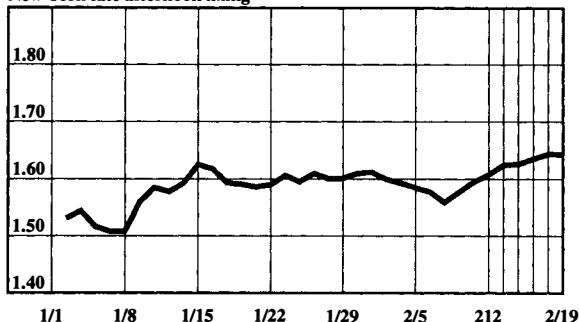


Currency Rates

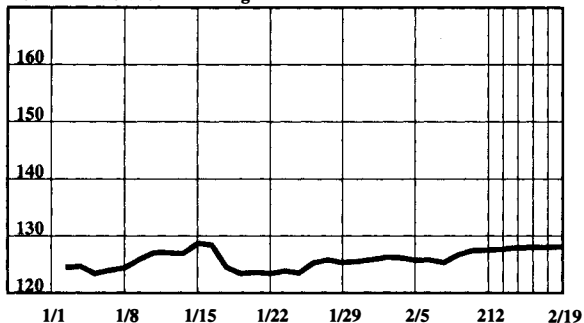
The dollar in deutschemarks

New York late afternoon fixing



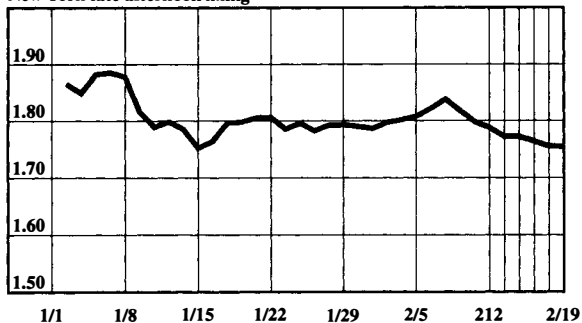
The dollar in yen

New York late afternoon fixing



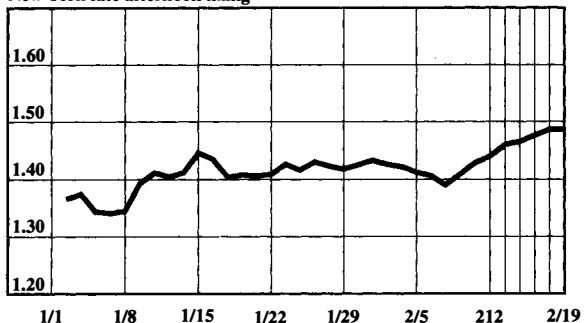
The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The American System

Kennedy vs. Blough: Who won in the end?

by Leif Johnson

On April 10, 1962, the president of the U.S. Steel Company, Roger Blough, walked into the Oval Office, and after introductory pleasantries, handed President John F. Kennedy a four-page mimeographed press release announcing that U.S. Steel would raise the price of steel \$6 a ton, effective immediately. The short ensuing war between Blough and Kennedy was a dramatic public highlight of the deepest domestic economic policy fight in post-World War II America. Kennedy won that war when, 10 days later, Blough was forced to retract the price increase, but his victory did not outlive him.

Kennedy had promised in the 1960 election campaign, and repeatedly after talking office, to pull the nation out of the severe 1957-60 Eisenhower recession. He pledged to expand the economy by 5% a year, to add 25,000 jobs a month for the next decade, in order to, as he said, "keep you working and your children working."

His economic program consisted of using the federal government to expand the economy by "making public investments which provide a solid foundations for the private investments which is the key to our free enterprise economy." Kennedy wanted to develop our natural resources, including nuclear energy; encourage plant modernization with an investment tax credit; give economic incentives for depressed areas; expand math and science scholarships; and intensively fund research and development, especially for nuclear fusion power. Four months after his inauguration, Kennedy announced his famous program for going to the Moon.

President Kennedy's concern was not only high U.S. unemployment, but the fact that for the first time since the war, the U.S. had developed a trade and balance of payments deficit with the rest of the world, weakening the dollar. On Feb. 13, 1961, he told the National Industrial Conference Board: "Capacity operation is the key. No matter what other arguments or stimulants are used, the incentives for investing new capital to expand manufacturing plants and equipment are weak as long as manufacturers are operating at less than 80% of their capacity."

He continued, "From 1950 to 1958, we put only one-sixth of our total output into capital formation, while Japan, Germany, Italy, the Netherlands, Canada, and Sweden were all investing one-fifth or more of their total output in capital goods. . . . All of these facts point in one direction: We must

start now to provide additional stimulus to the modernization of American industrial plants. Within the new few weeks, I shall propose to the Congress a new tax incentive for businesses to expand their normal investment in plant and equipment."

Because the price of steel was obviously a major factor in prices of innumerable manufactured items, Kennedy realized that a steel price hike could have a strong deteriorating effect on American industry and its competitiveness in the world economy.

Blough's post-industrial agenda

Roger Blough had the reverse agenda. Since 1955, the steel industry had cut back on new investment, yet steadily increased prices, allowing the companies to maintain profits even at much lower production levels. In 1960, when the steel industry produced at only 65% of its total capacity, the industry made an average profit of 6%. Researchers at Estes Kefauver's Senate Anti-Trust Committee claimed that the companies had structured their prices to make a profit even if only producing a third of the steel that their factories had the capacity to make.

By 1955, the decision was made at the highest levels of banking and their corporate world (U.S. Steel as well as other steel companies were created and run by the notorious J.P. Morgan bank) to deindustrialize America: to turn the economy into a "post-industrial," "information and services econo-

my." The once-mighty American industrial system would be melted down in a pool of junk bonds, real estate speculation in office buildings and shopping centers, corporate raids, leveraged buyouts, and the most massive accumulation of debt ever seen.

Thus the shape of the 1970s and 1980s, the ruin of our economic system, can be traced back to the decision to scrap America's industry, a decision taken secretly by powerful individuals involved in the "Pugwash" "détente" process of trying to put a lid on technological development worldwide. It was ironic that those decision-makers expected to use the Kennedy administration to carry out the policy shift they desired.

If industry refuses to invest in new technology and new plant and equipment, it is free to "diversify," creating conglomerate companies and investments having nothing to do with the original industry. And as manufacturers self-destruct to the point of not serving the market, they turn to Japan, Europe and other producers. In many cases, starting with electronics and autos, the "American" company imports the product and puts the "American" company name on it.

That is why half the cars sold in the U.S. in 1991 were made by a foreign company, and why, without Japan's \$7 billion investment in the American steel industry in the 1980s, that industry would not be functioning today. At least U.S. Steel had the decency to drop "Steel" from its name; it's now USX Corp., and only 6% of its revenues derive from steel production.

Books of the American System

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