Opportunity Denied: The Abortive Attempt to Internationalize the American Steel Industry, 1903-1929

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The fundamental restructuring of the American iron and steel industry that occurred at the beginning of the 20th century, culminating in the formation of the United States Steel Corporation in April of 1901, had a powerful effect on how domestic firms interacted with the international marketplace. The promotion of protectionist tariff policy--the industry's primary political goal throughout the 19th century--began to recede before other issues. Chief amongst these was creation of an American political-economic posture conducive to global economic expansion that would allow firms to achieve stabilized operations in the international arena comparable to the competitive tranquility that had been the objective of domestic policy. Such, at least, was the vision of Judge Elbert H. Gary, titular head of U.S. Steel from its founding until his death in 1927. This paper will explore the firm's attempt to create international stability in steel, and pursue reasons for its failure.

The most crucial variable underlying the iron and steel industry's new political posture was a strengthened economic position achieved by the end of the 19th century. The continual adoption of new technological innovations, in conjunction with expanded demand and the utilization of scale economies in both plant size and through vertical integration, had allowed American steelmakers to rise to the top in global competitiveness [63; 11, p. 66, 115-7]. This propitious development spurred an intensified search for new market outlets, which in turn fostered a basic reconsideration of the industry's long-standing protectionist foreign economic policies.

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The possibilities inherent in an enlarged export market were key considerations to both Judge Gary and the financier J. P. Morgan in the deliberations that led to creation of U.S. Steel. Gary, Morgan's primary assistant in his steel investments, had long entertained visions of penetrating European markets. Thus when the Carnegie steel properties became available in late 1900, Gary immediately grasped the export potential than an expanded firm would be able to exploit. He actively promoted this concept to Morgan, and the latter soon came to agree with his analysis [61, p. 111, 251; 17, p. 99].[1]

Once the new company was formed, little time was lost in systematically organizing its off-shore business. By November of 1903 Gary had consolidated the various export operations of the subsidiary firms into a new unit, the United States Steel Products Export Company. Named to head up the operation was James A. Farrell, earlier with the American Wire and Steel Company. Farrell quickly moved to make the new venture a success, establishing as his goal a 20 percent share of the Corporation's total steel output [17, pp. 99-116; 3, p. 86]. While ultimately unable to hit this mark, his accomplishments nevertheless made for an impressive record. The nation's total iron and steel exports rose in value from $99 million in 1903 to over $305 million in 1913, exceeding all other domestic exports except cotton by the latter year. U.S. Steel regularly accounted for well over 75 percent of this trade, as its annual export volume jumped from only 350,000 tons to more than two million tons in the 1903-1913 interval. In order to manage this business, the firm by 1913 was operating through some 268 agencies in 60 countries around the world [62, p. 193; 68, p. 3783-3895]. Due largely to his progressive record in foreign trade, Farrell was promoted to president of U.S. Steel in 1911, a position he was to retain until his retirement from the firm in 1932 [18, p. 111-131; 68, p. 3767-4129].[2]

U.S. Steel's thrust into foreign markets was directly related to Gary's fundamental goal of industrial stabilization. He wanted to secure access to foreign customers in order to have a ready safety valve for cyclic slumps in domestic demand, thus maintaining smoothness in both output and earnings. Gary deemed it "proper and desirable to sell for export what would otherwise be surplus products at prices lower than domestic prices" [quoted in 11, p. 61]. In other words, as Gary stated on one occasion, "sometimes it is desirable to use foreign countries for what we call a dumping ground" [1].

[1] Burn [6, p. 285] quotes Gary: "The export situation was one of the dominating causes of the U.S. Steel Corporation."

[2] Garraty [27, p. 125] finds, however, Farrell's promotion perhaps more due to his "neutrality" in U.S. Steel's corporate infighting of 1910.

U.S. Steel apparently engaged in substantial amounts of systematic dumping as a means of expanding its foreign trade. But while this occurred, firm managers viewed it as only a means to an end, rather than an end in itself. Addressing export sales in the firm's 1906 annual report, it was stated:

> the aim has been to build up a permanent and continuous export trade with a view to providing markets which at all times may be relied upon to absorb a fair proportion of the total production, rather than to sell material in foreign countries only at times when the domestic market is unable to take the entire output of the mills [69, p. 26].

