LEAD INDUSTRIES ASSOCIATION

420 LEXINGTON AVENUE

NEW YORK 17, N. Y.

February 18, 1949

To Members of the Lead Industries Association:

SUBJECT: STATEMENT BEFORE HOUSE MINES AND MINING SUBCOMMITTEE, COMMITTEE ON PUBLIC LANDS ON H. R. 976 AND H. R. 2031

A preliminary draft of my statement before the Mines and Mining Subcommittee, Committee on Public Lands, House of Representatives, on H. R. 976 and H. R. 2031 was sent you on February 16. A corrected draft of the testimony, as presented today, is enclosed.

Very truly yours,

Robert L. Ziegfeld

Secretary.

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LEAD INDUSTRIES ASSOCIATION

450 LEXINGTON AVENUE

NEW YORK 17, N. Y.

STATEMENT OF ROBERT LINDLEY ZIEGFELD
SECRETARY, LEAD INDUSTRIES ASSOCIATION
BEFORE
MINES AND MINING SUBCOMMITTEE, COMMITTEE ON PUBLIC LANDS
HOUSE OF REPRESENTATIVES

ON H.R. 976 AND H.R. 2031

WASHINGTON, D. C., FEBRUARY 15, 1949

My name is Robert Lindley Ziegfeld. I am a mining engineer and secretary of the Lead Industries Association, which has represented the lead mining, smelting and refining, and manufacturing industries for more than twenty years.

The Lead Industries Association desired to register its strong opposition to H. R. 976 and H. R. 2031, principally on the ground that these Bills represent a complete departure from the manner in which peacetime mining has been practiced in the United States since the Republic was founded. No other industry is provided with the assurance of a reasonable profit as these Bills contemplate.

In voicing our opposition we are completely sympathetic with the laudable objective of stimulating exploration, production and conservation of strategic and critical ores, metals and minerals both for the national defense and a sound domestic economy. But we can not subscribe to the theory that

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subsidization will accomplish the desired objective. We believe that it will be harmful to the country and the industry in the long run.

Briefly, we believe that:

1. Peacetime subsidization of a large part of the non-ferrous mining industry is at variance with the free enterprise that has given us the greatest mining industry in the world. It is a step toward nationalization of the industry, and will eventually prove disastrous to the future development of the mining industry and the country.

2. These Bills themselves would be impractical in operation, discriminatory in application, and a needless expenditure of more than a half billion dollars of taxpayers' money.

Our reasons follow:

PRODUCTION HAS INCREASED WITHOUT SUBSIDIES

The wartime Premium Price Plan for copper, lead and zinc was terminated on June 30, 1947, with the President's veto of the Allen Bill which would have extended the Plan for two more years. A copy of the President's soundly-conceived veto message, which is in many respects even more applicable today, is appended.

The record since then shows that a free market is already accomplishing in a most efficient manner what it is proposed to try to accomplish by subsidies without any assurance of success. Lead mine production in the United States in December, 1948, is estimated at 37,000 tons, the highest rate for any month since early in 1944, compared with an average monthly rate of production of 32,000 tons in the first six months of 1947 under premiums.

According to the U. S. Bureau of Mines, lead mine production in the United States in the first six months of 1947, which were the last six months in which premiums were paid, was 191,220 tons. This compares with 204,331 tons in the first six months of 1948 when no premiums were paid. It represents an increase of 7 per cent. Moreover, the current estimated monthly rate of production is 17 per cent greater than in June, 1947, the last month in which premiums were paid.

Thus the record clearly indicates that there is no need to use the taxpayers' money to stimulate the production of lead under the free market conditions prevailing today.

PREMIUMS NOT PRODUCTIVE

Furthermore, a study of the operations of the wartime Premium Price Plan reveals that in a free market premiums for marginal producers could result in only negligible production increases and might even actually reduce production. In the wartime Plan 72 per cent of all the mines which received premiums accounted for only 0.5 per cent of production. It is also probably true that if those mines had not received premiums their labor would have been employed at more productive mines and the over-all production per man in the industry would have been higher, resulting in greater total production.

