

## ECONOMIC SURVEY

# World steel industry in crisis

## Part II: the U. S. steel cartel

In 1950, the United States' position as the world's number one steel producer was unrivaled. The U.S. steel industry produced 97 million net tons of steel or 47 percent of world output.

Last year, nearly three decades later, the U.S. produced only 124 million tons, and its share of the world market had shrunk to 17 percent. The U.S. steel industry slipped to number two behind the Soviet Union in 1971, with Japan running a close third. Last year, Soviet production jumped ahead to 152 million net tons of raw steel, while total East bloc production (the Warsaw pact nations) rose to 212 million net tons.

The U.S. steel industry's technological edge has lagged along with its output. This point is best illustrated by the fact that not one ton of U.S.-made steel went into the Mexican or Alaskan pipelines. U.S. steel companies didn't measure up to the projects' tough requirements and, as a result, lost out on major contracts at their own doorstep.

The major responsibility for the decline of U.S. steelmaking lies with the United States Steel Corporation, the industry leader since the beginning of this century. U.S. Steel is a huge anomaly. It continues to account for around 25 percent of the shipping capacity of the nation's steel industry, yet its top management ranks are saturated with lawyers and accountants, whose bent has never been advanced technology or industrial production. U.S. Steel's new chairm Roderick, a member of the International Advisory Council of Morgan Guaranty Trust, is known in industry circles as a "financial" man. Edgar Speer, the recently retired chairman, was by his own admission much more interested in the company's coal and other mining ventures than in steel production. U.S. Steel's top officers and directors—especially its Morgan Guaranty-Aetna Life and Casualty-dominated finance committee—are notorious for squelching any technological innovations that are generated by the company's engineering or production staffs.

The bottom line of management by bankers, lawyers, and accountants is the glaring obsolescence

and uncompetitiveness of U.S. Steel's steelmaking operations. In 1978, U.S. Steel's earnings dragged down the average of the nation's top six steel companies. Moreover, the 75 percent increase in U.S. Steel's earnings over a severely depressed 1977 was due almost entirely to the company's business. Only 14 percent of its operating profit came from steel, while all of its steel plants lost money except Fairless Works, its only relatively modern, integrated plant, which produces high-grade steel products exclusively.

U.S. Steel has a novel way of dealing with its uncompetitiveness. Whereas the well-managed industrial corporation will expend every effort to outsell the next company by developing the latest and most efficient technologies, U.S. Steel's approach is to use its political clout to reduce everyone else to its own technological level. Take U.S. Steel's continuing efforts, in collaboration with Bethlehem Steel, to sabotage Wheeling-Pittsburgh Corp.'s plans to construct a new rail rolling mill in Monessen, Pa., utilizing the most advanced Japanese and French railmaking technology. The ultra-modern rail mill threatens the fifty-year old monopoly of U.S. Steel, Bethlehem, and CF&I Corporation, and challenges the unspoken agreement among members of the U.S. steel cartel that no new steel mills will be constructed in the United States.

The only conclusion that can be drawn from all the quirks in U.S. Steel's behavior is that the U.S. Steel Corporation is not primarily a steel company or even a "diversified corporation," but a political intelligence unit. U.S. Steel is currently backing a set of policies which add up to the New York Council on Foreign Relations' "Haig option" for national autarky and confrontation with the Soviet Union.

This includes support in high places at U.S. Steel for the 1980 presidential candidacy of outgoing NATO Supreme Commander Gen. Alexander Haig. The most active Haig supporter in the Pennsylvania region is H.J. Heinz II, paterfamilias of the "57 varieties" family, and a ranking member of the American Ditchley

## Who runs U.S. Steel?

The board of the inappropriately named United States Steel Corporation reads like a who's who of the Anglo-Canadian-American financial and intelligence establishment.

**David M. Roderick**, the newly named chairman, is a member of the International Council of Morgan Guaranty Trust, the financial institution which has been one of the chief conduits for British influence in the U.S. since the 19th century, and is also a director of the Morgan-linked Aetna Life and Casualty Co. Roderick has a background in finance and accounting and was president of the company over the past several years of eroding profits.

