

# How America's metal-working sector is being destroyed

by Leif Johnson

In the period from 1979 to the present, a catastrophe hit American industry. The event was known to few Americans and the protests made fell on deaf ears in Congress and the White House.

America's metal-working industry was being gutted. The industry that produces the machines, the forgings, the dies, the stampings, and the very nuts and bolts was wasting, its skilled labor power scattered and lost, its engineers and designers dismissed, its companies bankrupted.

Economist Lyndon H. LaRouche, Jr. emphasized in a nationally televised broadcast Feb. 4: "Now this seems to be a fairly small industry, employing about 100,000 operatives in 1981, and much less today. You say it's not very important. But without the machine-tool industry, my friends, the United States is out of business."

The affected industries complained loudly:

The National Machine Tool Builders Association, in a petition filed with the Commerce Department for relief from import competition, tells us that in 1977 imported machine tools represented 16.5% of all sales in the United States. By 1983, only six years later, 36% of machine tools sold were foreign, with over 50% of the most sophisticated five-axis and numerically controlled machines of foreign origin.

The Forging Industry Association informs us that half of its workforce has been dismissed in the last three years. The industry has the oldest tools of all American industry, with over 50% over 20 years old.

The Fasteners Institute, the trade association for the makers of nuts, bolts, and screws, complains that since 1978, 40% of the industry's production has been eliminated; employment is down by half, and 40 major plants have closed their doors in the last two years alone.

And because of this, the die-makers, the highly skilled craftsmen who make the critical shaping part used in all forgings, have suffered 10% of their shops bankrupted and 30% of capacity lost in the last three years.

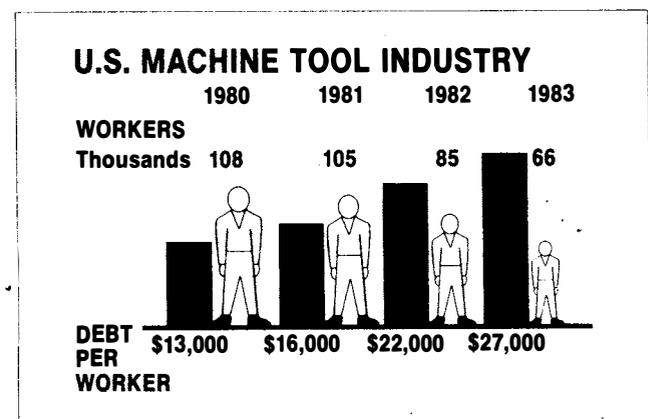
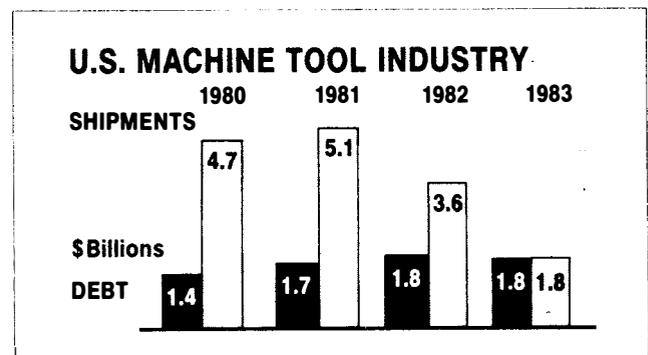
How could such a debacle occur? Was it because of the flood of imports that has hit every sector of the metal-working industry, or is it the worldwide depression begun when Jimmy Carter's newly appointed Federal Reserve Board chief Paul Volcker raised world interest rates to a level of universal usury not known since Biblical days?

Both played a role, but it is the purposeful "shaping" of the disaster by the conscious advocates of a policy of de-industrialization that must be examined. The steel industry had a key role to play.

## The Trigger Price Mechanism

Since steel is our most basic engineering material, the ability to shape and machine it is the basis for all other industrial processes. Even industries not engaged in output of steel or other metal products must use capital goods made of steel and other metals to operate.

In 1978, President Jimmy Carter, because of the complaints of the steel industry, instituted a protectionist measure known as the Trigger Price Mechanism. It established a minimum selling price of imports at the Japanese selling price, taking the Japanese industry as the most efficient.



