The British Iron and Steel Industry and Franco-American Competition

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TO understand the present position of the British Iron and Steel Industry, and to estimate its influence on the world capitalist economy, it is necessary to emphasize certain features with regard to it. As one of the basic industries it was, of course, one of the first to shake off the shackles of the competitive stage of capitalism. As early as 1860, there were many instances of a move towards amalgamation; between 1870 and 1900 the whole industry had become concentrated into about 10 or 20 main groups, some allied to large armament firms such as Vickers and Armstrong Whitworth, others depending for their markets on commercial shipbuilding, such as the Furness Group, and others developing a large business of their own, as for instance, Baldwin's and Dorman Long. But not one of them was completely independent of the import of iron ore. The chief sources of supply were Spain and Sweden. In the case of the former, many of the combines, though competing in the markets of the finished product, had recourse to combination for the purpose of insuring their supplies of the raw material. But all the combines had one great advantage. They were assured of a cheap and abundant supply of coal at the ports. This factor has been of the greatest importance in their development and in their ability to compete on the foreign markets of the world. It has ever been maintained that before the war, British steel made with Swedish ore could effectively compete on the world market with German steel, in spite of the fact that German steel had been made with German ore; and it was further alleged that this was due precisely to the fact that the fuel resources of Britain were geographically well situated at the ports.

How far this contention was true—and it may have been true in certain isolated cases—it was also true that German competition was becoming an altogether too serious matter for British steel capitalism as a whole. For instance, the relative percentage proportions of English and German participation in the International Rail Syndicate were being reduced against England and increased in favour of Germany. The English percentage proportion for instance, was decreased from 65% in 1884 to 34% in 1913. German competition invaded not only the old foreign preserves of British steel capitalism, but even the home market as well. British steel capitalists in consequence, entered on a further period of concentration in the five to ten years before the imperialist war. They combined in order better to withstand the price cutting of the German and other foreign capitalists. They combined to be able to retaliate in the home markets of their competitors. They formed associations to endeavour to extend foreign made manufactures, tried to compel British financial houses only to lend money on condition that the material was purchased in England, but all these expedients were not sufficient. The British steel capitalists were in consequence, one of the chief influences behind the diplomats of Britain in the manoeuvres which led to the imperialist war.

With the imperialist war, just as in every other country the demand for munitions meant an enormous development in the steel industry. With this development and in consequence of it, the steel industry embarked on a further period of concentration. Both by the formation of new associations and by direct amalgamation, the industry became controlled by five or ten predominant combines. Not only were these combines interested in the iron and steel industry, but they also branched out into branches of commercial engineering. Vickers Ltd. and Cammell Laird & Co. Ltd., for instance, absorbed and developed important heavy electrical undertakings capable of entirely supplying and equipping an electrical railway. Armstrong-Whitworth developed by means of absorption, a vast hydro-electrical branch while Baldwin's Ltd., besides immensely adding to their potential output of steel rails, branched out into the mass production of tinplates.

But to achieve this, immense sums had to be paid. Firms were absorbed at prices far exceeding their pre-war value. Plant was installed at a cost often three or four times its 1913 price and capital was obtained fully to cover the value of these inflated prices. Finally, existing capital was written up to the then prevailing prices and shares were distributed free to the fortunate shareholders. The result is that now, though the potential output of steel is estimated to be 50% more than pre-war output, the capital has increased 100%. The position which faces British steel capitalists today is described with the utmost candour in an article in the Manchester Guardian Commerical for April 26th, 1923. It says:—

"The steel trade has been developed in excess of any likely demands for years to come unless the market improves very considerably. Some firms have even disposed of plant ordered and now found to be excessive, without erecting it, because they could see no return for it. Our total capacity is now 12,000,000 tons of steel a year, against 8,000,000 in 1913—itself a year of prosperity . . What has the increase from eight to twelve millions tons cost in money? Taking twenty-five of the largest firms as a basis of calculation, and including bonus shares which must rank with subscribed capital, there is at least twice as much capital in the industry as there was in 1913."