**John M. Meyer, Jr.**, the *eminence grise* who sits on the executive, financial, and audit committees of U.S. Steel, is chairman of the Directors Advisory Council of Morgan Guaranty.

**Robert C. Scrivener**, chairman of Northern Telecom, Ltd. of Canada, is perhaps not as well known in the U.S. as some of U.S. Steel's other directors. Scrivener, a Commander of the Knights of St. John, is one of the key political spokesmen for the "North American Common Market," which in his conception is an anti-Soviet North American military alliance stretching from the Arctic Circle to Panama.

Scrivener has recently visited China to consolidate a billion dollars in telecommunications contracts with the Chinese.

**William McChesney Martin** is a member of U.S. Steel's executive and financial policy committees. As chairman of the U.S. Federal Reserve Board from 1951 to 1970, "McMartin" oversaw the disintegration of the U.S. economy from its potential as the capital goods exporter to the world to a crisis-wracked "consumer-based" economy. He also sits on the board of Royal Dutch Shell in The Hague.

**Donald B. Smiley**, chairman of the board of R.H. Macy and Co., is as little suited to run the nation's largest steel concern as its other directors. Not even an authentic retail store, Macy's reportedly makes more money on its consumer credit and dirty money operations than on merchandising. Smiley is also a director of RCA, which is closely linked to the Anglophile Lehman Brothers and Kuhn Loeb investment houses.

Other prominent members of U.S. Steel's board include John D. deButts, chairman of AT&T, and John H. Filer, chairman of Aetna Life and Casualty.

Foundation. Heinz also sits on the board of the British North American Committee along with a very influential Canadian director of U.S. Steel, Northern Telecom chairman, Robert Scrivener. U.S. Steel, in fact, is already running with the key planks of the Haig candidacy:

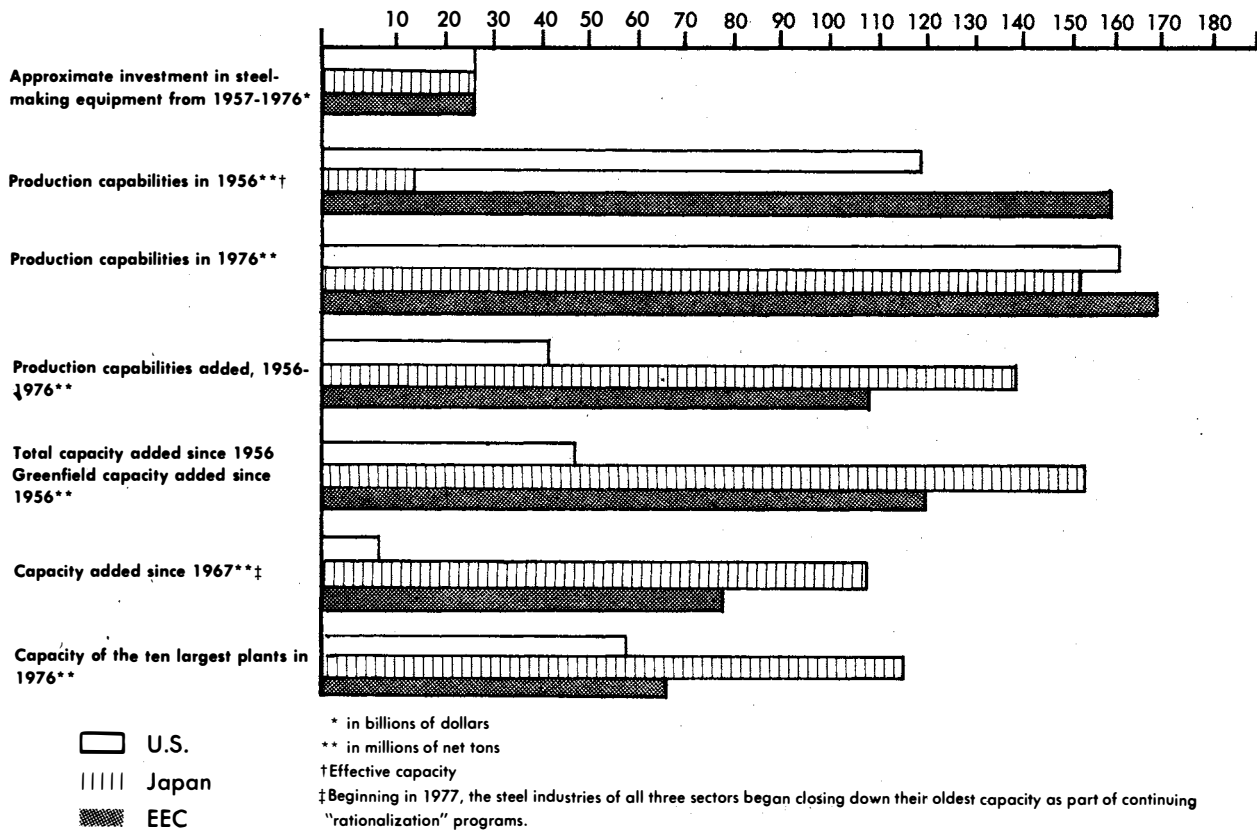
U.S. Steel is one of a core group of companies, including Britain's General Electric Corp., Ltd. and Canada's Northern Telecom, that are on the inside track on NATO's geopolitical designs to build up China militarily against the Soviet Union. In the first week of this year, during China's "punitive" invasion of Vietnam, U.S. Steel signed a major contract with the People's Republic of China to build one of the world's largest iron ore mines, with an annual capacity of 45 million tons.