All things being equal, this method would tend to encourage American steel companies to modernize to compete with Japanese prices, while keeping out less productively produced steels that were being dumped on the U.S. market.

But nothing was equal. The U.S. steel industry—from which the Japanese acquired much of their technology, but which the U.S. industry generally refused to employ domestically—was a cartel formed in the first decade of the 20th century by the Morgan and Mellon banking empires, with the participation of the Rockefeller-connected Hanna mining and metals group. As a cartel created by New York and Pittsburgh banking interests, the industry was characterized from the first by a desire to restrict production and to subordinate actual steel-making to financial activity.

During World War II, the industry defied the President's demand that it increase output, arguing that its concern was not the war effort, but the prospect of "overcapacity" after the war.

In 1961, U.S. Steel, the industry's largest company, precipitated a brutal showdown with the just-inaugurated President John Kennedy over plans to rationalize and shrink the industry by greatly increasing prices and substituting cheaper foreign steel.

By 1980, the steel industry was meeting in Jimmy Carter's "Tripartite Committee"—a form borrowed from the corporatist bodies of Italian fascist dictator Benito Mussolini—and discussing plans to reduce steel output in the United States by 50%, a plan that is now going into effect with the shutdown of 20% of U.S. Steel's output and the merger of major steel makers.

The steel companies, despite their protests over imports, were in fact not concerned with imports or with the health of the domestic industry. They were operating on a general plan, coordinated with the "de-industrializers" of Europe, such as the European Community's Viscount Etienne Davignon, to reduce world steel output.

This deindustrialization policy was shown by a comparative study of American and Japanese capital investment in steel-making from 1956 to 1976. The American companies were found to have spent nearly 30% more than the Japanese for capital plant and equipment, but the Japanese built virtually their entire industry, from 12 million tons to 144 million tons, and the American industry wound up technologically far behind the Japanese.

The Trigger Price Mechanism did little for the industry, but it did have a profound impact on the metal-working industry worldwide. First, it established a more or less permanent and stable market for the Japanese. Inhibited by the Trigger Price Mechanism and the threat of further protectionist measures, the Japanese moved in two ways: first, to sell more valuable specialty steels like tool, stainless, and alloy steel to U.S. markets. Second, as they built their capacity to ship such more valuable steels, but as these too became subject to protectionist measures, the exporters began to ship their steel as semi-manufactured and then fully manufactured

goods.

When it became difficult to ship tool steel or alloys, U.S. imports of machine tools, forgings, transportation and construction equipment assemblies, fasteners, and other items soared. Typical of these operations by foreign governments was the decision by the Canadian government to sell its forging-grade steel at 30% under cost to a Canadian forging company which then sold its forgings in the United States at well below U.S. prices. Forgers claim that now the entire undercarriage of Caterpillar bulldozers is imported.

All of this occurred as the vise of depression crushed the world's machinery and metal-working industries. The nations of Europe in particular used any device or price to maintain sales of steel and steel products and machinery, lest their manufacturing companies be closed down under the provisions of the European Commission's Davignon Plan for dismantling heavy industries.

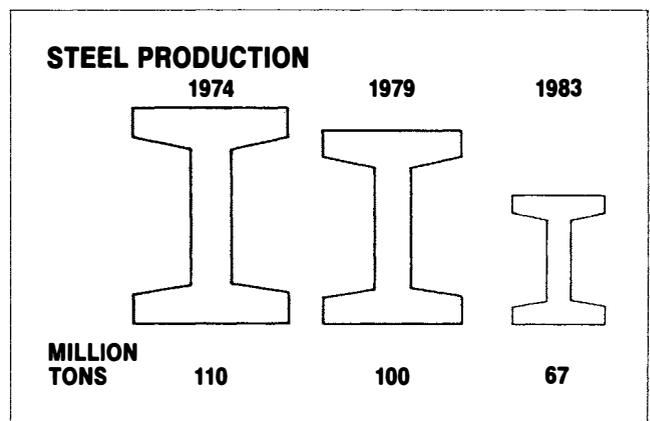
The table on page 24 of grades of U.S. steel imports shows the progression from imports of carbon steel to higher grades of alloys and stainless, including tool steel, and then the collapse of alloy imports in 1983. That steel nonetheless entered the country—in the form of forged products and machine tools.