As U.S. Steel's foreign sales began to grow, however, they reached a point where fluctuations could materially affect corporate revenues and earnings, thus jeopardizing the stability and order that Gary so ardently desired. By the end of the export subsidiary's first five years, America ranked third in the world as an exporter of iron and steel, behind only Germany and the U.K.; by 1913, foreign sales accounted for 16.5 percent of total revenue. Perceiving perhaps threats as well as opportunity in the greatly expanded offshore business, Gary now began to search for more precise mechanisms of global trade stabilization.

European trade practices provided an inspiration. Long acquainted with steelmaking organization abroad, Gary had been impressed with how both cartels and trade associations had allowed participant firms to overcome the rigors of market competition created by the conditions of high fixed cost structures and cyclic demand schedules. In conjunction with other factors, Gary in 1908 decided to form an industry-wide association, the American Iron and Steel Institute (AISI), as a means to stabilize domestic steel trade. But at the conclusion of off-shore meetings in that same year, he realized that a world-wide association might facilitate efforts to produce equilibrium in global markets. Accordingly, Gary altered the plans for the first formal meeting of the AISI (in 1910) in order to accommodate this enlarged vision [57; 28; 24].

International cooperation thus became the key theme at the first annual meeting of the AISI. "I suggest," Gary stated,

> that we have an international association, whatever it may be called, which... shall have a committee made up from representatives of the various countries... [and] that committee can have general supervision of the industry... throughout the world [28, p. 169].

He also proposed that an international organizing meeting be held the following summer to cement such cooperative plans. The audience voiced enthusiastic agreement (though apparently some were less sanguine about the prospects) [9, p. 250-251].

In July of 1911 some 112 representatives from the steel producers of the United States, Great Britain, Germany, Belgium, France, Austria, Hungary, Italy, Spain, and Russia (accounting between them for 80% of world steel production) met in Brussels to debate and plan for an "International Iron and Steel Institute" [35; 36; 37; 38; 39; 40]. As Gary later explained,

> To my mind the Brussels meeting was a most remarkable gathering. I doubt if any meeting, of such importance involving the welfare of any industrial department of life, was ever held before. There, in one room, were controlling representatives of the iron and steel industry of the entire world, and all perfectly willing, nay anxious, to come together and remain together on a basis of friendly, open mutual cooperation, which was calculated to advance the interests of all and to bring injury to none [29; also see 44].

But unfortunately for those who advocated economic progress through world-wide combination, no international association was to be forthcoming. Other events were to overtake Gary in 1911, problems which temporarily but nevertheless convincingly dashed his high hopes for "conciliation and cooperation" in the global steel trade. The congressional Stanley Committee, formed to investigate concentration in the steel industry, began its deliberations in May by criticizing "unfavorably the proposed organization of an international iron and steel institute," and then in October the Justice Department filed an anti-trust suit against U.S. Steel [29, p. 18; 67]. There would be no global replication of the AISI under such conditions of public suspicion in the United States.

But while Gary's hopes for global stability in steel were subdued by these events, other forces would soon spur a renewed drive towards internationalization. Perhaps the single most important factor here was the impact of war on America. The crisis atmosphere that accompanied U.S. involvement in the European conflict of 1914-1918 was far-reaching: "one week of the European war," stated Farrell of U.S. Steel in October of 1914, "did more to convince the American people that foreign trade is necessary to our domestic prosperity than ten years of academic discussion" [55]. The governmental response was dramatic, as new legislation and public agencies were created to smooth the way for U.S. participation in world markets. U.S. Steel, of course, was an active supporter of these moves. Indeed, internationalization was perhaps nowhere more strongly preached than by James Farrell. In 1914 he had been instrumental in the formation of the National Foreign Trade Council (NFTC), which he served as chairman from its inception until his death in 1943. The NFTC had been organized by leading business interests in the country concerned with America's changing role in world commerce. Its stated purpose was "Greater Prosperity through Greater Foreign Trade," and the group worked diligently to frame a national foreign trade policy conducive to such ends. Government officials, especially William C. Redfield, President Wilson's Secretary of Commerce (and a former iron and steel manufacturer from New York State), were enthusiastic supporters of the Council [58, p. 29-34; 21; 2].

