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Steel executives plead for industry's destruction

by Nicholas F. Benton

With a resounding endorsement from the Reagan administration, leaders of the U.S. steel industry put out an astonishing, unified call for self-destruction at the annual conference of the American Iron and Steel Institute (AISI) in Washington May 19. The two-day conference featured a press conference at which top executive officers of the nation's leading steel producers—USX (formerly U.S. Steel), Inland, Bethlehem, LTV, and Armco—joined hands in calling for what they termed an "orderly downsizing" of the industry.

The policies advocated by these executives—more loyal to the bank boards they serve on than to their steel companies—are a direct threat to the national security interest and reconstruction potential of the U.S. economy.

Rather than proposing to remedy the last decade's disastrous decline of the U.S. steel industry by expanding domestic and global demand, the nation's steel giants were in lockstep behind measures to cut back on supply, advocating government assistance in dismantling and blowing up (literally) much of their existing capacity.

They will ensure that the United States becomes a third-rate power, helpless before the onslaught of the coming financial crash, if their program is adopted.

And, the keynote speaker at the AISI conference, Treasury Secretary James Baker III, fully endorsed the corporate leaders' call for "controlled shrinkage" by lauding their efforts to, as he put it, become "lean and mean" by taking "courageous steps to cut capacity and to cut costs."

Specifically, the industry giants called for a combination of protectionist and domestic policy measures to allow their industries to reduce output capacity and become more "competitive" against foreign producers. They expressed support for key provisions of the congressional trade legislation now under consideration, and said they need help in their "painful period of adjustment" in dealing with what Inland Steel CEO Frank Luerssen called "human costs associated with restructuring . . . and other exit costs, including environmental costs."

Faced, they said, with a fixed domestic market of approximately 100 million tons a year, they claimed to be threatened by effects of increased foreign production eating into their markets, and by an under-utilization of their own existing capacity.

"We need to downsize in order to revitalize," Luerssen said. Armco's Robert E. Boni said that of the 35 remaining hot strip mills in the United States, half of them could be eliminated without effecting the ability of U.S. producers to meet current demand.

"There is 100-150 million tons of excess steel supply floating around in the world," argued AISI chairman Thomas C. Graham, president of the steel division of USX. Bethlehem Steel's Walter Williams delivered a diatribe against European, Japanese, and Third World steel producers. He blasted the Europeans for subsidizing their industry with $38 billion since 1980, and was especially critical of Brazil and Mexico for their ambitious plans to expand their steel output.

However, while placing blame on foreign producers and a stagnant market, none of the industry executives were willing to draw conclusions from the dramatic 300% rise in the U.S. steel industry's debt-to-equity ratio, from 34.9% in 1979 to 104.7% in 1986.

The need to deal with an international debt burden that is strangling the potential for U.S. and global industrial development, as well as the U.S. steel industry itself, should be clear to these industrialists. If debt is weighing down their production—contributing to the dramatic collapse from a high of 150 million tons produced in 1973 to 80.5 million

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tons in 1986—then they should understand that it is similarly strangling their potential markets, and seek remedies appropriately.

However, as in the case of USX's Graham, a director of the Mellon Bank of Pittsburgh, executives running the U.S. steel industry are not primarily steel producers any more, but bankers themselves. Therefore, they have a vested interest in protecting their claims on the growing international debt bubble, even at the expense of the steel industry. In fact, the informal slogan of USX has become, "We're in the business of producing profits, not steel."

Marxists?

Graham reflected his "banker's bias" when confronted with a question from *EIR* during AISI's nationally televised press conference, by specifically rejecting the option of expanded world markets for steel. *EIR* asked the panel of executives why they did not advocate global economic expansion instead of shrinkage. "Your premise is that the market is fixed, therefore creating a growing problem of overproduction. But the world is not exactly overdeveloped. There is plenty of room for large-scale water development projects and energy projects. Why don't you promote credit and other policies to expand this demand, instead of seeking to shink your supply?" *EIR* asked.