While lending support to the regime in Peking, U.S. Steel has barraged traditional U.S. allies such as Japan and Taiwan with intimidations and actions against alleged "dumping" and "unfair government subsidies" to their steel industries. The real target of U.S. Steel's attacks has been the concept of state-fostered capital formation operative in those nations, especially as it interferes with the International Monetary Fund's opposing brand of "laissez faire" economics—austerity.

U.S. Steel was among the first supporters of Schlesinger's energy program in early 1977. The Schlesinger program, with its emphasis on low-efficiency energy sources like coal and solar power, is the appropriate energy policy for deindustrialization, the policy U.S. Steel is openly committed to carrying out through "rationalizing" steel capacity and diversifying out of steel production altogether. Given its extensive holdings of coal reserves in the United States, U.S. Steel also stands to benefit directly from the Schlesinger program for energy autarky.

Today, most of the U.S. steel industry is behaving like U.S. Steel. After being sorely battered in 1977—the year Bethlehem's earnings were \$448 million in the red—the industry embarked on a suicidal "cost-cutting" binge which has done nothing to reverse the long-term

## Return on investment in steel: the U.S. comes in last



Source: *Steel Industry Economics* by Hans Mueller and Kiyoshi Kawahito, Jan. 1978

Poor return on investment in steelmaking in the U.S. is due to one thing: bad investment and credit policies arrived at through the combined incompetence of the leading companies, the government, and the financial community. While both the U.S. and Japanese steel industries invested approximately the same amounts in steel facilities between 1957 and 1976, production capacity increased by 979 percent in Japan and only 34 percent in the U.S.! Two-thirds of the investment dollars in Japan went for the construction of greenfield plants—giant, fully integrated, and modern steel complexes built from scratch. By contrast, only two greenfield plants have been built in the U.S. over the last 25 years—U.S. Steel's Fairless Works in Pennsylvania and Bethlehem's Burns Harbor, Indiana plant. The U.S. industry has been forced to divert an increasing share of its outlays—now 20 percent—to nonproductive, antipollution devices for the antiquated capacity.

Europe straddled a middle course, with the result that while there was a considerable increase in capacity (108 million tons) between 1957 and 1976, there was relatively little greenfield capacity added, and large segments of the European industry are outmoded and unprofitable.

The Japanese steel industry's superior technology was clearly the source of its high profitability, not better "cost-price relations" or low wages. Japan's steel industry was designed to take full advantage of economies of scale. In 1976, Japan's five largest plants had twice the capacity of the five largest in the U.S. Japan, moreover, adopted wholesale the perfected basic oxygen furnace (BOF) and other technological advances made in the U.S., but whose adoption was slowed down or fully sabotaged by "cost conscious" finance committees. The tables rapidly turned in technological superiority. Early this year Japan invited the U.S. to collaborate with it in a joint program to develop high-temperature gas-cooled reactor-based nuclear steelmaking, but was turned down by the Carter Administration.