The article then proceeds to show the effect of this situation on prices. Pre-war prices of billets averaged, it says, about £9 a ton. With the present capitalization, to pay a dividend of 7% (which it maintains is equivalent to a 5% dividend before the war) prices on a 10,000,000 ton basis must be £14 a ton or £5 above pre-war prices. Yet, as the writer says, to sell today against continental competition prices must not exceed the £9 a ton figure. What is the remedy proposed? The writer suggests a reduction in capital. But that is an impossible one for one of capitalism's basic industries. There has never been a precedent for it and it can safely be said that every other remedy, from further attacks on the workers to another imperialist war, will be attempted before such a form of self-expropriation will be tried.

The old export markets for British steel capitalists are becoming rapidly less assured. India, through the Tata Iron and Steel Group, is developing a production of her own which threatens to absorb a portion of that till now unfailing market for British rails. South Africa and Anatolia too are rapidly developing a manufacturing plant of their own. Canada, owing to an increasing American influence, is practically becoming a closed market for British iron and steel goods. . . What else is there except South America, Europe, China and the near East? In South America, American influence has also obtained a considerable foothold. China too must be shared with America. There remains then the Near East and Europe. What will be the position of British steel capitalism if these markets too are attacked by the competition of a Franco-German trust plentifully supplied, as it will be, with cheap labour?

Lord Furness, head of the Furness iron and steel group of the north east coast, clearly defined the position of British iron and steel capitalism as long ago as November 6th, last. In a speech delivered at the meeting of shareholders of the South Durham Steel and Iron Co. Ltd., one of his constituent companies, he said:

"With regard to a general revival in our trade, I think the prospects for steel orders are very uncertain for some time to come because the present productive capacity of existing steel works in this country, both actual and potential, is far too great for profitable absorption."

He then proceeded to draw a parallel with the position in which the American Steel industry found itself in 1900. He described how, after a disproportionate increase in productive capacity and a consequent period of price cutting, 50% of the important steel firms united and formed the United States Steel Corporation, and thus "stabilized prices at reasonable figures." The situation in England demanded, he said, a similar remedy. In advocating such an amalgamation he concluded by affirming that:

"I am taking a long view of the situation, because I feel that our British units are too small and, individually, may lack the strength to combat with success the international competition of the future, and it is imperative that this country should increase its exports if we wish to regain our former prominent position among the industrial nations of the world."

Such is the feeling of British Steel Groups. They see a period of international competition ahead. They, therefore, combine at home in order to try to meet it. "Exports," said one of them in an interview with "The Financier" of January 11th, 1923, "must be increased by 100% if the present productive capacity is to be fully employed." But competition, if temporary international agreements are possible must be eliminated. It is significant, for instance, that the Secretary of the National Federation of Iron and Steel Manufacturers, who is now editor of the Economist, should think it necessary to contribute to the Nation (9th, June, 1923) in which he is now interested, an article advocating an international Trust of French, German, Belgian, English and United States steel capitalists. He first scouts the idea that the English have been endeavouring to prevent the foundation of a Franco-German trust, though all the world knows that it was Lloyd George who, at the Versailles Treaty Conference, insisted on the artificial division of the Ruhr coalfield from the Lorraine iron-field. He refers to the fact that before the war, Lorraine iron was combined with German coke but he does not say that the imperialist war and the Versailles Treaty tried to separate them. He says:

"British steel masters during the last two years have been in touch with Continental metallurgists, and the discussions have made it clear, that both the German and French industrialists recognize the difficulty for political, personal and economic reasons, in coming to any agreement unless the British Steel makers are a party to it. Lorraine and Westphalia will not exchange coke and ore unless they are certain of their products."

The true meaning of this rush to negotiate a combine at home and an international agreement abroad, is seen in the fact of a 50% increase in the capital and the necessity for a 100% increase in exports to employ the output fully. Capitalists do not negotiate unless they want a share of the swag, or, as that excellent book of quotations the Bible puts it, make haste to agree with their enemy while it is not too late, lest a worse time befall them. But in this case the agreement can only be but temporary, can only vary according to the strength of the national units and will break down again when further variation is impossible without a further war.