Our Copper Patriots

By GEORGE BRINGMANN

The people are the State—the people are not the State. Contradiction? Perhaps, but not when you consider copper. The paradox arises from one of the most juicy morsels of state granted privilege that ever existed. The facts are dry in themselves, but become more interesting in the light of present circumstances, for they involve the armaments - for - defense program. In this connection they afford information which is of vital import to the most casual reader.

From 1894 to 1932 the United States permitted the free importation of copper; then, in 1932, a 4c tax per pound was imposed as a "temporary" revenue measure (Section 601-c of Title 4, Revenue Act of 1932). It has been extended four times since its inception, the most recent extension being from June 30, 1939 to June 30, 1941.

The tax was first imposed when copper was selling at 5½ cents a pound. It purported to be for revenue only. Actually, it was the equivalent of an embargo against imports; it created a prohibitive differential, not merely at the 5½ cent price, but also at the 16 cent high of April, 1937.

No copper has been imported since the imposition of the tax, except under bond for re-export. The one per cent bonding charge does not cover the cost of collection. There has been no revenue resulting from the tariff, and in the face of this failure its continuation would seem to warrant invstigation.

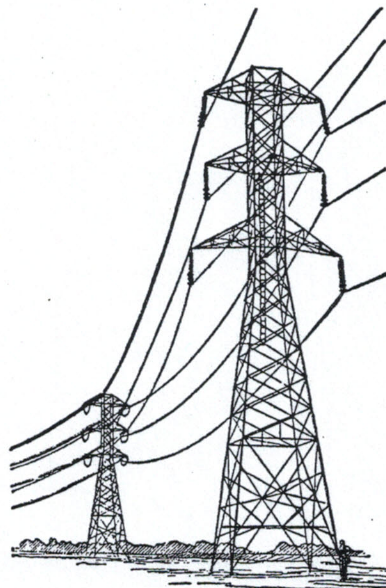
The latest extension of the copper tariff was a result of pressure applied by 60,000 miners employed in the United States copper industry. This suggests that "revenue" has been forgotten and "protection" substituted. In this respect, too, the effort has been a failure. Labor is not being protected by substantially higher prices; the average price since 1932 has been 9.473 cents a pound f. o. b. Connecticut Valley, and the average export price during the same period has been 9.294 cents a pound c. i. f. European ports. In the latter part of 1936 and the spring of 1937, when production reached a peak volume, export copper sold at premiums up to one cent.

What the tariff has accomplished is to benefit the copper interests, who are concerned not only with the extraction of copper, but also with its fabrication into finished products. The tax allows, and indeed facilitates, control of copper production and fabrication by three companies. The annual mine production capacity of the United States, together with some Cuban duty-frees, is about a million tons. Of this total over 80 per cent is controlled by three companies:

Kennecott	366,500 tons
Anaconda	250,000 tons
Phelps-Dodge	236,000 tons
Total	852,500 tons

These three companies also own about 50 per cent of the copper fabricating capacity of the nation through the following subsidiaries:

American Brass Co. 100 % owned by Anaconda



Anaconda Wire & Cable 60 % owned by Anaconda

The Chase Companies, Inc. 60 % owned by Kennecott

Kennecott Wire & Cable 100 % owned by Kennecott

Phelps-Dodge Products Co. 100 % owned by Phelps-Dodge.

Under this privilege-created setup the independent fabricator is compelled to buy in a controlled market. This circumstance tends to stall production and expansion by independents, for the Big Three could easily expand their fabricating plants from 50 to 80 per cent and fabricate their entire output. If the Three were to make this increase in manufacturing facilities, the independents would have no copper in a large proportion of their current plant. Moreover, the independents have another hurdle in their path. Large consumers of fabricated copper naturally tend to favor the Big Three in placing orders, to assure timely delivery. Orders with the independents might not be filled because of their inability to deliver, thus stalling production in the plants of the consumers of fabricated copper.

This tendency is accentuated by the fact that when export copper goes to a premium, raw metal is sent abroad, leaving less to the domestic market. If all the independently mined copper (less than one-fifth of the total production) were sold for export, the independent fabricators would be 40 per cent idle. If, in addition, half of the Big Three's raw surplus were exported, the independents would be 90 per cent idle. They just could not get copper. This means that the independents must outguess the copper market by buying large inventories at the right time and the right price, or perish. During the 1936-37 boom, the Big Three found it easy to get business away from independent fabricators by announcing price advances on 24 hours notice. The Big Three's fabricating

subsidiaries offered to protect all orders received before the deadline. The huge buying waves that followed left the independents unable to get metal.

