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PART ONE

Proposals for Research on
Prices and Pricing Policies in the
Iron and Steel Industry

Committee on Price Research in the
IRON AND STEEL INDUSTRY

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I

OBJECTIVES OF THE COMMITTEE AND SCOPE OF THE REPORT

THE purpose of this report is to explore the possibilities for research on prices in the iron and steel industry. To accomplish this end the Committee worked toward the following objectives:

- 1) To describe briefly the economic characteristics of the industry that affect price research;
- 2) To survey certain of the more important sources of statistical data available to research workers in this field;
- 3) To formulate a research program, indicate specific projects that seem important and feasible, and suggest elements of a wider program that will stimulate the industry, individuals, universities, research bureaus, and appropriate governmental agencies to undertake studies designed to provide a better understanding of pricing problems in this industry.

A definitive and detailed program for research cannot be set forth in advance. As a research project develops the original program must be adjusted to the needs revealed by the preliminary findings. Progress will be terminated in certain areas by unforeseen obstacles, while promising vistas may open up in other areas not originally contemplated. Consequently, the Committee has not attempted to draw up complete specifications for research.

The first step is to study actual price patterns and price relationships. By grouping iron and steel products relevant classifications can be studied with a view to determining: (1) the manner in which prices are quoted, i.e., f.o.b. mill or at a basing point, with or without extras, nature and composition of tariff additions; (2) the behavior of prices over time; (3) price differentials among geographical areas;

(4) price differentials among product groups; (5) price differentials based on the character of the marketing agency, i.e., direct mill sales, jobber sales, warehouse sales, etc. Such a study would be primarily descriptive. Research of this general character is an essential preliminary to an interpretative analysis. This descriptive work should be supplemented by study of the pricing policies of producers, and of the price structure of the industry as affected by these policies. For under the conditions of imperfect competition that prevail in the steel industry, and in other industries, manufacturers do not produce goods without reference to the effect upon prices of their own actions in the market. In this report pricing policy means any rule or practice followed by a seller individually, or by a group of sellers, observing a common practice either by explicit agreement or by established custom. Policies in respect of prices and price differentials are made effective by sellers through such market control as they are able to exercise because of their relative importance in a market or markets. The term price policy takes into account, also, the concessions made to buyers as a result of imperfections in the market for steel products. Price structure means here the complex of prices of related products at a given time for different geographical districts, marketing agencies, and conditions of sale. The price structure is the resultant of all the forces determining prices, among which are the pricing policies of sellers.

In its interpretation of the mandate to formulate a program of research, the Committee has taken the view that the specific projects will be concerned with the present and past price structure of the industry and with the pricing policies and other factors that determine it. The initial task is to study existing price phenomena. Chapter II therefore describes some of the technical conditions and economic characteristics of the iron and steel industry that bear on price behavior. No attempt is made to present an exhaustive discussion of the economic characteristics of the industry.

The present state of data in the iron and steel industry

makes fruitful research on many price problems impossible. Reliable information concerning certain overhead costs is especially difficult to obtain. In the course of many mergers and reorganizations in this industry (as in many others) nominal capital may have long ago parted mathematical company with original costs, most conspicuously so in the case of such natural resources as ore deposits and coal mines. For these several reasons research may not be based upon the assumption that costs are to be accurately ascertained.

Even if cost data were available, the significance of cost analysis would be limited by the arbitrary character of allocations of joint and common costs. Byproducts appear at almost every stage of production; for example, gas, coal tar, ammonium sulphate, coke in the byproduct coke oven; flue gas and slag in the blast furnace. Blast furnaces and open-hearth furnaces are used to produce many different commodities; even rolling equipment is often non-specialized. The continuous mill may roll sheets, strip, black plate for tinning, the lighter gauges of plate, and the wider sizes of skelp. Since probably no two mills produce the same combination of products in the same proportions, and the allocation of joint costs inevitably involves arbitrary decisions, accounting costs are unlikely to be comparable. Engineering rather than accounting costs may therefore be of central concern to the investigator. Nominal price quotations, moreover, have a varying and problematic relationship to actual prices. Problems of this type are discussed in Chapter III, where important primary sources of data for price research in this industry are catalogued and appraised.

A program of proposed research is outlined in Chapters IV-VI. In Chapter IV specific research projects that seem feasible on the basis of the data available and the degree of co-operation to be expected from the industry are discussed. This list is restricted somewhat in Chapter V, which deals with a limited number of projects that seem particularly important. In Chapter VI the Committee sets forth a general program of research that is not conditioned by present limitations of data. Here an attempt is made to deal in a

fairly comprehensive and orderly fashion with the economic and industrial issues upon which price research in this industry should throw light. Not all the projects outlined in Chapter VI are immediately feasible. Materials not now available will be needed for the actual prosecution of some of these studies. Yet perspective is gained and the effectiveness of immediate research enhanced by placing particular problems in the framework provided by this broader outline.

II

CHARACTERISTICS OF THE INDUSTRY THAT AFFECT PRICES

TO THOSE not familiar with the iron and steel industry the brief review that follows will give a background for better understanding of the research program outlined in subsequent chapters. The summary of the industry's characteristics deals with (1) conditions of production; (2) methods of distribution; (3) the structure of prices.

CONDITIONS OF PRODUCTION

Individual enterprises in the iron and steel industry vary significantly in their degree of integration. From this viewpoint, they may be classified into four kinds of companies; integrated, semi-integrated, non-integrated, and merchant blast furnace. In the first group are companies that begin operations with the production of pig iron and carry on through successive stages of steel making to the finished rolled products. As may be seen from Table 1, the 18 fully integrated companies had 90 per cent of pig iron capacity and 85 per cent of finished hot-rolled capacity in 1937.¹ The 56 semi-integrated companies that comprise the second group begin with the production of crude steel and had 9 per cent of finished hot-rolled capacity. The 58 non-integrated companies that constitute the third group are

¹ *Directory of the Iron and Steel Works of the United States and Canada, 1938*, American Iron and Steel Institute.