The steel industry had made preparations early for the shutdown now in effect. In the 1980-81 period major steel companies, U.S. Steel in particular, began a clearing out of experienced production managers, replacing them with Harvard and other business school-trained managers.

Besides converting steel companies into "financial services" and other types of companies, exemplified by U.S. Steel's \$6 billion purchase of Marathon Oil, the Harvard boys blamed the workforce for the wretched state of the industry, demanding large wage give-backs.

### 'Rationalization' of the auto industry

Noticeable in the pattern that has led to the dire conditions in metal-working, is the role of the auto companies. In 1979 a General Motors senior vice president addressed a meeting of machine-tool builders with promises of orders that would keep the industry at full production through 1983, the final



year of an \$80 billion promised retooling of the auto industry.

Thirty billion dollars later, much of that spent for "rationalizations"—such as Chrysler's reduction in output by 40%—the retooling of the Morgan bank-controlled industry came to a halt. The machine tool industry, that had been promised years more of steady auto orders, was multiply devastated as suddenly, under the shock of Federal Reserve chairman Paul Volcker's usury, the aerospace and oil-drilling sectors began to dry up.

Worse, at the same time the Carter administration negotiated a "standstill" agreement with Japan, limiting the number of auto imports, which had the same effect as the steel imports curbs: Imports of auto parts, including castings, forgings, and fasteners of all kinds, and even spark plugs flooded in.

### No relief for metalworking

While the Carter administration granted relief to the steel and auto industries—which the Reagan administration continued—no relief was granted to the essential metal-working industries. In 1977 the Federal Emergency Management Agency (FEMA) undertook an investigation of the huge import penetration of industrial fasteners (large nuts, bolts, screws, other fasteners) and its relation to U.S. defense preparedness. In 1970 24% of domestically consumed fasteners were imported. By 1977 it was 43% (today it is over 65%) and the Departments of Commerce and Defense concurred that relief was necessary.

In his rejection of the FEMA petition, then Secretary of the Treasury Michael Blumenthal not only misrepresented the nature of fastener production, but posited that the next war will be over in 18 minutes in any case and that any defense-related need for fasteners was therefore moot.

In early 1982, when business conditions were approaching disaster in the industry and 30 major producers had been eliminated, the Fastener Institute held high hopes for a new investigation initiated by Secretary of Defense Casper Weinberger. The Defense and Commerce Departments presented completely convincing cases, only to be squashed by State.

Using a Carter administration National Security Agency scenario of a European land war with the Soviets, the State Department argued that although the Atlantic shipping lanes might be shut down, there was no threat to the Pacific lanes

and that Japan, the major supplier of fasteners, was politically reliable. Only Blumenthal's 1978 argument could have been more absurd.

### Protectionism no answer

The sabotage from the State Department does not excuse the political impotence of the metal-working industries themselves. While they recognize the necessity of their industry for defense, and indeed for the entire civilian economy, they insist on relief against imports rather than restoring the industry itself.

The necessity is not redistribution of extremely depressed tool and metal-working orders among existing producers. Protectionism in a world depression never saves the domestic industry, since depression is itself a financial war against industrial production of all nations.

In May 1940, as the Nazis overran the European continent, but 18 months before Pearl Harbor and at a time when the United States was not directly threatened with war, President Roosevelt issued a declaration of national emergency. The government issued Certificates of Necessity which allowed tool companies to buy machinery and equipment as part of the sales contract and write it down in a year.

The result was dramatic. From \$440 million in deliveries in 1940, the machine tool industry was able to deliver \$775 million in 1941.

In 1942, the first full year of America's involvement in the world war, the machine tool industry shipped \$1,320 million worth of tools, an output eight fold greater than only five years previous.