The cost benefits of giant (2,000 cubic meter and larger) BOFs, continuous casting, and other features of modern steel-making which predominate in Japan are seen strikingly in the high energy-efficiency of Japan's industry. In recent high output years, Japanese mills consumed 28 percent less coking coal per ton of pig iron and 22 percent less energy per ton of finished product than U.S. mills.

Unlike Japan, which has no natural resources but has more than compensated for its import dependence through advanced technology, the primary objective of the U.S. Steel Corporation—since its founding in 1901 by British System admirer J.P. Morgan—has been to grab natural resources.

erosion of productivity and profitability in the industry. Lately, in a noticeable departure from their usual "free market" rhetoric, a number of steelmakers in the Pittsburgh area, including Richard Simmons, chairman of Allegheny Ludlum, have either endorsed by name the Davignon plan for European steel or have endorsed its concept. The Davignon plan is an official, government-run cartel which sets quantitative limits on steel imports coming into the European Community, attempts to set minimum prices for steel in a declining market, and is carrying out plans to shut down around 20 percent of what is left of European steel capacity after the 1974-75 recession. Behind the "face of free trade," the U.S. steel industry has been functioning like a cartel, too. It has accepted as inevitable the "shrinking world market"—which is in fact a condition created by the IMF's restriction of credit to the developing sector for financing advanced sector exports of capital goods—and is responding predictably: by driving out competition from cost-efficient Japanese imports and by attempting to maintain "stable" internal market conditions through eliminating "redundant" steel capacity.

### The current steel "boom"

U.S. steel operations broke through 94 percent capacity utilization in the first quarter of 1979, and plant order books are reportedly filled solidly through late spring. Total industry shipments are expected to exceed an annual rate of 100 million tons for the first half of the year, surpassing 1978's 97 million tons.

But what industry spokesmen are calling a "boom" in steel production, is really a final spurt, which is based on a package of autarkic trade and industrial policies.

The current high operating rate in the industry is due primarily to what U.S. Steel and Bethlehem call "fair trade practices." By early this year, the Treasury's trigger price system had succeeded in bringing about a dramatic, across the board drop off in imports and in handing over a bigger market share and substantially higher prices to U.S. producers. Imports entered the U.S. in the first quarter of the year at an annual rate of just over 15 million tons, significantly below the 21.2 million tons last year and 19.3 million tons in 1977.

Another factor in the current steel "boom" is significant hedge-buying in anticipation of higher steel prices and the likely development of steel shortages—resulting from the industry's deliberate policy of eliminating "excess" capacity. According to *Iron Age*, the leading trade magazine for the steel industry, after four slack years, U.S. steel companies are having trouble gearing up to meet increased demand for steel. Moreover, the attrition of the last several years has created doubts as to the extent of usable steel capacity.

### Freemasons give U.S. Steel the thirty-third degree

Informed sources in Pittsburgh say that the long tradition of incompetence at the top ranks of U.S. Steel is due to the fact that upper management is dominated by Scottish Rite Freemasons, the conspiratorial secret society which President John Quincy Adams denounced for treason in the 1820s. Promotion to the pinnacles of the company is determined not by expertise in the steel business, the sources say, but by one's degree at the Freemason lodge.

The U.S. Scottish Rite Freemasons are the bush league version of the Knights of St. John of Jerusalem, the exclusive secret society of the European "black nobility." It is these circles in Europe—exemplified by Viscount Etienne Davignon of the European Commission in Brussels and Sir Charles Villiers, chairman of British Steel—who are carrying out the Davignon Plan for ripping out the innards of the European steel industry—eliminating another 20 percent of the steel workforce through "rationalization."

Peak steel capacity in the U.S., which was reached in the late 1960s, was around 160 million tons of raw steel. In 1977, closings by Bethlehem and Youngstown Sheet and Tube alone subtracted 4 million tons of capacity; additional scattered shutdowns have meant further losses of an undefined amount. According to *Iron Age*, the recent utilization level of 94 percent—a little over 2.8 million tons per week—is probably close to what the industry can produce at maximum on a sustained basis without major breakdowns or accidents—not the theoretical 150 to 155 million ton range.