Another method employed by producer-owned fabricators to get business away from the independents is to buy heavily from the parent producer, after which the producer announces a price advance. The subsidiary can then afford to sell fabricated copper at the old low price while the independent can meet these terms only if he has clairvoyantly guessed the plans of the integrated company.

The favorite argument for protection is that it stimulates production, but the copper tariff has had no such effect. The revenue has not paid its own costs of collection, and only monopoly has profited. But since 1932 the average price has yielded a 3½c profit margin. Since the outbreak of war in 1939, the price has ranged between 10c and 12½c a pound.

Now, for preparedness purposes we need copper, and we haven't enough. But there is plenty of copper throughout the world. The National Resources Board appointed by the President in 1934 reported that though the United States had some of the lowest cost mines in the world, our total known reserves recoverable at 9c or less are only 15 million tons. This is barely enough for twenty years, according to statistics on past consumption. Foreign reserves, on the other hand, are estimated at 83 million tons at a 9c stripped cost. The difference in cost of production in South Africa, South America and Mexico as compared with the United States is much less than is generally believed. In making such comparisons actual money cost of production is used; no allowance is made for depletion or royalties, but cost is credited with the value of by-products such as gold, silver and platinum.

On a stripped or money cost basis and running at annual capacity of one million tons, about half the American production is at 6c a pound or less, and the average cost for the entire million tons is estimated at about 6c. Many of the larger South African mines have a stripped cost up to 8c, according to Standard Statistics. American mines yield a much higher percentage of precious metal by-products than do those of South Africa and South America. Mine owners know from experience that the low wages paid in Africa and Latin America do not result in lower costs, because of the inefficiency of the cheaper labor. The fact that the United States price does not vary from the foreign more than if no tax existed indicates that the tariff does not "protect" home industry; it simply keeps out foreign copper.

The present market price is around 12c. Latest reports have it that for 1941 copper fabricators specializing in armaments will need at last 1,200,000 tons. That amount exceeds our annual capacity. There is a small matter of 200,000 tons needed for the coming year. We can get some. But the 4c tariff keeps Chilean copper (at 10c a pound in United States ports) from entering the domestic market. Incidentally, much of the Chilean copper is owned by Kennecott and Anaconda. We find that because of this newest facet of the lovely tariff gem we are faced with a serious copper shortage which may seriously interfere with our preparedness program.

To meet this shortage it has been proposed that the government purchase Chilean copper (Kennecott's and Anaconda's) and that the government purchasing agency pay the 4c tariff. Of course, a tariff paid by the government itself is a purely fictitious transaction: it is like taking money out of one pocket and putting it in another; and thus at first glance the proposal appears to provide us with 10c copper.

A second glance, however, discloses one apparently innocuous fact —the Big Three of copper own and control half of the fabricating plants. With the government selling the metal at the previously set price of 12c in the United States market, the setup is simply a cute arrangement enabling the monopoly to purchase imported copper (mined by themselves in the first place) at 12c instead of 14c, the price they would have to pay if they imported the copper themselves! As usual, there is a neat profit at both ends, and as extra usual, copper from sources other than those controlled by Anaconda and Kennecott are still effectively kept out of the market and out of competition.

A great hullabaloo has been raised condemning profiteering in the armaments program. Our naive citizenry has somehow acquired the idea that our preparation for defense should be unimpeded and as economical as possible. But celerity and economy cannot be assured if the necessary supplies of cheap, competitive copper are barred from entry—particularly metal from the low cost South African mines.

Repealing the tariff will bring South African copper into the market at considerably less than the monopoly-pegged domestic price of 12c a pound. And with the destruction of the monopoly in the extractive field would be destroyed the present privilege system in copper fabrication. Capital which is now frozen out would be attracted into the industry, and an increased plant capacity would make possible accelerated progress in the defense program.

This must be done if the people are to be the State in practice as well as in theory. It will not be done if the dignity of practice sits upon the brassy brow of Kennecott, Anaconda and Phelps-Dodge.

Confidentially, like sulfur, copper stinks.

The Freeman
A Monthly Critical Journal of Social and Economic Affairs

Editor: FRANK CHODOROV
Associate Editor: PAUL PEACH
C. O. Steele John Lawrence Monroe
Harry Gunnison Brown Virginia M. Lewis
Laura Ross Ami Mali Hicks
George Bringmann

• • •

The Freeman does not necessarily endorse opinions expressed in signed or initialed contributions or statements in news reports, assuring the widest freedom of expression to its writers. Contributions consistent with the policy of The Freeman are welcomed; no payment is made, for the writers contribute their services as a living endowment to the cause for which The Freeman stands.