Thus the period following the government's negation of Gary's attempt to form a global alliance between steelmakers, a time that initially augured ill for U.S. Steel, turned instead to one of progress towards this goal. The outbreak of war in Europe demonstrably improved the public policy environment for internationalization of American business, and the successful conclusion of America's participation in that war was instrumental in narrowing the once formidable gap between the government and "big business." For U.S. Steel, this was confirmed on March 1, 1920 when the Supreme Court agreed with a lower court ruling that the corporation was not in violation of the antitrust laws, as had been charged by the Justice Department in its 1911 dissolution suit. In the final paragraph of its opinion, the majority wrote:

> In conclusion we are unable to see that the public interest will be served by yielding to the contention of the Government respecting the dissolution of the company...; and we do see in a contrary conclusion a risk of injury to the public interest, including a material disturbance of, and, it may be serious detriment to, the foreign trade [67].

The pioneering efforts of U.S. Steel to topple the industry policy of protectionism and to look, instead, towards the expansion of foreign trade were thus bearing considerable fruit by the end of the Progressive Era. Gary's vision of an international arena of "conciliation and cooperation" in steel, postponed since 1910, might still have had an opportunity to emerge in the altered institutional environment that appeared on the horizon after 1920.

It was initially believed by many that the destruction of European steelmaking resources during the war (when 55% of pre-war capacity was wiped out) would create a fertile ground for expanded U.S. exports. Yet from 1921-1929, the average annual level of exports of steel relative to total production in the U.S. was only 4.6 percent. Why, it must be asked, such a low level when Europe was rebuilding and in dire need of more steel? Part of the answer lies in the relatively high prices charged by American producers in conjunction with the diminishing purchasing power of European buyers. Yet while demand was important, a more telling explanation lies in changing supply conditions. The Continent began to rebuild rapidly her own iron and steel industry after 1923, and was soon able to resupply internal needs. This reconstruction was especially vigorous in Germany, where early hyperinflation of the currency was conducive to capital investment programs. As the magnitude of expansion grew, conditions of overcapacity began to force the Europeans to look to export markets to achieve any semblance of profitability. Thus these suppliers not only denied U.S. firms an opportunity to retain war-time levels of exports to Europe, but increasingly they also began to challenge them on "neutral" grounds such as Latin America and the Far East, where American exports had grown rapidly following the demise of Continental production. A number of factors favored the Europeans in this development, including newer and more cost-efficient mills and lower labor wage rates [6, p. 403-424]. Given such advantages, Continental steelmakers were able to expand quickly. Between 1920 and 1929 Germany doubled steel ingot production, while France, Belgium and Luxembourg all more than tripled output. Clearly, the implications of such developments were not propitious to American goals in the world steel trade.

But while foreign producers were threatening the long-nurtured export markets of American steelmakers, this should not have unilaterally canceled all the latter's plans for global operations. Too much effort had already gone into the cultivation of these sales. Accordingly, one is led to question why domestic steelmakers did not choose another alternative open to them: direct foreign investment (DFI) in consuming countries, which would have provided ready access to markets, insured them a steady supply, and moreover advanced the development of a truly multinational American iron and steel industry with all the benefits attached thereto. This route was being embarked upon by a growing number of U.S. manufacturing sector firms in the 1920s; why not in steel?

Part of the answer appears to involve American banking interests. Following the war the nation experienced a radical transformation of her historic position in international finance. Total U.S. investment abroad jumped from $9.7 billion in 1919 to $21.5 billion by 1930; DFI climbed from $3.9 billion to $8.0 billion over the same period [60; 53]. The banking sector soon realized the relatively easy profits that could be obtained in the international arena. Foreign offerings in proportion to all new capital issues floated in the U.S. grew significantly throughout the 1920s, as America replaced Great Britain as the world's leading capital exporter. Fee income to the banks that engineered such international offerings rose concomitantly; according to some analyses, the profit incentives in such deals had much to do with the volume of business generated [5; 15; 16].[3]

Federal authorities were ambivalent about these developments. While Presidents Harding and Coolidge did seem to favor expanded DFI by American firms, Herbert Hoover was not as supportive. Louis Domeratzky, head of the Bureau of Foreign and Domestic Commerce in Hoover's Department of

[3] For example, Dakin [19] writes: "Probably the most compelling reason for the large capital flotations in the past has been the profitableness of such transactions." In 1924-1925 alone, some $1.4 billion in foreign issues were offered in American capital markets; included was $974 million in new financing, from which the investment bankers involved deducted $54 million in commissions.