One of the ironies about the U.S. steel industry's continuing vendetta against "cheap foreign imports" is the dependence of the U.S. economy on steel imports, which crops up in periods like the present. The United States is one of the only advanced sector economies that is not self-sufficient in steel—another is Great Britain, and its import-dependence is increasing daily because of the U.S. steel industry's present "rationalization" strategy. Shades of 1973-74, when domestic steel supplies were tight and imports sold for a big premium, are already returning. U.S. steelbuyers are paying premiums ranging from \$10 a ton above the

\$355 trigger price for wire rods to \$40 a ton for higher grade steelbars and structurals, so as to be sure of supplies.

The final element is hedge-buying in expectation of a year of escalating labor-industry confrontation, fomented by the Administration's unworkable seven-percent guidelines and confrontation seekers on the labor and industry sides. On site reports indicate that steel-consuming industries such as electrical machinery and auto—both of which have contract negotiations upcoming—were buying steel and building up inventories of manufactured goods through the first quarter of the year in anticipation of crippling strikes later on.

At this writing, a two-week old strike by Teamster steelhaulers has caused the layoff of thousands of steelworkers at mills in Pennsylvania, Ohio, and West Virginia, and threatens more layoffs in auto and other steel-consuming industries in the Midwest and North-east.

Steel industry analysts expect the nation's steel industry to be severely jolted around Sept. 15, when a UAW strike against General Motors is more than likely. The auto industry accounts for about 20 percent of U.S. steel shipments, and General Motors alone consumes around 12 percent of U.S. steel output. While the steel industry's public relations spokesmen claim that the steel "recovery" is becoming increasingly "broadbased," orders from steel's capital goods markets remained depressed through the end of last year and have not turned around since then. The short-term

fate of the steel industry and the entire economy for that matter is hanging on the auto industry and the teetering mountain of consumer installment credit that underpins U.S. auto sales.

## Where is the industry headed?

The U.S. steel industry long ago scrapped all plans for constructing new greenfield plants—the giant, fully integrated and modern steel complexes that are the secret of Japanese steel's superior profitability. "Con-neaut is dead," was one industry analyst's succinct prognosis for U.S. Steel's projected 4 million ton greenfield plant on the Ohio-Pennsylvania border. Spokesmen for U.S. Steel have said that the corporation would only embark on the construction if it could hope for an adequate return on the projected \$5 billion investment, which according to various Wall Street sources would require an estimated 40 percent increase in steel prices under today's uncertain market conditions.

### 'Rationalization'

The only type of planning that is going on in the U.S. steel industry today is planned shrinkage, the policy known as "rationalization." The short-sighted accountant's strategy behind rationalization is to recoup profitability by closing high-cost facilities, and introducing limited modernization at less hopeless facilities. This is hardly a strategy for sustained profitability.

## Domestic steel shipments by major markets

in millions of net tons

	1978	% change from 1974 peak	1975	1974	1968
Steel service centers	17.4	-14.8	12.7	20.4	14.1
Auto industry	21.3	-8.2*	15.2	18.9	* 19.3
Construction	13.4	-23.9	12.0	17.6	14.2
Shipbuilding	0.844	-35.1	1.4	1.3	1.0
Aircraft and aerospace	0.062	-21.5	0.069	0.079	0.090
Oil and gas industry	4.1	-2.4	4.2	4.2	5.3
Machinery	9.9	-9.2	8.4	10.9	9.4
Container and shipping material	6.6	-19.5	6.1	8.2	7.9
<b>Total</b>	<b>97.9</b>	<b>-10.6</b>	<b>80.0</b>	<b>109.5</b>	<b>91.9</b>

Source: American Iron and Steel Institute.

\* The peak year in auto was 1973, with steel shipments at 23.2 million tons. The percent change is computed from this year.

Bethlehem Steel, however, the nation's number two company, recently elevated to a top executive post the man who as vice president for accounting in 1977 executed the company's plant-closure program. The promotion of former Price Waterhouse accountant Donald Trautlein to executive vice president last winter was part of a major management reshuffle at Bethlehem undertaken to expedite the rationalization program that was initiated in 1977. Then Bethlehem padlocked 10 percent of its capacity and fired more than 20 percent of its employees, management and R&D personnel, as well as production workers. Two of the hardest hit plants were at Johnstown, Pa., and Lackawanna, N.Y., where a total of 8,000 steelworkers were laid off over the year. Both plants predate 1900. In the company's annual report for 1978, Bethlehem Chairman Lewis Foy, who is also a director of Morgan Guaranty, said the company would not shirk from shutting down less profitable plants.

