

Climax

By DAVID ASCH

In 1905 a Nebraska banker, through one of his prospective depositors, became interested in a black mineral substance from Bartlett Mountain in Colorado. The government granted him five lode claims, which he and a few others patented on March 1, 1905. These claims became eventually the basis of the present world supply of molybdenum ore.

Molybdenum is an ingredient of extra-hard alloy steels, in which it has largely replaced tungsten. It does not interfere with welding—a common fault with other alloy metals. It has many applications in warfare, but until 1939 about 70 per cent of the consumption was for peace-time purposes. There is a substantial demand in the machine tool fields and more recently for mechanized military units. It is used in axles, connecting rods, steering spindles, aircraft fusilages, gears, gun tubes, high grade gasoline, lubricating oils, radio tubes, and in a host of other products. Rails containing molybdenum may last twice as long as ordinary rails.

But this industrial swan spent many years in the ugly duckling stage. The Climax property lay idle from 1905 until 1911 when the owner began to drive a tunnel. In 1916 he gave an option to one Mr. Heckendorf of Denver, who in turn offered it to the American Metal Co., Ltd.

Max Schott, then western manager of that company and now president of Climax Molybdenum, took over the option. A syndicate was formed; American Metal Co. (accused by the Trade Commission in 1917 of "excess profiteering") took 10 per cent, and Schott and his associates, mostly officers and employees of American Metal, took the remainder.

Before this time no attempt had been made to develop molybdenum alloys commercially. To some extent, such development had been retarded by the lack of an adequate

and reliable source of supply. Bartlett Mountain, however, contained an ample ore body, and the syndicate proceeded immediately to exploit it.

A few crosscut tunnels were driven by hand. These revealed the extension of the mineralized area and also the remarkable uniformity of the ore. This additional discovery, and a contract for the production of molybdenum concentrate, made with the Reduction Electric Company of Pennsylvania, led the syndicate to incorporate. Thus, in January, 1917, the Climax Molybdenum Company was born. Today it has about 1500 employees and controls 90 per cent of the world's known supply.

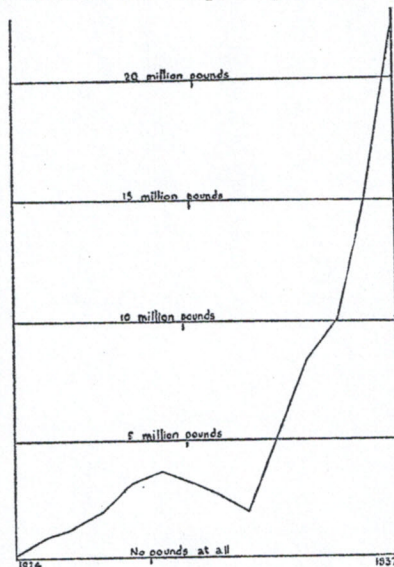
During the World War Climax worked its mine at a phenomenal rate, and the call for shoulder-to-shoulder cooperation against the Huns was met by Climax with a patriotic rise of prices. Of course, everybody realized that operations on such a scale could not be continued in peace times. But the war demand carried Climax along when it most needed help: it provided an

opportunity to develop the property and also to work out some metallurgical problems on a commercial scale.

The price of molybdenum rose from 30c a pound in 1912 to 70c in 1914. During the first year of the war it jumped to \$2.00 and after minor recessions reached \$1.80 early in 1917. The same year, however, the price ranged as high as \$3.00 and closed in December at \$2.25. In 1918 a swift rise began, and when the price touched \$5.00 per pound, Climax patriotism was bursting at the seams. Then the European embargo was removed, and increased competition drove the price down to \$1.00.

In 1919 the demand collapsed, and for the next four years the big mine was closed. As the need for molybdenum as an instrument of destruction faded away, the company organizers instituted a campaign to develop new outlets. Their first step was to assure themselves a monopoly of the domestic market; they demanded a protective tariff.