Commerce, declared in 1925 that "it would be an unpatriotic act... to promote the sale of foreign products competing with those of the United States, even when such foreign products are the results of investment of American capital" [quoted in 72, p. 52-53]. Hoover in fact was quite wary of the general unsupervised nature of the entire foreign lending program being undertaken by U.S private financial interests during the 1920s. As Commerce Secretary he was constantly attempting to implement some form of Federal control over these investments to ensure their "security and reproductive character," and he did in fact prevail upon the State Department to install an informal "review" process over such loans as early as 1922 [7, p. 185; 5, p. 45-60, 152-163, 204-210; 73, p. 157-183; 32, p. 78-104].

But official foreign loan policy remained sketchy at best during these years. As Wall Street replaced London as the world's banker, American public policy in this arena struggled for coherence. Yet one clear result was that the bankers--strategically ensconced in the driver's seat by virtue of their experience and expertise--were effectively left to deal with the situation according to their own calculus of decision. Certain industries easily obtained funding for foreign expansion, such as automobile manufacturing, electrical equipment makers, and petroleum-related firms (all seeking global market domination in their respective spheres); as well, natural resource and agricultural ventures (seeking secure sources of supply for domestic production needs) also received funds. But other industries were not as fortunate: tobacco firms, match makers, and insurance interests, for example, all retreated from earlier forays abroad [72].

America's iron and steel industry would appear to have fallen into this latter category. Other than limited investment in Canada, no DFI occurred in this sector in the 1920s. In fact, foreign commitments were reduced. U.S. Steel, which had 40 sales warehouses abroad in 1913, had only 25 by the end of 1929; as well, a proposal to build a corporation-owned steel mill in Belgium in 1928 was shelved, as were similar plans by the Truscan Steel Company of Youngstown, Ohio [70; 59, p. 173 and Appendix X]. Such reluctance to enter into international operations, it must be noted, rested more with those who controlled the financial policies of the steel firms rather than with operating management. U.S. Steel president James Farrell (uninvolved in the firm's financial strategy) had suggested in 1922 that

> a means might be derived whereby the enormous foreign indebtedness to us might be transformed to the status of investments--actual ownership--in foreign property of a more or less public service nature. Also that further foreign investments of this nature be encouraged sufficient in amount to have its effect upon international exchange. We would then be building for ourselves for the future... [22].

But such sentiments were not to prevail with those who controlled the long-term strategy of U.S. Steel--that is, representatives of J. P. Morgan & Co. There is no question concerning the degree of influence wielded by these bankers over the steelmaker's financial policies, not only from the time of the firm's incorporation in 1901 through Morgan, Sr.'s death in 1913, but long afterwards as well. U.S. Steel was operated essentially as a holding company well into the 1930s, with the Finance Committee of the Board of Directors exerting ultimate control. It was this unit that provided the Morgan firm its leverage; chaired by Gary until his death in 1927, leadership then passed to Morgan-man Myron C. Taylor. Usually six of the Board seats were reserved for Morgan men, and four of these were on the seven-man Finance Committee [26; 14; 25].

The attempt to fathom why U.S. Steel chose to forego internationalization in the 1920s necessarily encompasses the business motivations of the bankers. One hypothesis is that they desired to preserve and protect competing investment opportunities in European steel markets during the decade, a period when American banking interests led the reconstruction of that region's economy. Steel had been the linchpin of European industrial strength prior to the war, and it was deemed vital to rebuild the sector were Europe to fully recover. The profit opportunities for lenders, as we noted, were considerable in this activity; to possibly jeopardize them by allowing U.S. Steel to expand abroad and potentially dominate European markets might well have been considered imprudent. Of course, one should not totally discount the view that the bankers willingly shouldered larger responsibilities as they surveyed the devastation of Europe following the war. Traditional mechanisms for facilitating world trade, centered in English financial institutions, were in disarray. This was bound to have an effect on all parties involved in global commerce. Thus a choice by American bankers, flush with surplus funds after the war, to fill the void left by the wreck of European institutions could be viewed as, if not altogether altruistic, at least an honorable and noble act designed to resurrect world-wide stability and order.

