Gear up construction equipment industry with LaRouche program

by Anthony K. Wikrent

In March, the presidential campaign of candidate Lyndon LaRouche ran a national half-hour, prime-time television broadcast giving the LaRouche emergency program for the economy. The centerpiece of the program, apart from emergency financial measures such as nationalizing the Federal Reserve System, rests on a crash infrastructure construction and repair program, including waterworks, rail and bridge building. This would set up a demand for 3 million jobs directly, and another 3-4 million indirectly in supply industries and necessary back-up services.

Nowhere are the effects this would have so evident as in the heavy construction equipment sector—earthmovers, giant trucks, backhoes, etc.

Although this sector worldwide is still dominated by U.S.-based companies, the global depression in needed infrastructure investment has depressed the construction equipment-manufacturing work force, output, and capacity down to a pitiably low level. The new orders generated by the LaRouche national emergency infrastructure program would have a spectacularly reinvigorating impact. The following is a rundown of the decline to date in the U.S. and world heavy equipment sector.

Output decline

According to statistics from Fiat, world production of earthmoving equipment, excluding Japan, fell from over 200,000 units in 1979, to under 130,000 units in 1982 and 1983, then rebounded to around 160,000 in 1989, before beginning another decline.

The collapse of the U.S. market has been astonishing. The chart shows how unit shipments of almost all types of construction equipment and machinery by U.S. manufacturers reached their high points in the 1970s. Then, the physical depression unleashed by U.S. Federal Reserve chairman Paul Volcker in 1979 collapsed the market to less than half that level by 1982-83. The speculative boom in commercial real estate created an artificial rise in shipments, before a new collapse began in the mid-1980s. Unit shipments have never recovered to the relatively healthier levels of the 1970s (see figure).

At present, unit shipments of equipment by U.S. producers have plunged back nearly to the record lows registered after Volcker's 1979 high-interest-rate shock. Manufacturers which barely survived the early 1980s—largely by eliminating thousands of jobs—are initiating a new round of layoffs, and are forming international alliances with competitors in order to survive. Yet, in fact, imports of parts and equipment are growing.

The 1970 *U.S. Industrial Outlook* noted that imports accounted for only 2% of total U.S. consumption of construction machinery; imports now account for over 25% of U.S. consumption. An April 1992 report by the U.S. International Trade Administration noted that the largest category of imports, at $635 million in 1990, was for parts of construction and mining machinery, mostly for incorporation into U.S. assembled equipment. Parts also constituted the largest export category, at $658 million. The second largest category of imports, at $460 million, was for self-propelled backhoes and shovels with a 360° revolving superstructure. The third largest category, at $430 million, was for wheeled front-end shovel loaders, which was also the second largest category of exports, at $534 million. The third largest group of exports in 1990 was for $431 million worth of buckets, shovels, grabs, and grips.

The collapse of the market for construction machinery merely reflects the termination of the many large infrastructure projects that were planned for the 1980s, but never undertaken. A special report on Caterpillar in the Aug. 17, 1992 issue of Standard & Poor's *Creditweek,* for example, directly blamed "a dearth of mega-projects" for cutting sales of large, high-margin equipment.

Manufacturers respond by scaling back

The 1992 Standard & Poor's report went on to note that "critical to Caterpillar's success has been its ability to lower costs. . . . During the early and mid-1980s, the company cut manufacturing capacity by about 30% and lowered costs by over 20%." This so-called "success" in fact is no good for the physical economy, and has not even worked financially for the companies.

With the U.S. and world economies now spiraling down into a new phase of depression collapse, Caterpillar is losing money again: $404.0 million in 1991, and $185 million in the first six months of this year. In its first quarterly report, Caterpillar disclosed that physical sales volume had fallen 21%.

The carnage is not confined to Caterpillar. Komatsu Dresser, the second largest manufacturer, announced at the end of July that it was closing its manufacturing plant in Libertyville, Illinois, eliminating 200 jobs. A week later, another 100 layoffs were announced.

Caterpillar is the largest manufacturer of construction equipment in the world, with manufacturing operations in 11 countries worldwide, and with headquarters in Peoria, Illinois, roughly equidistant from Chicago and St. Louis. In 1991, Caterpillar's total sales of $9.838 billion represented 67.85% of the U.S. construction machinery industry's (Standard Industrial Classification 3531) shipments of $14.5 billion. Actual sales of machinery by Caterpillar in 1991 were $7.397 billion, or 51.01% of the U.S. industry's shipments. These figures are a significant decline from 1990, when Caterpillar's total sales of $11.103 billion, including $8.735 billion of machinery, accounted for 75.81% and 59.64%, respectively, of the U.S. industry's $14.645 billion in shipments. In 1990, Caterpillar employed 40,895 people, representing 52.03% of total U.S. employment of 78,600 in SIC 3531-classed production.