Graham jumped up to answer. "As for domestic demand, we have tried some things to increase that without success. But globally, it is completely beyond our ken. It can't be done, to be blunt about it," he said, and asked for the next question.

Ironically, Graham and his cohorts have resorted to the classic Marxist economic understanding of so-called "overproduction," which leads, in this mechanistic view, to a "falling rate of profit." While orthodox Marxists insist that this represents a "fundamental paradox," they claim that capitalists try to solve it by resorting to "imperialist looting," including restraining growth in favor of collecting debt. But the fallacy of this Marxist schema, which was demonstrated by the American System policies of the Hamilton-Clay-Lincoln current in the early United States, has clearly been lost on the leaders of the U.S. steel industry, as well as the Reagan administration. The 18th- and 19th-century American System school of economics understood that the apparent dilemma of "overproduction" is solved by issuing new credit which allows the surplus production to be usefully absorbed. Thus, it was the credit policies reflected in Hamilton's National Bank and Lincoln's "Greenback" policy which expanded demand, and led to continued long-term growth in the national economy, as long as the surplus was used in a way that contributed to sustained expansion. The most recent case of this—which directly contributed to the growth of the U.S. steel industry to its high-water mark in 1973—was the Apollo space program launched by the Kennedy administration. It succeeded, with the aid of relevant tax and other incentives for capital investment to industries that fed the program (see "How the Apollo program produced economic wealth," *EIR*, May 22, 1987, p. 24).

As Democratic presidential candidate Lyndon LaRouche, the leading American System economist living today, said in a May 15 statement, "Address to the Citizens of Iowa," any U.S. economic recovery program must be built on two pillars: 1) a rebuilding of the nation's basic economic infrastructure, centered on developing its incompleted national fresh-water system, and 2) a "Super-Apollo" program, aimed at establishing a largely self-sustaining colony on Mars by 2027.

These programs will require annual levels of basic and specialty steel production vastly beyond anything the U.S. industry has yet achieved. Yet, as LaRouche contends, anything less will fail to produce recovery.

According to an *EIR* study, over several years, the national infrastructure program can absorb up to $30 trillion in repairs and modernization of currently obsolete and dangerously worn-out roads, bridges, waterways, and port facilities. Revitalizing the nation's moribund shipbuilding industry and irrigating the Western states, High Plains, and northern Mexico by diverting the powerful northern-flowing rivers of Canada and Alaska southward, will absorb trillions more in long-term wealth-generating activity.

These needs underscore the criminal intent of the leaders of the U.S. steel industry. They want government aid in plans to blow up much of their existing productive capacity.

The steady demise of the U.S. steel industry has been a national disgrace, with no relief from the so-called "economic recovery" of the Reagan years. From the peak of 150.8 millions tons produced in 1973, the industry dropped to a low of 74.6 million tons in 1982 (the worst year since 1946), and despite the "recovery," produced only 81.6 million tons in 1986, dropping below an annualized output of 80 million tons for the first quarter of 1987 (19.6 million tons).

Widespread closure of steel plants has already drastically cut capacity from a peak level of 160 million net tons in 1977 to 111.9 million tons for 1987. Despite the shutdowns, however, utilization of capacity has continued at a mere 70%, higher than the 48.4% average in 1982, but far below the consistent 90% and above levels of the 1970s.

In terms of profits, the U.S. steel industry has moved from a net income of $1.6 billion in 1981 to losses in every successive year—$7.4 billion through 1985. Employment in the industry has dropped from an average of 452,000 in 1977, to 175,000 in 1986 (38% of 1977's total).

Long-term debt has grown to over $7.1 billion, while capital expenditures have declined from $2.4 billion in 1979 to $1.6 billion in 1985. The debt-to-equity ratio has tripled from 34.9% in 1979 to 104.7% in 1986.

The sickness of the industry has now been surpassed by the sickness of the proposals of its leaders, and the economic policies of the current administration.