Such, at least, was the position promoted by the bankers themselves. As one banker stated to a steel industry convention in 1928, American steelmakers had to consider the "international viewpoint" when assessing their involvement in foreign trade: with billions loaned abroad by U.S. banks, the industry could not act as if the domestic needs of the nation's manufacturing sector were the only factor of significance [12]. Another banker was even more direct:

> The steel industry and most other American industries must realize that America is a creditor nation, and must adapt themselves to that all-dominating fact. They must realize that it is time to stop trying to apply Main Street economics to world problems--that they must integrate themselves with world industry and at the same time develop their own business. They must realize that America cannot

> be the world's creditor and the world's factory at the same time--that we cannot insist on the divine right to the world's markets--and also the divine right to the world's gold.

And, this man continued, the steel industry would have to bear the largest burden in this act of industrial mercy because

> ...the export business of Europe's steel producers means the very life of Europe's fundamental industry. The recovery and maintenance of that industry is at the very heart of the recovery of international economic stability. Continued instability would be the price we would have to pay and make Europe pay for insisting on a growing export market for steel [10].

Yet as New Left historian Carl Parrini observed, the willingness of the American banking system to restore global order was not entirely gratuitous on its part:

> Managers of American industrial corporations disagreed with the proposition implicit in the banking program, that the immediate foreign market interests of the manufacturers should be subordinated to the long-run interests of community, which seemed suspiciously similar to the immediate short-run interests of the bankers [566, p. 266].

America's foreign loan portfolio grew prodigiously during the 1920s, reaching its peak in 1927 when more than $1.37 billion was added to the balance outstanding, most of which was channeled to Europe. J. P. Morgan and Co., the nation's leading investment banking house throughout the first three decades of the century, was instrumental in this program of lending. Clearly, more than the opportunity to do good deeds motivated such activity. As one critic said,

> An investment banker... pays himself fat commissions for the questionable service he renders... as a go-between. These commissions were the motive for the investments made in Germany after 1923. It was in fact such a potent motive that bankrupt German municipalities and disrupted German industries had not to beg foreign bankers for advances; they were actually besieged by those bankers until they accepted the loans [71].

C. L. Beedy, a member of the U.S. House of Representatives (R-Maine), in 1928 condemned the "avidity" of the international bankers who, he claimed, "seize upon the profits involved in floating foreign issues," and then contemptuously dump the notes on the American public, "car[ing] little for ultimate consequences" [13].

In the steel industry, however, the fears surrounding foreign lending went beyond mere profit-taking by bankers and potential untoward consequences for investors; these were, after all, expected outcomes. More importantly, the steelmen asked, what effects would such lending have on their own business--especially investment funds earmarked for direct rivals abroad? "Are American bankers loading the guns of German industrialists for more aggressive warfare upon business in this country?" [31]. This was a question of growing significance to domestic steelmakers. With implementation of the Dawes Plan in October 1924, American funds began to flow to German steel in torrents. Ten million dollars went to the Krupp Iron Works of Essen, $12 million to August Thyssen Iron and Steel Works, $25 million to Rheinelbe Union steel, $17.5 million to Ilseder Steel; by the fall of 1928, over $118 million in German steel company securities had been sold in the U.S. This represented more than 37 percent of all American-financed investments in German firms (excluding bank and credit companies) between October 1924 and June 1929 [65; 46; 47; 49; 50].

It was obvious, as one report stated, that "American credits [were] materially reducing German production costs" [45]. And with this, of course, grew fears of shifting competitive superiority:

> ...what else is going to become of the German manufactured products? What else can happen then selling them to the world at prices so favorable that the world must take them? [43]

Indeed, what outcome but this was expected by those who underwrote the investments? American iron and steel managers were not blind to such developments:

> Is it seriously urged that the interests of [those who purchased the European steel securities] should outweigh those of the tens of thousands of American steel workers engaged in the production of export steel, or of the thousands of holders of stock in companies which have built up our foreign trade in steel?
>
> ...If it is decided that this country should do more than it has already done in helping Europe, why ask a single industry to make the contribution? Let the whole people be generous together [47; also see 5, p. 192-220].