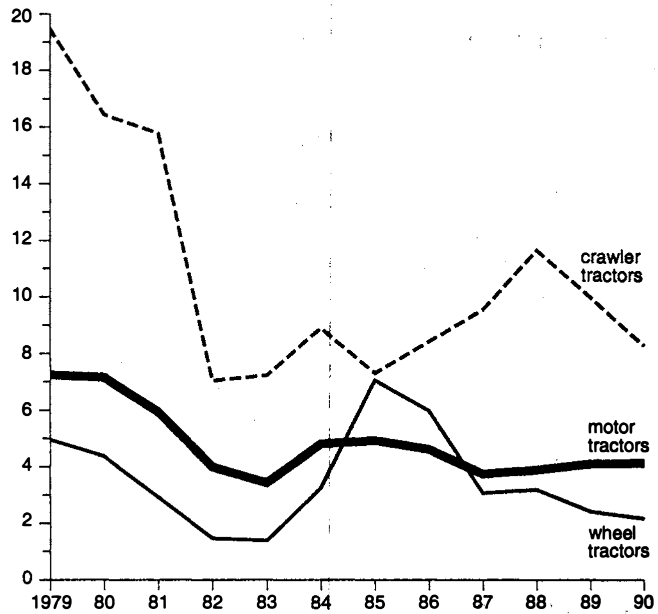
Worldwide, Caterpillar dominates the construction equipment market, being two to three times the size of its nearest rival, Komatsu. In 1991, 59% of Caterpillar's total sales were outside the United States, amounting to $5.780 billion—more than the total $4.815 billion in exports by the U.S. construction equipment industry. Of the $5.780 billion of Caterpillar sales outside the United States in 1991, $3.539 billion were products made in the United States, making Caterpillar the second largest merchandise exporter of the United States, after Boeing Co. Caterpillar's overseas sales of U.S.-made goods represented 73.50% of total export shipments by the U.S. construction equipment industry in 1991.

In Japan, Caterpillar has a 50-50 joint venture with Mitsubishi Heavy Industries called Shin-Caterpillar Mitsubishi Ltd.

The second largest manufacturer in the world, Komatsu Ltd. of Japan, is less than half the size of Caterpillar. Komatsu formed a joint venture with Dresser Industries of the United States in 1988, called Komatsu Dresser, and recently renamed Indresco. The North and South American markets are served exclusively by Indresco. In contrast to its continued domination of the Japanese market, Komatsu's U.S. operations have been steadily ceding market share to Caterpillar, and have yet to show a profit. Komatsu Dresser's share of the U.S. market has fallen from 20.3% in 1988, to 18.0% last year, while Caterpillar's share has increased from 34.5% to 36.4%. Komatsu controls about half the Japanese domestic market, and leads Shin-Caterpillar Mitsubishi in the Far East market.

The third largest manufacturer of construction equipment in the world is J. I. Case, the faltering subsidiary of Tenneco, Inc. Case accounts for over one-third of Tenneco's revenues, but lost $200 million in the first six months of 1991, and lost another $66 million in the first half of this year. The slight decline in sales of Case's construction equipment, however, is nothing compared to the catastrophic 40% collapse in Case's sales of farm equipment.

U.S. shipments of construction equipment have never recovered pre-Reagan/Bush level
(thousands)



Sources: U.S. Dept. of Commerce; Bureau of the Census; Current Industrial Report MA35D; *Construction Machinery*, 1986 to 1990; Construction Equipment Manufacturers Association, "History of Bureau of the Census Unit Volumes."

The fourth largest manufacturer is Hitachi Construction Machinery Co., Ltd. Hitachi's main export market is Europe; in the United States, Hitachi has a 50-50 joint venture with Deere & Co. which it formed in June 1988. Hitachi also has a joint venture with Fiatallis, the construction equipment division of FiatGeotech, the result of the 1990 merger of the construction and farm machinery operations of Fiat S.p.A. of Italy, with those of Ford New-Holland. Hitachi's main effort in the United States is in hydraulic excavators.

Deere itself has been hard hit not only in construction equipment, sales of which fell by 28% last year, but also in farm equipment, of which Deere is the world's largest manufacturer. In November 1991, Deere announced the elimination of 2,100 jobs from its work force of 37,500, and $120 million in expenses to pay for the downsizing.

Thus, there are three major international groupings that dominate the world market: Caterpillar-Mitsubishi; Komatsu-Dresser; and Hitachi-Deere-Fiat. Other important manufacturers include JCB, a private compmany in the United Kingdom; VME, the result of the 1985 merger of the construction equipment operations of AB Volvo of Sweden with Clark Equipment of the United States, using the brand names Volvo BM, Michigan, and Euclid; Liebherr, of Germany; Kobelco Construction Machinery, Inc., wholly owned by Japan's Kobe Steel Ltd.; Case/Poclain (France); Akerman (Switzerland); Champion (Canada); Hanomag (Germany); Daewoo (Korea); Hyundai (Korea); Furukawa (Japan); Kato (Japan); Kawasaki (Japan); Kubota (Japan); Mannesmann Demag (Germany); MDI/Yutani (Japan); Samsung (Japan); Faun (Germany); Hymac (Britain); Ishikawajima Heavy Industries Co. (Japan); Japan Steel Works; Orenstein and Koppel (Germany); Sumitomo (Japan).