TOO MUCH DISCRETION FOR ONE MAN

The Bill, H. R. 976, provides for the establishment of a new Incentive Payments Division in the Interior Department under the administration of a Director. It only specifies in general terms to whom and under what conditions payments shall be made. How much shall be dispensed to copper, say, how much to lead and the punch to the dozens of strategic minerals and metals rests almost entirely with the discretion of one man, the Director, whose appointment would be made without any Congressional approval, and to decide who shall receive payments and how much.

It is true that the Bill establishes certain maxima above which the Director may not pay. But these maxima are not clearly established, the wording permitting several interpretations. Under our interpretation the limits would be unusually high, about 44¢ per lb. for copper, 27.5¢ for zinc, and 24-3/4¢ for lead. Yet the Director may exceed even these limits with the approval of the Munitions Board.

In the absence of the Director, the Bill provides that his duties shall be performed by an Assistant Director. The Director is required to be suitably qualified in administrative and mining experience. No such qualifications are required of the Assistant Director.

We believe that vast power over an entire industry should not be given to any one man, particularly without more clearly defining the limits of his power and particularly when that man holds an appointive office not subject to Congressional approval. He could be, and undoubtedly would be, subjected to terrific pressures which even the ablest and honest would find it difficult to resist.

STOCKPILING

The Bill provides that "All additional ores, metals, and minerals the production of which is wholly dependent upon production payments" shall be transferred to the national security stockpile. We have already stated our belief that little additional production of lead, if any, can result from the operation of this Act. Consequently we fail to see how the stockpile can benefit. Furthermore, lead totaling more than [illegible] per cent of 1948 domestic mine production is being acquired for the stockpile in the current fiscal year by voluntary arrangements with producers. In addition, the Munitions Board already has the power to make long-term contracts with producers, at above market prices if necessary, for metal for the stockpile. And, it can, and does, go abroad for metal.

The Bill no place defines what is meant by "additional ores, metals and minerals." This could be the cause of much confusion and disagreement, particularly in the case of mines now producing which might subsequently obtain payments under the Bill. It would be absolutely essential to establish some definite yardstick by which "additional" tonnages could be clearly and unequivocally measured.

For example, a mine might have produced 1,000 tons of lead in 1947, 500 tons in 1948, and 750 tons in 1949. Yet, by mining lower grade ore, it might have received payments in 1949. What would its additional tonnage be, or would there be any additional tonnage? Or it is quite possible that by mining lower grade ore and obtaining premium payments, a mine could maintain its profits and yet produce less metal because the Bill requires that payments be made to guarantee a reasonable profit. Indeed, this would be the soundest policy for a mining company to adopt. Where would the country benefit from the production of less metal at higher cost to the taxpayers?

NEW DIVISION EXPENSIVE AND UNNECESSARY

As previously stated, a new Division in the Interior Department is created by the Act. We firmly believe that the U. S. Bureau of Mines and the U. S. Geological Survey, which have had long and satisfactory experience dealing with the American mining industry, are competent to handle any Governmental problems relating to mining. Creation of a new Division is an unnecessary expense and would unduly complicate the operations of Government and of the mining industry.

EXPLORATION PAYMENTS

The Bill provides for Governmental grants to producers for exploration work. While it establishes a limit to such grants for mines in actual operation, it leaves completely to the discretion of the Director the amounts paid and projects which shall receive grants in other cases. This places entirely too much responsibility in the hands of one man. Furthermore, such grants carry no obligation on the part of the recipient to use them efficiently. Certainly any Governmental grants for exploration work should provide for at least equal financial participation by the recipient in order to assure that the money will be spent in the most productive and efficient manner.

COST

The entire cost of this program would be a half billion dollars for payments, plus an unpredictable amount for administrative and engineering expenses. It is difficult to justify saddling the taxpayers of this country with such a burden when most metals are selling at prices high enough to assure profits to competent, efficient producers and when it is highly unlikely that the huge expenditures will result in any appreciable benefit to the country or its security.