But in fact steelmakers were asked to sacrifice disproportionately. The private banking sector, perhaps the most powerful shaper of America's international financial policies during the 1920s, so desired it. Having placed loans abroad, wishing to restore a sound and orderly world trade system with Wall Street as the new locus of control, it became mandatory that the European iron and steel industry--the backbone of that region's economy--be allowed to redevelop unimpeded by potentially destabilizing American steel sector growth. Unequivocal indications of this could be observed in the words of O. H. Cheney, a vice president of the American Exchange-Irving Trust Company of New York and a frequent critic of the domestic steel industry, who stated in 1927: "Should the American steel industry let the foreign steel producers take away its world markets? It should" [10]. The necessity of restored world trade, and by extension world political and economic order, demanded this according to Cheney. And by the end of the decade the larger, dominant domestic steel manufacturers, while perhaps not adhering strictly to his counsel, did not reject it. In essence, they conceded Europe to the Europeans, and confined their exports to neutral markets. By 1928 even Eugene P. Thomas, successor to Farrell as head of U.S. Steel's export arm and an ardent supporter of foreign expansion, would state:

> we must continue for some time generously to loan our surplus investment funds abroad, in order to complete the resuscitation of Europe and expansion of industry alike for our competitors and customers there, that their prosperity may increase, and that Europe in turn may resume its investments in the consuming countries to the same extent as before the war [48].

The bankers thus triumphed over the industrialists in both the goals and control of American participation in world trade. As Parrini critically notes,

> ...the investment bankers refused to undertake what Hoover called their domestic responsibilities to American commerce. The major portion of foreign investment in 1922, 1923, and 1924 was made without any substantial attempt to consider the interests of the major industrial corporations [56, p. 209-210].

Some domestic firms believed they might still penetrate foreign markets through exports, the industry's original path towards internationalization [33, p. 894]. Yet as we noted, export volume remained sluggish throughout the 1920s. Other than U.S. Steel and the rapidly growing Bethlehem Steel Corporation, no domestic producers maintained systematic export capabilities; in fact, for other than specialized or opportunistic low-volume orders (usually to nearby markets) exports were effectively non-existent for the vast majority of producers. They could not meet the prices of the lower-cost European competition, and were now too cautious (or too controlled) to expand capacity for highly uncertain off-shore potential. With domestic demand growing throughout the 1920s, many of these firms were more than satisfied to eschew the international market in favor of known variables among home buyers (even though, it should be noted, profits were stagnating for domestic steelmakers in this period) [4].[4]

Yet while American steelmakers may have lost interest in foreign markets, the reverse was not true. Even with higher domestic tariffs resulting from new legislation in 1922, producers were fearful that outside competitors

[4] Epstein [20] notes how the 1920s were a period of "profitless prosperity" for steelmakers. From 1919-1928, his grouping of large iron and steel firms earned a return on investment of only 5.8 percent compared to a return of 10.8 percent for all 2,046 large firms that he surveyed; of 73 large manufacturing groups surveyed, the steel grouping ranked 71st in terms of return on investment. This occurred despite strong demand for iron and steel products in the period.

might penetrate home markets, thus depriving them of this business as well as the once coveted foreign orders. Events in Germany, beginning in 1925, exacerbated these fears and led eventually to calls for even higher tariffs.

The cause for such fears was the frenzied rebuilding of European steel capacity--to a large degree fueled, as we noted, by American investment. As over-capacity developed, prices on the Continent dropped. This was in sharp contrast to conditions in the U.S., where strong demand and stiffened tariff barriers kept prices high. But in spite of the entry barriers, the seepage of foreign steel into American markets was more than negligible: amounting to only 123,615 gross tons in 1922, these imports grew to over one million tons by 1926 and stayed well above 700,000 tons per year for the remainder of the decade. World steel conditions were also being affected by the industrialization (including the construction of steel mills) of lands that until recently were importers of steel; these included Japan, India, South Africa, and China [52; 4; 41; 42].