U.S. manufacturers have ceded much ground to foreign competition since the 1970s, when U.S. contractors dominated world construction activity, and normally bought U.S. equipment for their projects overseas. As a result, U.S. manufacturers controlled 60-70% of the world market for construction equipment and machinery at that time. Today, U.S. manufacturers control only about 25% of the world market, according to Frank Manfredi, president of Manfredi and Associates, a firm that specializes in studying and reporting on the industry.

Caterpillar targets work force

Unfortunately, Caterpillar's response to the collapsing economy is typical of American management, and only makes matters worse. Rather than squarely confronting the neo-malthusians in the Anglo-American establishment over their "controlled disintegration" economic policies, Caterpillar has embarked on a ruthless campaign of cost-cutting, including a massive attack on the wages and benefits of its unionized work force.

In preparation for the renegotiation of the labor contract between Caterpillar and its 17,000 workers who belong to the United Auto Workers (down from 40,500 in 1979) in the late summer of 1991, Caterpillar management amassed a six-month supply of inventory, and provided price incentives for Caterpillar's dealers worldwide to also stock up on machines and parts. The company was plainly intent on lowering its labor costs, and was preparing for a knock-down, drag-out fight with the UAW. Caterpillar director John W. Fondahl, a retired professor of engineering from Stanford University, told *Business Week* on Aug. 26, 1991, "There hasn't been sufficient cost reduction" in Caterpillar's labor costs.

By November 1991, negotiations had reached an impasse, and Caterpillar's workers walked out in a strike that would last five months. In April, Caterpillar began threatening to replace striking workers with new hires; 30,000 calls came into Caterpillar headquarters from job-seekers; and the UAW's resolve collapsed. The strike ended in another resounding defeat for organized labor in the United States.

A resounding defeat for labor, but not a resounding victory for Caterpillar. Why? Because in any economy, the true engine of productivity and wealth-creation is the creative mentation of individual human minds. This is the fundamental reason that Japanese "lean production"—the Toyota system of production—detailed in the Massachusetts Institute of Technology five-year study of the world automobile industry, entitled "The Machine That Changed the World," is superior to classic American "mass production." One statistic gives an indication of the difference: U.S. workers at Chrysler, Ford, and General Motors plants in the United States submit 0.4 suggestions per worker per year; U.S. workers at Japanese plants in the U.S. submit four times as many, or 1.6 suggestions per worker per year. But each Japanese worker in a Japanese car plant in Japan submits an astonishing 64 suggestions per year. In other words, the Toyota system of production mobilizes the creative powers of human mentation.

Thus, a company's work force is its most important resource. Toyota understood that, and can now produce over 50 cars per employee each year, compared to only 10-15 cars produced per employee by U.S. automakers. American business managers, however, refuse to accept the evidence that they have taken only 30 years to destroy what was once the most productive economy in the world, and are salivating at the new prospects for gouging their work force opened up by the humbling of the UAW at the hands of Caterpillar. Typical of the idiotic and destructive thinking that pervades all levels of American management, Caterpillar's chairman Donald V. Fites explained why he thought the incomes of U.S. workers should be held down in the Nov. 17, 1991 *New York Times*. "There is a narrowing of the gap between the average American's income and that of the Mexicans," Fites said. "As a human being, I think what is going on is positive. I don't think it is realistic for 250 million Americans to control so much of the world's GNP."

The problem is that Fites wants to lower the wage packet earned by U.S. workers to narrow the gap, rather than raise the wage packet earned by Mexican workers. This means that Caterpillar's victory over the UAW was no victory at all, but one of the final death spasms of an antiquated system that is about to be obliterated by its own stupidity. As Jesse Parker—a tool and die maker who redesigned some rubber blades that cleaned the assembly line at Caterpillar's plant in Aurora, Illinois, so that the blades could go six months before being replaced, instead of twice a week—told the *Wall Street Journal* on May 16 after Caterpillar quashed the UAW strike, "I'll just do my job. I won't do any extra," from now on.

On April 16, Chicago attorney Jonathan Rosenblum, in a commentary, tied Caterpillar's victory over the UAW to the precedent-setting union-busting victory of Phelps Dodge Co. in the summer of 1983. Rosenblum began with a quote from William Seidman, the recently retired chairman of the Federal Deposit Insurance Corp., who was an officer of Phelps Dodge in 1983. "In the end," Seidman had said back then, "it became clear that the only way you could win was to kill the union."