It is sometimes contended that [illegible] low-grade ore reserves be saved from total loss to the country caused by closing mines, with subsequent caving and flooding. Most competent mining engineers will dispute this statement. It is rarely that an ore body is completely lost. In the history of mining many mines have closed and again opened as economic and technologic conditions changed. Under the impetus of today's profitable prices many mines are being reopened that have been shut down for years, some as long as 50 to 75 years.

ASSURED PROFITS

The Bill provides in Section 4 that production payments shall be made to include a "reasonable profit" to the producer. "Reasonable profit" is not defined but once it has been established the Government will necessarily have to control salaries, wages, smelter contracts, and other elements of cost in a mining enterprise receiving subsidies. Otherwise the producer could easily manipulate or saddle his operations with wasteful or even exhorbitant charges. We know of no industry in the United States, large or small, that is given an assurance by the U. S. Government of a reasonable profit. This is an epoch-making departure from the historic relationship of Government to business in the United States.

INDUSTRY AND GOVERNMENT SUPPORT

We believe that subsidization of metal mine production is opposed by most of the metal mining industry. We also believe that most Governmental agencies dealing with mining and the national defense believe such legislation to be unnecessary and unworkable.

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In general, the fore[illegible] objections apply also to H.R. 2031. In addition, however, there are certain other specific objections as follows:

POWERS OF DI[illegible]

In H.R. 2031 the powers of the Director to determine who shall receive subsidies and how much they shall be is even more unlimited than in H.R. [illegible]. Spending of $[illegible] for this purpose is entirely at the discretion of this one man, who may exceed the limits established by the Bill at his own free will. He may also withhold payments if, in his opinion, a producer mines ore of a grade that is too high or too low in relation to other available ore in the mine. In other words, he can virtually dictate to a producer just how his mining operations shall be conducted. He would also have control over who a mine receiving subsidies might hire and how much they would be paid. He has other powers under the Act which, when all are combined, would give him practically a life and death power over hundreds of mines in this country.

DISCRIMINATION

H.R. 2031 distinguishes between very small producers of copper, lead and zinc and those who produce more than 300 tons of metal a year. It gives preferred treatment to these small producers and in addition small lead mines are accorded an extra 20 per cent subsidy not enjoyed by small producers of copper and zinc. Why are not copper and zinc producers treated the same as lead producers? Why should not a mine producing 325 tons of metal be accorded the same treatment as one producing 300 tons per year?

[illegible] limits of subsidy above which [illegible] is not [illegible] expected to go. [illegible] are these limits justified? [illegible] of market conditions there are always certain [illegible] unprofitable. Even with the absurdly high limits [illegible], there will be unprofitable mines. Why should there be discrimination between a lead mine that can produce profitably at the limit set by the Bill, and one that can produce profitably at 1/2¢ per pound more? Why are not producers of iron, coal and petroleum included in the Bill?

All of these features point up the discriminatory nature of the Bill.

COST

The cost of incentives authorized by this Bill is $100,000,000 for fiscal 1950. This is only the beginning. The cost of an administrative and engineering staff large and capable enough to administer the Act with even a semblance of efficiency might be extremely large.

That still is only the beginning. Contracts running as much as 15 years are authorized, and these may be entered into for as much as 7 years after passage of the Bill. That means that contracts entered into under the Bill might not expire for another 22 years, or in 1972. Other provisions of the Act would not expire for 10 years. No limit is placed on the amount of incentive payments after the first year and wording establishing the maximum payments for each metal is subject to several interpretations. It is conceivable that the total cost of this measure could eventually reach many billions of dollars, especially as this Bill is designed to subsidize producers at peak markets.

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CONCLUSION

In conclusion, we reiterate our sympathy with the objectives of the Bill. At the same time we express our sincere belief that those objectives can best be attained through the operation of the free enterprise system without subsidies and Government encroachment on industry. We believe that this legislation would lead to a maze of red tape, discrimination, and inefficiency without any gain to the country or the national defense.