Harold Vance, then in charge of planning for machine tool production testified in 1956:

"It was the summer of 1940, when the defense effort prior to World War II commenced. Of the funds originally provided by Congress for defense preparedness prior to World War II, a very large portion was devoted to the creation of capacity. . . . It was the most fortunate thing to have had happened, because when Pearl Harbor occurred and we got into the war, we had the advantage of the year and a half . . . and we were able to build planes, guns, and other equipment much quicker than we otherwise could have done."

Today, without a similar declaration of national emergency, our metal-working industries will sink into oblivion.

## Carbon, alloy, and stainless steel imports 1978-1983

(thousands of tons)

Sector	1978	1979	1980	1981	1982	1983
Carbon	20,181	16,621	14,784	18,616	15,372	16,344
Alloy	753	725	559	1,092	1,084	536
Stainless	199	169	153	191	203	190

*Steel imports have fallen as a result of the Trigger Price Mechanism and the shift from carbon to high-value alloys. Imports of alloys collapsed as imports flooded in as steel parts, semi-manufactures, and whole machines.*

**Source:** American Iron and Steel Institute.

## Industry depends on metalworking

The industries that make the parts and ultimately the tools of industry from metals, of which steel is primary, are the metal-working industries. They lie at the base of all industry; without them, nothing is manufactured.

**Castings:** This metal-working process, easily 4,000 years old, is the simplest way to make metal parts. Molten metal, most commonly steel, is poured into a mold, commonly made of sand. The metal cools, leaving a hardened surface and softer interior. Castings have an immense variety of uses, from auto and appliance parts, to heavy steel shapes used by railroads, to highly sophisticated skins for the cruise missile.

**Dies:** These are the alloy steel "patterns" into which metal is either poured to produce castings or forced under great pressure and heat to produce castings. The number and skill of a nation's tool and die makers is a measure of its industrial and military capability. Most die companies are small, family-run.

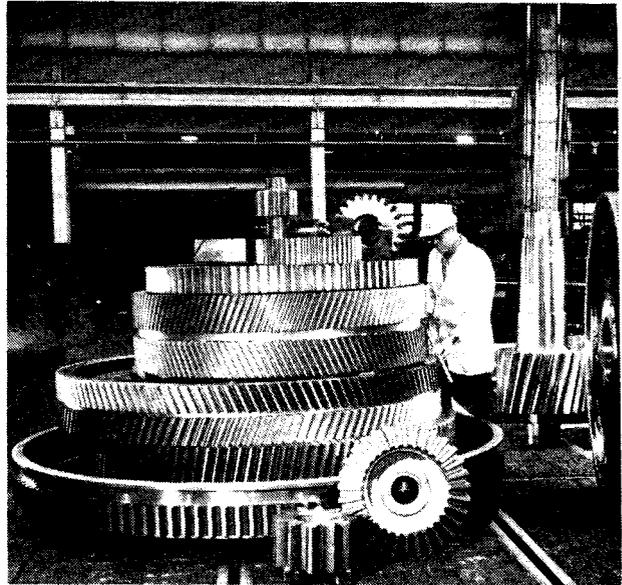
**Fasteners:** The nuts, bolts, large screws, and other kinds of fasteners are commonly known items, but the 400,000 different kinds of fasteners in use demand great diversity of manufacturing capability. Fastener-producing machines can be large, complex machines requiring highly skilled operators.

**Forgings:** In this process, steel or some other metal is deformed under heat and pressure, producing a part with a fibrous structure giving it great strength. Forgings include auto crankshafts, aircraft parts, valves, pressurized

container vessels, and numerous military items including the drive shafts of submarines.

**Machine Tools:** There are two basic types of machine tools: cutting and forming. The former shapes metal or other materials by turning (lathes), boring, drilling, cutting, grinding, and polishing; the latter forms metal by punching and shearing, bending, and stamping. Metal-forming machines include forging and diecasting machines. Great advances have taken place in the industry through electronic controls (numerical control), greatly amplifying a machine tool's capabilities and speed.

**Stampings:** Here the metal is shaped and punched by mechanical action, with relatively light metal used. Most steel consumer products, from auto bodies to beer can openers, are stamped.



