) to have stated that "the smaller stamping firms are facing the problem of forward expansion by the steel companies because the accelerated encroachment through subsidiary organizations by the steel companies has caused the stamping business." And a year later, on May 5, 1949, Iron Age, after noting that there was a general slump in the buying of stamping rolls by the independent stampers, reported that steel producers were reverting to the "prewar practice of letting out the tough jobs (to independent stampers hungry for business) and keeping simple work that takes a lot of steel."

The effect of this policy on the small independent stamper is obvious. His field of operation tends to be narrowed to the deficit markets, and many of the consumers he must compete sharply with the large stamper, perhaps becoming only a subcontractor dependent on such scraps of business as his larger competitors may throw him.

This problem of forward expansion by the steel companies becomes particularly acute when supplies are short. During such periods it is one of the steel companies will challenge the steel producers to sell their fabricating subsidiaries, which are in competition with independent fabricators which they have been unable to control. During the recent postwar period when steel has been in tight supply, many independent fabricators have complained that there has been a shortage of steel and fabricating subsidiaries of the steel companies; that, consequently, the proportion of the total steel supply available for small business has been correspondingly reduced; and that this development has been one of the principal factors behind the inability of small business to obtain steel. Typical of these complaints was the statement made by Mr. Frank A. Duerr, general manager, Troop Wire & Steel Co., Davenport, Iowa, who testified before the Senate Small Business Committee of the Eightieth Congress as follows:

"Senator Martin. You state that you were interviewed by Mr. duerr, Troop Wire & Steel Co., Davenport, Iowa, who stated that "the most serious problem facing Small Business is the inability to obtain steel."

"Senator Martin. And when did they acquire this subsidiary?"

"Mr. Duerr. As far as I know—they told me during that conversation that they had acquired some of these plants in 1939 and others in the last year or two."

"Senator Martin. What does this particular plant produce?"

"Mr. Duerr. Steel drums." (Hearings, pt. 7, p. 909.)

"Mr. Duerr. Steel drums." (Hearings, pt. 7, p. 909.)

Similar testimony was offered by Mr. Arthur A. L. Thompson, President, the Boehler Pressed Steel Co., Cleveland, Ohio, who stated:

"While I was talking to Mr. Boyd, of Jones & Laughlin, I asked him whether it had been a matter of policy with Jones & Laughlin, and the other big mills, not Jones & Laughlin exclusively, to limit production capacity as a result of the war. And there was quite a bit of pressure from the Senate and the Government for increased capacity of the mills. In other words, steel capacity was not all the way through the war years, and the Government wanted the steel mills to put in additional production facilities."

"I asked then, by the big basic producers, was to the effect that no additional production facilities were needed. Existing capacity sufficed before the war. Why increase capacity now and have it idle after the war? Boyd said, at that time, Jones & Laughlin didn't anticipate the fact that it would turn out additional subsidiaries of its own to supply. Jones & Laughlin had purchased the Draper Barrel Works at Cleveland, and a good bit of their hot-rolled pickled is going into the barrel works."

"Mr. Nichols. Have you had any indication that the large integrated companies favor their own subsidiaries who produce wire and nails?"

"Mr. Nichols. They most naturally would do so."

"Mr. Wimer. As far as tonnage quotas go?"

"Mr. Nichols. Naturally."

"Mr. Dickey. In other words, Mr. Nichols, you mean that the quota that there has been testimony about here, agreed to by the steel companies when allocations were lifted, had necessarily not held true in the wire and nail business?"

"Mr. Nichols. It hasn't held true at all."

"Mr. Dickey. And is it your opinion, or is it the company's opinion, that they will be going to start channeling more into their own subsidiaries?"

"Mr. Nichols. It is a definite fact, into their own subsidiaries and into their own finishing departments."

"Mr. Dickey. Either a subsidiary or part of their own business?

"Mr. Nichols. Yes." (Hearings, pt. 17, p. 1897.)

The facts revealed in a report of the Senate Small Business Committee completely corroborate the type of complaint by small business. The facts clearly indicate that the proportion of steel output which was chan-