

July 3rd, 1918.

The Honorable, The Federal Trade Commission,
Washington, D. C.

S i r s:

Through the courtesy of Honorable Victor Murdock, we have received a copy of your report of June 28, 1918, and we are pleased to note from a careful reading of it that it contains no charge or allegation such as was implied in some of the newspapers, that the payment of tantiemes or profit-sharing allotments to the officers and managers of our company was made for the purpose of evading taxation. We understand, further, that your Commission was particularly interested in these payments on the theory that having been charged by us to expense account, they entered into the cost of the production of the metals which are produced by our company and required by the Government in carrying on the war.

In order to correct the misapprehension existing in your Commission as well as to rectify as far as possible the injury which has been done to us before the public, by reason of the way in which our Company was referred to in the published summaries of your report, we beg to lay before you the following facts:

I. The tantieme or profit-sharing system has been in vogue in our Company since its incorporation more than thirty years ago. Under the charter of this corporation its directors are authorized, after the declaration of a dividend of 6% on the capital stock, to distribute a certain percentage of the net profits to its executives and department heads as compensation for their services, in addition to the nominal salaries which the Corporation pays. This practice has been consistently followed in the Metal Company, and has been regarded as advantageous to the stockholders because it serves to stimulate initiative and enterprise on the part of the managers of the corporation. Under this system there are no rewards for laggards, but a constant inducement to extra and intelligent endeavor in the management of the company's business. A similar bonus system extends throughout our entire organization, including all subordinate employees and all who have been engaged for any length of time in any of our subsidiary companies. With due deference, it seems to us that if more stockholders and capitalists who invest in industrial enterprises would permit their executives and employees to share in their profits, a right step in the direction of reconciling employers and employees would be taken.

The point we wish to emphasize particularly is that this system was not devised by us to meet existing or recent tax laws, but was adopted by our company in 1887,-long before the days of income or excess profits taxes. Furthermore, the individuals receiving this compensation paid to the Government taxes under the Income Tax Law which exceed the amount the Government would have received had the same sums been taxed to the Corporation on the Excess Profits Tax basis. The combined taxes of the Corporation, its principal profits tax basis. These facts are apparent from the tax returns of our corporation, its subsidiaries, and its individual officers, which were months ago filed with the Treasury Department.

II. The tantiemes paid to our officers are not included in the items going to make up our production costs. It seems extraordinary to us that the personal affairs of our officers and managers, which would normally be considered a matter entirely between them and the stockholders, should have been made public by your Commission. It is apparent, however, from the text of your report that this action was taken on the theory that these salaries and commissions, having been charged to expense account, entered into the cost of production of the metals produced by our Company and required by the Government in the prosecution of the war. We wish to state that this theory is entirely incorrect. At the time your investigators examined our accounts, we gave them our complete cost records and pointed out to them that our subsidiary companies were largely managed and operated by the officers and department heads of the parent company; that these men receive no compensation from the subsidiary companies, and that no charge is included in the cost accounts of our subsidiaries for salaries or overhead central office management. We cannot emphasize too strongly, therefore, that the individual earnings of our officers and directors are not charged to production costs, but are figured on the profits of the company's entire commercial, financial, and industrial business, not only in this country, but also in the allied and neutral world. In the year 1917 our total business amounted to upwards of \$150,000,000., of which our zinc industry, contrary to inference, constituted only about one-third. It is therefore apparent that the Company's profits are very moderate, considering the volume of its transactions, and that the inference of profiteering drawn by certain newspapers, is entirely unjustified.

We are transmitting copies of this letter to the press for the purpose of correcting as far as possible, the public misunderstanding which has arisen with reference to our Company and its officers through the published summaries of your report.

Respectfully,

THE AMERICAN METAL COMPANY, LIMITED,

By C. M. LOEB,

President.