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Administration Steel Plan: Disastrous Revival Of New Deal Economics

General Characteristics

The Carter Administration is lining up support for its "Comprehensive Program for the Steel Industry" on the grounds that it is a program for increasing employment and promoting modernization, to "enable the industry to compete fairly." Analysis of the package, however, shows conclusively that the stated objectives are a sham. Many seasoned industry analysts are calling the program "too little too late," but it is actually a lot worse. The program represents a major precedent for the revival of New Deal economics in the U.S.: government intervention to enforce the "orderly" shrinkage of the industry, relocate workers to "more viable" endeavors, and bail out bankrupt financial paper.

STEEL

The unquestioned assumption which underlies the program is that there is "substantial excess capacity in the world steel industry." The program does not address the problem of reviving demand for steel, even though everyone involved in the industry knows that "cyclicality of demand" is the single most devastating problem facing the industry.

Taking a cue from the incompetent economics of the Council on Wage and Price Stability report on the steel industry, released in October, the Administration program rules out the construction of fully-integrated, greenfield plants (entirely new plants) as "simply not economic at today's capital costs." Additionally, the program cites a study by the Federal Trade Commission which claims that "the U.S. industry has not been remiss in adopting new techniques" of steelmaking.

In other words, the package rejects the very solutions that would actually increase the number of high-skilled jobs in steel and its feeder industries and make the industry competitive with Japan's giant steel complexes—the base-line of efficient steel production.

The Administration's "aid" package, moreover, represents a dangerous "foot in the door" for the implementation of British welfare state, "1984-type" economics. The "trigger price" system, designed to push back foreign imports, is an opening step in the world cartelization policy enunciated by Nathaniel Samuels of the New York banking house Kuhn Loeb in the pages of the *New York Times* last fall. This strategy involves the "soft cop" alternative to protectionism: agreements among the industrial countries on limiting exports and, by implication, on coordinating production levels and shutting down capacity. Special Trade Negotiator Robert Strauss and other members of the Administration have spent the last several months trying to arm-twist the Japanese into "voluntarily" limiting their exports of steel to the U.S. The "trigger" price system represents the enforcement mechanism for such "voluntary" agreements.

In setting the trigger price periodically, the Treasury will in effect be regulating domestic steel prices, as the steel companies have begun to realize. Any company selling steel products significantly in excess of the trigger price will lose business to lower-priced foreign imports.

The loan guarantee program included in the package principally represents a bail out for financial institutions with loans outstanding to near bankrupt steel companies. The amount of funds that will be made available—under existing programs in the Commerce Department—is "peanuts". The loan guarantee program puts the government in the position of ruling whether a modernization program is "viable" before releasing funds. Wheeling-Pittsburgh, which began seeking loan guarantees prior to the formulation of the Administration program, presented a "modernization" plan under which almost half of the funds will go for meeting Pennsylvania state environmental standards.

The Administration program is "ready to go" without any legislation. The program "requires no specific legislative measures and can be implemented quickly." The Treasury's authority to impose the trigger price mechanism "exists under the Antidumping Act of 1921 although it has been used in recent years."

The trigger price mechanism can be instituted within approximately 60 days—by next February.

The Steel Program: Inevitable Shrinkage

Here are excerpts from the program with commentary.

Trigger Price System

We recommend that the Department of the Treasury in administering the Antidumping Act, set up a system of trigger prices, based on full costs of production including appropriate capital charges of steel mill products by the most efficient foreign steel producers (currently the Japanese steel industry), which would be used as a basis for monitoring imports into the United States and for initiating accelerated antidumping investigations with respect to imports priced below the trigger prices.

The Administration has assured the United Steelworkers and the industry that the trigger price

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system will increase industry earnings by $900 million a year and reemploy between 18,000 and 25,000 currently laid-off steel workers. By the USW's own count, 60,000 jobs have been lost since the government's aid program to import-impacted areas was instituted under the Trade Act of 1974. The Administration steel program accepts as inevitable a shrunken industry.

Modernization

The trigger price antidumping system should deter unfair import competition, and thus result in an increase in domestic steel production and industry earnings. The steel industry will also benefit from the passage of the Administration's general tax package which we are now considering. The general tax package will probably include a number of measures which, on balance, will stimulate investment and increase cash flow in the steel as well as other industries ...

In addition to these general tax measures, the Task Force recommends that the Treasury Department investigate the feasibility of reducing the guideline life for depreciation of new steel industry machinery from 18 years to 15 years ...

In an effort to prevent the closing of facilities that could prove viable and the substantial economic dislocation these closings would cause, the Task Force recommends that additional funds be made available for the current and future budget of the Economic Development Administration of the Department of Commerce for industrial loan guarantees and to continue to provide further appropriations for this loan guarantee funds in the next few years.

Based on a projection of a gradual pick up in capital spending over the next several years, industry analysts such as Ray Hughes at Blyth Eastman Dillon estimate that to avoid a severe capacity shortage in the early 1980s, the industry must spend on the average of $5.9 billion a year to replace old capacity and add on an additional 30 million tons.

A program which would rebuild the industry to meet orders from a growing nuclear energy industry and Third World industrialization would cost approximately $50 billion over a five year period. Even against the measure of the Wall Street estimate, the Administration's plan isn't "peanuts."

The loan guarantee program as a "bail out": A number of analysts have pointed out, privately, that the loan guarantee program is, in effect, a bail out for financial institutions with loans outstanding to near-bankrupt companies. As long as market uncertainty exists—and the Administration plan doesn't even address this problem—none of the smaller companies which the loan guarantees are designed for, will take on more debt. They are already too overleveraged. However, a number, such as Wheeling-Pittsburgh, are already in technical default on loans or notes. Their bankers will say to them, "Unless you take advantage of the loan guarantees, we will call in your loans." The federally backed loan guarantee will allow the company to stay open to repay its creditors—a bail-out along the lines of British "nationalized" industry.

This is not to agree with the free enterprisers that "government intervention" is a bad word. U.S. Steel President David Roderick criticized the loan guarantees after the steel program's release as a "total mistake," explaining that he would "accept certain companies' ... failing as the price of keeping the steel industry in the private sector." In contrast to this "survival of the fittest" approach, the U.S. Labor Party has released a series of proposals for government intervention to foster investment by private industry. These involve making available low interest loans for investment in high technology production and ensuring growing markets for industry and agriculture by striking up treaty agreements with other sectors of the world economy to foster global industrialization.

In addition to the loan guarantees, the program recommends such gimmicks as community and-or worker takeovers of bankrupt plants—where the communities and steel workers assume the job of paying off the creditors; use of abandoned steel facilities for other purposes, such as gasification processes; and pooling of resources by companies—joint ventures—for spending on research and development—such as research on energy conservation and pollution abatement.

Pollution Control

The current financial plight of the industry should not deter us in seeking a cleaner environment. We do not recommend a relaxation of our basic environmental goals. We also recommend against differential or more lenient treatment in the regulation against or enforcement of the steel industry.

In short, there will be no changes in the current harrassment of industry by EPA. This ensures that increasing amounts of capital will be absorbed by nonproductive costs of pollution control—funds which could be going to modernization and the construction of new nonpolluting plants.

– Lydia Dittler