As competition rose in Europe, sentiment mounted for restraints--especially in Germany, which had undergone the most severe damage to its steel industry during the war. In consequence, a new "Crude Steel Cartel" was organized in November of 1924, which encompassed 90 percent of German production [54, p. 526-536; 23, p. 451-452; 30, p. 66-67]. Yet while the Weimar Government encouraged this amalgamation, slumping domestic demand diluted the expected returns from cooperation. It was not until April of 1926 that a recovering market sparked formation of a merger designed to rationalize Germany's steel industry. The Vereinigte Stahlwerke A.G. (United Steel Works Corporation) was formed as a trust company, "the largest industrial unit in Europe" (its prospectus touted) "and one of the largest manufacturers of iron and steel in the world, ranking in productive capacity second only to the United States Steel Corporation" [23, p. 456-60; 51]. Bringing together four large existing groups of steelmakers, the trust comprised 40 percent of German steel output. A substantial portion of the capitalization for the new firm was raised in America, through bond issues underwritten by Dillon, Read and Co., second only to Morgan & Co. in American investment banking [8, p. 291, 344-345].

This was not the end of Europe's retrenchment in steel, however. In September of 1926 producers from not only Germany but also France, Belgium, Luxembourg, and the Saar region formed the International Steel Cartel (ISC), hoping to restore stability and higher prices to markets throughout the Continent. The original participants were soon joined by producers from Czechoslovakia, Austria, and Hungary. Problems, however, soon surfaced for the cartel. The ISC controlled less than one-third of world production; as such, participant-firm gains could be obtained only at the expense of other members, while non-member firms could reap free-rider benefits without having to give up anything. By 1929 these burdens became too heavy for the cartel to bear. In October of that year Germany abandoned the ISC, effectively ending the organization until it was revived in the mid-1930s [30, p. 70-71; 64; 66, p. 21-22].

Yet these events nevertheless affected American steelmakers. "The world market," correctly states one judicious analysis of the period, "became a source of danger and instability for U.S." producers [52, p. 128]. This was an ironic twist of fate indeed, far different from the confident scenario that Gary and others had predicted only 10 years earlier when the industry was under the enchantment of a more positive theme: "foreign trade is the romance of business," it was said, and "as well religion without belief in the supernatural, as foreign trade without optimism" [34]. But the once ebullient optimism had, it seemed, now turned to ashes. Rather than an environment offering stabilized growth and earnings, the international marketplace held only uncertainty and threats for America's steelmakers. And rather than a position of leadership in world steel, American firms became followers, joining foreign cartel arrangements in defensive reaction to their clouded future.[5]

This was not at all what Gary had envisioned when he set his firm on a course of global enterprise. While the strategy chosen to attain U.S. Steel's international goals can clearly be challenged, one nevertheless is drawn to the role played by American investment bankers during the 1920s in the search for answers to explain this failure to achieve. Not only did they provide the instrumental means for the reconstruction of European steel at a time when American expansion abroad seemed propitious, but they also appear to have exerted considerable pressure on domestic firms to remain at home. By inference, one is led to question the motivation of the bankers in this behavior. Did the quest for investment underwriting profits abroad influence the decisions of American steel firms involved in the international arena? Was U.S. Steel's retreat from foreign markets--after pursuing such opportunities so assiduously for 20 years--a function of market conditions only in the 1920s? These remain intriguing questions for which there are few hard answers.[6]

[5] In 1928, according to the U.S. Federal Trade Commission [66], the Steel Export Association of America, a Webb-Pomerene unit formed by U.S. Steel and Bethlehem Steel in April of that year, joined several "commodity comptoirs" which the International Steel Cartel had organized earlier. In the mid-1930s, following revival of the ISC, both U.S. Steel and Bethlehem secretly participated in the cartel's market-limiting agreements, illegal behavior under U.S. law.

[6] The internal records of U.S. Steel, which might shed light on such inquiries, are closed to outside researchers. As well, the degree of control exercised over

Nevertheless, their implications for the present are worth pondering, especially in view of the current collapse of the American steel industry in the face of powerful foreign competition. Similar to the 1920s, American funding sources have been critical to the success of these off-shore steelmakers. It appears that America has yet to resolve the fundamental tensions--and conflicts of power--that exist between its international financial and manufacturing sectors.

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U.S. Steel's foreign investment decisions by J. P. Morgan & Co. can only be speculated upon at this time. (And Morgan's, of course, did not involve itself in lending to private firms in Europe during the 1920s; it limited its business to governmental and public agencies. Yet there can be no question that the recovery of Europe's private sector, and iron and steel firms in particular, was most significant to the success of Morgan's foreign lending programs.)

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