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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 1, 1937

To Chairman Eccles

From Malcolm H. Bryan

M.H.B.

Subject: Digest of a "Brief Against Renewing the Tax of 4¢ a Pound on Copper" (Submitted by General Cable Corp. to the Finance Committee of the U.S. Senate and the Ways and Means Committee of the House of Representatives)

The points made in this brief are as follows:

1. The tax was an emergency measure first levied in the Revenue Act of 1932, and it has been continued on the emergency theory since 1934. The present brief, therefore, is simply a contention that the tax should be allowed to expire.

(a) When the tax was imposed, the price of copper was 5¢ a pound; the rate of production substantially in excess of the rate of consumption; and, at the then rate of production, the total stock would have sufficed for more than 16 months without any new production whatever.

(b) While the figures regarding the stock of copper in hand were not collected for 1932, the figures for 1933 showed a total stock of 523,435 tons. In 1936, the total stocks of copper had fallen to 161,044 tons, and much of this stock was not in fact available for purchase. Half of the total stock in 1936 represented mine stocks against which forward sales had been made, and most of the rest represented stock held by financially strong fabricators who ~~are~~ were holding it against fabrication requirements. Only a negligible tonnage, therefore, represents stocks available in the market.

(c) The United States production in 1936 was not equal to United States consumption; and the indicated consumption for 1937 is in excess of productive capacity, with no stocks to draw on. An actual shortage of copper in late 1936 caused a rapid rise from $9\frac{1}{4}$¢ to 14¢ per pound between April 1936 and February 1937.

2. During the months that the tax has been in effect, the foreign price of copper has never been substantially lower than the American price and--excluding the period of the NRA codes--the foreign price has been higher than the American price in 10 months, or 26% of the time.

3. The tax produces little revenue.

4. The American copper producers do not need a protective tax. There was no such tax for 38 years prior to the enactment of the present tax in 1932. On a "money cost" basis, the 1,000,000 tons theoretical capacity of United States copper mines divides about as follows:

"At a cost of $4\frac{1}{2}$¢ to 5¢ per pound................	500,000 tons
Between 5¢ and 7¢, averaging 6¢ per pound.......	400,000 "
Between 7¢ and 9¢ per pound.....................	100,000 "
Average cost below 6¢ per pound of total........	1,000,000 " "

5. The tax promotes the rapid exhaustion of an irreplaceable natural resource.

(a) Estimated reserves of American mines will apparently be exhausted in from 25 to 40 years. While new discoveries may well occur, no new mine of major importance has been discovered in the past 20 years in spite of careful prospecting.

6. The tax is for the beneficial interest of monopoly.

(a) Three large companies control 80% of the copper producing capacity of the United States. Since production from this point on can expand only partially and slowly to an increase in price, the addition of 4¢, because of the import tax, to the price simply results in additional monopoly profits for the producers that control low-cost mines.

(b) The same companies control approximately 50% of the copper fabricating capacity of the United States. "Whenever the foreign price is higher than the United States price and as a consequence United States duty-free copper flows abroad, the independent 50% of fabricating capacity must alone suffer any shortage of copper. It cannot compete with the producer fabricators because it cannot obtain the necessary copper, and the 4¢ tax makes recourse to foreign copper impossible. Therefore, business flows to the producer fabricators and it becomes within their power to absorb 80% of the copper fabricating of the United States.

"It is lawful for these three large companies to own the copper mines which they own; it is lawful for them to own the copper fabricating capacity which they own; and it is lawful for them to supply their own fabricating capacity first. It is the tax, and the tax alone, which gives them the power of a monopoly, and for that reason, if for no other reason, the tax should now be abolished."