The rationalization and increasing cartelization of the U.S. steel industry are taking place through other less apparent ways as well—through diversification, through industry mergers, and through the capricious enforcement of Environmental Protection Agency pollution standards.

#### **'Diversification'**

Diversification out of steel has been company policy at U.S. Steel since 1901.

Today, upwards of one-third of U.S. Steel's sales are in nonsteel areas, including chemicals, cement, real estate (including office building and shopping center management), and "resource development." U.S. Steel prides itself on being one of the biggest independent mining companies in the world.

Diversification has had a disastrous effect on U.S. Steel's ability to run profitable or even basic steel operations.

U.S. Steel was forced to bow out of its contract with the Mexican state oil company in early 1978, when production problems at its Baytown, Texas plant were compounded by blockage of U.S. Export-Import Bank credits to the project and by Schlesinger's sabotage of the U.S.-Mexican natural gas negotiations. A group of European and Japanese companies ended up providing all of the high-grade steel for the pipeline.

Despite the visibly negative results of U.S. Steel's diversification policy, a growing list of companies are following in suit.

In its 1978 annual report, Armco boasted that it is now "stronger than steel." Only about 54 percent of Armco's sales revenues derived from its carbon and specialty steel operations in 1978. Other lines of business included: oilfield equipment, coal, and financial services such as insurance and chattel mortgages. Armco President Harry Holiday, Jr. predicted with assurance this past winter that there won't be any major

investment in new basic steel capacity in the U.S. by his or any other company. "You are better off putting your money in the bank." At the same time, he foresees that the result could be serious shortages of steel and greater import-dependency by 1980.

National Steel stepped up its diversification push by purchasing United Financial Services, a major California-based consumer finance company, earlier this year. National Chairman George Stinson, a former law partner with the New York firm of Cleary, Gottlieb, explained that National is eager to get out of steel and into "less cyclical" industries like finance.

Allegheny Ludlum, a specialty steelmaker which has benefited from several years of specialty steel quotas, acquired a controlling stake in Wilkinson Match, Ltd. in 1977 and now makes razor blades and other consumer products in addition to its traditional steel products.

#### **Mergers, community-worker**

Last December, the Lykes Corp. and LTV, two of the more notorious conglomerates of the 1960s, merged to form the nation's fourth largest steel company, the new Jones and Laughlin Steel Corporation. LTV had acquired J&L and Lykes had acquired the now defunct Youngstown Sheet and Tube Steel Corporation during an earlier shakeout in the steel industry. The fact that the weakness of the two steel subsidiaries which propelled the parent companies into the current merger was due in large part to the "bleeding" of the operations by the conglomerate parents has raised suspicions about the prospects for the new steel firm. A post-mortem study conducted on Youngstown Sheet and Tube's Campbell Works after Lykes discarded the 5,000-worker facility in September 1977, showed the result of this policy of deinvestment: revenues per ton of steel at the antiquated steel mill were as much as 30 percent below list prices over 1976 and 1977.

The new J&L steel firm is already embarked on a policy of triage. It has ruled out a spending program to refurbish Youngstown's Mahoning Valley operations last fall as "prohibitively expensive." Early this year it made plans to close down Youngstown Sheet and Tube's Brier Hill mill, where 1,000 workers are employed, as part of its program for phasing out unprofitable operations and eliminating "redundancies" in the two companies' steel operations. J&L is operating under the gun of \$189 million in debt service payable this year, the legacy of the prior companies' heavy debts.