A duty of 75c per pound was imposed in 1922. It would be difficult to find a better example of government-created private monopoly. American molybdenum was never threatened from abroad. The Tariff Commission reported that the ore could be produced in Colorado as cheaply as anywhere in the world. The competitive situation favored the American producer; cheap domestic production was everywhere crowding out imports. The tariff could never have been seriously considered as a revenue producer, because imports were small and sporadic. As a protective measure, it was unnecessary, for American producers already had natural advantages which placed them in a superior position in the world market. But it served one purpose: it excluded from the American market the competition of foreign molybdenum during all the pre-depression years; from 1925 to 1929 inclusive,



HOW CLIMAX GREW

Sources: Minerals Yearbook
Moody's Manual

Molybdenum production from 1924 to 1937

the total value of imports was about \$35,000. In 1928 the Climax deposit produced 3 million pounds. Imports for that year were 576 pounds.

The demand began to increase soon after the tariff was imposed, and the following year Climax directors decided to re-open their mine. In 1924 they produced 150,000 pounds, and a million pounds two years later. In 1935 production exceeded 10 million pounds, in 1937 20 million. The growth of the company since 1924 is shown in the figure.

The steady growth of Climax reflects an increasing world demand for its product. Part of it is shipped to the Pennsylvania plant and converted for use in this country; the rest is exported. In 1935 exports were 60 per cent of the total production. Little information has been made available as to the actual quantities taken abroad by specific purchasers, but press releases indicate that, prior to the present war, France, Germany, Belgium and England were fairly large buyers. The strategic importance of the metal in war time was recognized by the State Department in December, 1939, when it laid a "moral embargo" on exports of molybdenum to "nations engaging in unprovoked bombings and machine gunnings of civilian populations from the air."

In 1930 the tariff on molybdenum was revised. The present rate is 35c a pound on ore or concentrates; on compounds, 50c a pound plus 15 per cent ad valorem; on ingots, sheets, bars or scrap, 50 per cent ad valorem; on sheets, wire or other forms, 60 per cent. Norway is the only important foreign producer; Australia, Mexico, Chosen and Peru produce trifling amounts. With Norwegian supplies effectively cut off, Climax enjoys a virtual world monopoly.

The company's organization has increased since 1931, but the percentage of total administrative expense has declined. The net earnings available for dividends increased from 7.47 per cent to 50.85 per cent of gross sales—a staggering figure for any company, especially during a period of depression.

In 1939 Climax sold \$20,475,000 worth of molybdenum. It set aside \$2,244,000 for taxes. Its officers paid themselves salaries aggregating a quarter of a million. After all bills were paid, it had a net profit of \$10,310,000.*

A detail which illustrates the difficulties which confront serious students of economics is the amount reported as "Rents and Royalties." Of produced wealth worth over 20 millions, rent took only \$47,000! On the basis of such figures, statisticians tell us that rent accounts for only 6 per cent of the national income. Obviously, the whole of this company's profit consists of rent. All wages and interest—even the salaries of the officers—are figured as "expenses" and deducted before arriving at the net amount. But in published reports on income distribution Climax's 10 million dollar take will appear as "dividends" or "profits." The result will be a thorough scrambling of the statistics with respect to economic income categories, making them useless for the purpose of ascertaining how the national income is really distributed.

Once again as the drums begin to beat and the call is sounded for "brotherly cooperation" during the great "emergency" we find a considerable portion of the defense program at the mercy of an organization notorious for its devotion to the lofty American ideal of patriotism—for profits. The war in the Far East insulates Climax against the one threat to its supremacy. The position now occupied by molybdenum was once held by tungsten; the two elements belong to the same family chemically and have somewhat similar properties. Feverish rearmament efforts during the middle thirties forced the price of tungsten to unheard-of levels, and of course stimulated the search for methods by which the cheaper molybdenum could be substituted. Now, tungsten comes from China. But since the powerful emergence of

molybdenum as a substitute, China's tungsten monopoly has been effectively broken up—only to be supplanted with another monopoly even greater.

If China had free access to markets, the power of Climax would be limited; too high a price for molybdenum, and the world goes back to tungsten. But with China cut off by Japan, Climax should have everything its own way. We shall probably hear complaint, some day, that Climax held up the people of the United States during a wartime emergency. How many of the complainants will stop to reflect that the monopolistic power exercised by this group of men to blackmail the defense program is the deliberate gift of the government? Our tariff laws, our grants of status to corporations, our tax methods, our system of land tenure—all these place weapons in the hands of monopoly. Can we deny the charge of childishness when we give bludgeons to tyrants and then wail at tyranny?

