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Corporate Strategy by William Engdahl

Beyond post-industrial delusions

The 'post-industrial ideology' has made the most crucial of industries, steel, virtually a thing of the past.

Recent reports of Gov. Michael Dukakis stealing from Massachusetts's capital budget to correct a deficit in the state's daily operating budget, only highlight the callous disregard with which political leaders today treat long-term investment in infrastructure. Nowhere is this disregard more evident than in the dangerous current state of world steel utilization.

Beginning the mid-1970s, a flood of propaganda heralded the emergence of a new "post-industrial era." Steel and other "heavy" industries were passé. The "future," these market prophets proclaimed, lies in chips, electronics, and various Pepsi-Light versions of investment for diet-conscious citizens.

The result has been a predictable disaster. Let's look at the world steel industry over the period since 1974.

The decline in what were normal to healthy rates of increase in world steel production capacity began in the early 1970s. This was not the result of discovery of steel substitutes such as plastics, but of of policy decisions imposed on the physical economy of the world beginning with the first "oil shock" of 1974.

Steel is an energy-intensive industry. The beginning of a 15-year-long process of deepening world economic depression in capital infrastructure development dates from the devastating effects of that oil shock, which economists prefer to call "structural change."

We no longer invest in shipbuilding, railroads, bridges, or nuclear plants. World crude steel output, after rising from 1950 to 1974, has never regained the peak level of 1974. Why?

According to the International Iron and Steel Institute, a trade body based in Belgium, "Of the many changes that have swept through the international economy over the past decade, one of the most alarming has been a profound shift in both the pace and pattern of investment activity."

They continue, "Long regarded as the life-blood of advanced industrialized nations, investment (or gross fixed capital formation) accounted for a steady if not gradually increasing share of overall economic activity in those countries throughout the 1960s and 1970s. Beginning in 1974, however, investment activity began to weaken and, since that time, its relative importance in the domestic economy has fallen in virtually all of the advanced industrialized nations."

That's putting it mildly. The collapse of the number of persons employed in the Free World's steel industry since the first "oil shock" tells much. In 1974, Western Europe employed 887,000, a figure that plunged to 423,000 by 1987. The United States figure is similar, going from 521,000 employed in 1974 to a mere 240,000 in 1987.

Looking at steel consumption per capita, a useful relative measure of industrial intensity, we find that throughout the period following the 1979-80 hyperinflationary "second oil shock" and Federal Reserve chairman Paul Volcker's "anti-inflation" interest rate policies, world per capita steel consumption has been as flat as a pancake. According to IISI, world average levels were approximately 125 kilograms per inhabitant between 1982 and 1987. This includes the entire developing sector (where steel infrastructure investment has dropped sharply because of the debt crisis), as well as the OECD economies. The level in the European Community was somewhat better, 300 kg per capita, and in the United States, 390 kg per capita.

But, the measure of how inadequate these levels remain is Japan: 610 kg per capita and growing.

The major reason for the depression in world steel growth in the past 15 years is the series of policy shocks which have destroyed fixed exchange rates, driven interest rates up, and made short-term "financial innovation" such as "junk bond" leveraged buy-outs far more profitable for banks than long-term infrastructure investment.

The IISI stresses, "Interest payments on the public debt have risen sharply in most industrialized nations over the past decade and now exceed government investment expenditure by a factor of 2 or 3 in Italy, Canada, the U.S, and U.K." This, while government expenditure devoted to infrastructure (roads, water treatment plants, energy plants, etc.) currently stands at one-half what it was in 1974-75! We have a massive deficit of investment in steel production and industrial capacities.

It is the lunacies of "globalized financial innovation" which have made national governments hostage to the pressures of the "free market" and financial market deregulation. OECD governments' toleration of this and refusal to insure long-term low-interest credit for industrial expansion have brought us where we are today—on the verge of disaster.

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