J&L's cost-slashing tactics are serving to advance the equally questionable aims of Gar Alperowitz of the "radical" National Center for Economic Alternatives in the Youngstown area. For the last year and a half, Alperowitz has been trying to sell the steelworkers and community of Youngstown on the idea of "buying back" and reopening the Campbell Works facility,

which was run into the ground by Lykes. The plan, which is to be financed through worker and community savings and federal loan guarantees, is a pilot project in fascist local control and another new direction the U.S. steel industry could do without. According to the blueprints, steelmaking costs are to be cut by 21 percent at the reopened facility through the waiver of union seniority rights and the rehiring of a reduced workforce of 2,600 to man the plant. In what can only be interpreted as a suicidal impulse, USW President Lloyd McBride sent a letter to President Carter in late March endorsing the project and asking for positive action on the pending Commerce Department loan guarantee program.

### The Environmental Protection Agency Racket

Air and water pollution-control costs have been a major cause of plant closings and layoffs throughout U.S. industry since the early 1970s. According to EPA's own estimates, around 25,000 jobs were either lost or threatened in the primary metals industries between 1971 and 1978 as a direct result of EPA-mandated pollution abatement expenditures.

The steel industry has suffered the highest toll. EPA has enforced both industry shrinkage and concentration, since only the largest producers can afford to meet the mandated standards. Youngstown Sheet and Tube's vintage 19th century Campbell Works was one such "marginal" plant to fall by the wayside in 1977 in the face of escalating pollution-abatement costs combined with depressed market conditions. Other steel facilities in Ohio's Mahoning Valley, one of the nation's oldest steel districts, and in the neighboring western Pennsylvania and West Virginia belts have been living under the continual threat of strict enforcement of EPA clean-air and water standards.

The industry has threatened that strict enforcement of EPA regulations could force it to junk as much as 26 million tons of old capacity by the end of 1982, because the industry deems it unprofitable to install mandated antipollution equipment at those facilities.

The stupidity of the EPA regulations is seen in the fact that the mandated "antipollution" expenditures actually perpetuate antiquated and polluting steel capacity. By claiming an increasing percentage of the steel industry's capital expenditures each year, antipollution spending locks the industry into a vicious cycle of diminishing investment on new, nonpolluting capacity, and escalating pollution-control costs and fines against aging cake ovens and steel mills. Pollution-abatement expenditure by steel firms has now captured

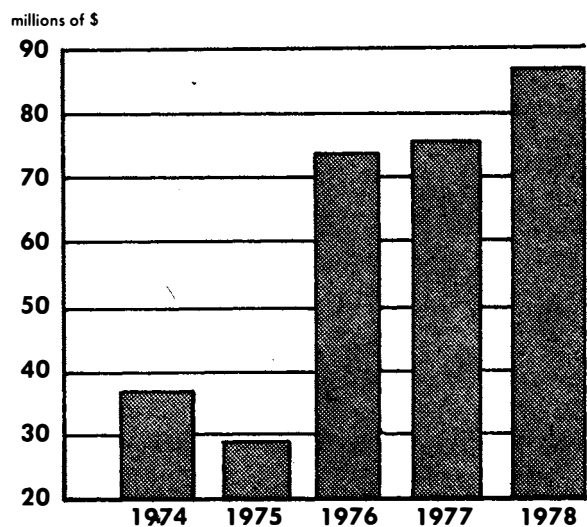
20 percent of the industry's capital outlays (which run around \$3 billion), according to a recent report by the White House's Council on Environmental Quality. This is the highest percentage for any industry.

In a report released this past March, EPA said it intends to impose fines of as much as \$260 million on the steel industry before 1983 for noncompliance with the Clean Air Act. EPA also states that given these fines, the industry's weak financial position, and its large capital requirements (simply for maintenance costs), the industry will find it extremely difficult to meet its future external financing requirements!

The 1977 amendments to the Clean Air Act, which are set to go into effect this summer, pose an even greater threat to the nation's steel industry. They place an embargo on new construction in states that have not satisfied EPA's environmental standards—no industrial states have—or submitted new antipollution plans. To date the only steel-producing states which have met the EPA deadline in submitting pollution-control plans are Colorado and Utah. This means that unless the industry succeeds in persuading Congress to postpone the deadline, there will be a ban on all steel industry plants and equipment expenditures in most of the nation's steel-producing states as of midsummer.

—Lydia Schulman

### U.S. steel industry expenditures on pollution-abatement (air and water)



Source: Bureau of Economic Analysis, Department of Commerce.