If anyone believes that the people are still superior in power to this Frankenstein's monster, let him consider the most recent development in the history of Climax. Its 1939 county taxes (\$295,000 including interest) are unpaid. Climax regards the tax as extortionate, and objects to the reassessment of 1939 which placed an assessed valuation upon the property of 16 million dollars. The county treasurer threatened to put the mine up at auction, and the Company dared him to go ahead. Accordingly, in December, 1940, the county advertised the mine for sale. Climax immediately advertised on its own hook; it threatened to tie up the entire property in litigation if any sale were made, warned possible purchasers that they "wholly denied, challenged and controverted" the county's right to sell, and, in order that there might be no misunderstanding, lapsed into the vernacular long enough to tell "anyone who might try to buy...that he would be buying himself a lawsuit."

The date announced for the sale was December 16. Two bids were received: one on a post card, which offered to buy the property but did

*Figures from the "Survey of American Listed Corporations," Supplement No. 2 (July, 1940) compiled for the Securities and Exchange Commission by the Work Projects Administration.

not mention an amount; the other for ten dollars! This was rejected, of course; under Colorado law bids at such a sale must be for not less than the amount of taxes due. It is interesting to speculate on what may happen just in case somebody makes a valid bid. We assume, of course, that the courts and law enforcement agencies of the county are vigilant and honest, and not mere paid flunkies of the big monopoly. The question is, then: how long can a company with over 8 million dollars in the bank, making something like a million a month clear profit, fight a case in the courts—regardless of the merits of the case itself? And how long will it take any

buyer to dislodge them from their golden niche? Remember that whatever happens, the mine cannot shut down; it is the principal source of an indispensable war material.

It seems fairly evident that the demand for molybdenum will continue to increase as this new, more durable product is adopted in more and more fields, particularly in rail-roading and building construction. The 10 million dollar profit of 1939 should be only a beginning. In ordinary times, such a mineral deposit would be—and, in fact, was—a tribute levying device almost unique in American history. What will it be in war time, with Uncle Sam plead-

ing for the raw materials he himself gave away in 1905?

Yet the situation at Climax is nothing more than a caricature of the situation as it exists all over the United States, with respect not merely to molybdenum, but also to aluminum, iron, petroleum, copper, sulfur—and so on, until we have called the roll of essential raw materials. Two companies control sulfur (see **The Freeman**, September, 1940) and three exercise virtual control over copper (see **The Freeman**, January, 1941) but in the end it all comes to the same thing—the rent rolls in, and the people pay.

And that's the story of Climax.

Having finished off the problem of real estate tax-
 tion authority. Rex has a scheme for abolishing the
 county's fiscal troubles in toto. All taxes should
 be paid to the Federal Government, which would
 then allocate the proceeds back to each city and
 State. This would save the real estate business
 Rex would stop the race between the cities and the
 Federal Government for workers' wages.
 The plan at first glance may seem fantastic. But
 Mr. Tugwell, who deals in future know-how, does
 quite well. He knows, for instance, that through
 loans and grants to the cities and the States, the
 Federal Government is securing a mortgage on their
 political and financial resources. For whenever
 something because their reckless borrowing will
 be the sole to pay off. Bankruptcy settlement will
 take the form of handing over all taxing power to
 the One Big Tax Collector: that mayor and gov-
 ernor as a matter of duty, will lobby Washington
 regularly for substantial hand-outs, holding forth
 the power to deliver votes as the price paid.
 Mayor R. G. T. is not so far-seeing as he ap-
 pears to be. Other planners besides the necessity of
 a nation-wide sales tax to meet the defense budget
 and advocate a whipping boy so that all cities
 could be abolished. Wouldn't that be a single-tax?
 Wouldn't the New Dealers be the world's No. 1
 single-taxers? Or is Hitler No. 1?

that the purpose of the New Deal was to regulate
 private enterprise with an anti-trust law
 (which everybody who had eyes could see), he was
 based on



but once a pioneer always a pioneer. The story
 of Jacobite history, one that compares the final
 of savagery, the feeling of conquest, the pride
 of superiority over the common herd, the cry of
 romantic enthusiasm. It's gratifying to be a Pioneer,
 particularly in these days when it pays well.
 Rex is promoting a new plan for New York
 City this time and because it contains a trick
 bonus to metropolitan land speculators that seems
 to be some chance of its getting beyond the taxing
 stage.
 Here's how it goes: New York real estate is over-
 taxed. Therefore let's abolish real estate taxes alto-

To Abolish Real Estate Taxes