On the other hand, we are convinced that there are ways in which the Government can help industry to attain the desired objectives within the established framework of our free economy. Perhaps the most basic and effective step the Government could take would be to revise the tax laws to recognize more fully the inherent risk of mining. If the tax laws were so revised as to invite the investment of venture capital in mining by providing such capital with the incentive of a return commensurate with the risk, we believe that the American mining industry would respond with even greater production and more extensive exploration programs. In the end the Government, instead of spending hundreds of millions of dollars on palliatives, would receive greater taxes from a profitable and healthier mining industry.

We, therefore, respectfully urge the Committee to act unfavorably on H.R. 976 and H.R. 2031 and any similar legislation providing production subsidies for lead mines.

Respectfully submitted,

Secretary.

[illegible]
(H. R. [illegible])
[illegible]

I am withholding approval of H. R. [illegible], a bill "to stimulate exploration, development, and production from domestic mines by private enterprise, and for other purposes."

I am taking this action only after the most careful consideration of its effect upon the mining industries directly concerned and its relation to the general interest of the public.

This bill would require the R. F. C. to continue to make premium payments to subsidize high cost production of copper, lead and zinc and would provide new subsidies for domestic manganese production. Payments of $70,000,000 would be authorized for the two-year period ending June 30, 1949, not to exceed $35,000,000 of this available sum in the fiscal year 1948.

The Premium Price Plan was initiated early in the war. It was effective in stimulating production of non-ferrous metals for war purposes, while maintaining price ceilings at pre-war levels. Two years ago in signing Public Law 88 of the 79th Congress, authorizing continuance of these and other wartime subsidies, I urged that these programs be reduced or discontinued as rapidly as feasible whenever such payments became no longer necessary for war purposes. With the end of hostilities and the decontrol of prices, almost all other wartime subsidy programs had been discontinued. No adequate reason is apparent for continuing to subsidize the output of copper, lead and zinc; and even less reason exists for adding to the list of subsidized commodities.

Continuance of the present plan would contribute very little, if at all, to production of the metals now in shortest supply. Since the removal of price ceilings, prices of all these metals have risen sharply. The market prices of copper and lead, the two scarcest of these metals, have been high enough in the last six months so that only a negligible share of the total output has been eligible for subsidy payments. With the minor exception of payments for exploration and development work therefore continuance of the present plan could not materially increase the supply of these metals. If the plan were restored, the great bulk of the subsidy payments, in fact, would continue to go for high-cost production of zinc, the supply of which is becoming relatively ample. Similarly, the industrial demand for manganese does not now justify subsidy payments to make available a relatively minor increase in low-grade domestic ore.

Even if there were sufficient justification for continuing to subsidize production of these metals, the plan provided in this bill would be too inflexible to meet present needs. Since it was specifically designed to meet wartime needs the largest amounts of subsidies were authorized for production of zinc and copper, the metals then in shortest supply.

[illegible]

N[illegible], [illegible] the [illegible] relatively [illegible] [illegible]. Yet [illegible] lead production. If it were [illegible]

[illegible] that, [illegible] long-run [illegible] [illegible] expan[illegible] development of new [illegible], [illegible] more efficient methods [illegible] — methods which do not inevitably involve the [illegible] of the [illegible] [illegible] reserves. It [illegible] [illegible] from [illegible] [illegible] to remain [illegible] for future emergencies.

H. R. 2[illegible] would [illegible] $[illegible],000 in subsidy payments in both the present fiscal year and [illegible]. The bill, however, [illegible] re- quire [illegible] [illegible]. Accordingly, [illegible] authorization [illegible] to carry out the provisions of the bill. In the present fiscal situation, neither the expenditure specifically authorized by the bill nor such possible additional expenditures appear justified.

I am not unmindful of the dislocations in the mining industry which are caused by the expiration of the premium price plan. We must all agree, however, that we cannot regard this plan as a permanent part of our economy. It is clear that the changes in employment and other adjustments which are necessary at the time of the plan's termination whenever it occurs, can be made more readily and with less hardship in a period of high employment and business activity, such as the present, than at any other time. Consequently, this seems to be the best time for making this inevitable post-war adjustment.

HARRY S. TRUMAN,
The White House.