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## Documentation

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### 'This industry will be out of business in a year'

*James Gray, president of the National Machine Tool Builders Association, discussed with EIR's in his industry. The Association has filed a 232 petition with the government—seeking relief from import competition on national defense grounds.*

**Gray:** The administration had better approve our 232 petition or the whole industry will move offshore. If they do to us what they did to the fasteners industry, [whose 232 petition

was denied last year], two things will happen. In fact, not *will* happen; they're happening right now. First, the machine tool industry will go offshore. It can produce in Taiwan, Japan, Italy and from there it can export to the East bloc, which is now half the world market. Every tool company is sourcing something overseas.

Second, the conglomerates are dumping their machine tool subsidiaries. Machine tools are rated one of the lowest-profit industries by the market analysts.

Do you know what we will do? We will sell to the Russians. I'm not soft on the Russians; I am a conservative, but if our own government will not back us up and restrict imports, we have no choice.

I was at the Kama River factory [in the Soviet Union]. They had three assembly lines producing red, white, and blue cars, just for our visit. But they were only producing at 25%

of capacity because the U.S. was blocking sales of spare parts for American machine tools at the factory. Only 6% of the machine tools are American, but if they are not functioning, the whole line breaks down.

If we don't sell the parts, the Russians will rip out the machines and put German machines in and we will be permanently shut out of the market.

We're going to the trade fair in Moscow at the end of March. We'll spend a day there and then four days touring with top Soviet tool people. They tell us they have their shopping lists ready.

Later, they will send a delegation to this country again with their shopping lists.

**EIR:** What is the capacity of the industry to tool a defense mobilization?

**Gray:** A defense mobilization? This industry doesn't have the capability to tool a civilian surge, much less a military surge. This industry is in involuntary liquidation. If there is no relief, this entire industry will be out of business in a year. Think of the great machine builders of World War II—Bullard, J&L Turning—they are no longer there. Look at Warner & Swazey—they sold all their turning machine tool capability and are now sourcing in Japan and Italy and just assembling these machines in the U.S.

I can't off-hand think of one apprenticeship program in the industry. Worse, we have lost our engineers and designers. Once they leave, we don't get them back. . . .

We are making one last try. Ten of our top execs will meet with Commerce to tell them why we need the 232. You have to understand that as much as 40% of U.S. machine tool sales were foreign tools in 1983. Over 50% of the most sophisticated tools, the five-axis and the numerically controlled turning machines are foreign, mostly Japanese.

The Japanese don't care how many tools they sell the East. The average price of an NC [numerically controlled] tool sold the Soviets by the Japanese is \$1.5 million; the average price of Japanese NC machines to the rest of world is \$2-300,000. So you get a good idea what kind of tools they are selling the Soviets.

Do you know that the Japanese licensed five-axis tools [tools used for aircraft and missile production] to Hungary in 1979 and to the Romanians in 1978? In 1975 the Norwegians sold sophisticated COCOM-listed controls [COCOM is the NATO committee that proscribes export of military-related goods to communist countries—ed.] directly from their arsenal. It was sent through dummy companies in France.

We must have exports or our industry dies. We have the largest foreign trade section of any trade association in the country. When the Jackson-Vanik amendment [restricting exports to the Soviet Union] was passed, the companies began to invest in foreign plants to ship to the East bloc. That hurt our R&D and destroyed our lead in technology. You must understand that if you control the NC and machining centers markets, you control the level of world technology.

## 'If we take work, we lose money'

*EIR's Leif Johnson asked a leading spokesman for the die-makers industry to describe the situation his shops face.*

In the last few years, there has been a major shift in our industry. As a result, at least 40 die shops have gone out of business, 50% of our skilled labor has been lost, and I estimate 40% of all forging capacity [for which most dies are made] has been lost. We have only five apprentices in the federal indentured apprentice program in our industry.

Right now, in our industry, if you take work you lose money. The buyers demand: How low a price can you quote us—and then how soon can you give to us? These are long-established contacts. For example, a buyer who eight years ago bought a die for \$5,000 might now ask one of our shops to produce the same die for less.

If our companies take the work, which they must do to keep their skilled workers, they lose on the sale and then may wait three to four months to get paid. Forty percent of our invoices are over 90-days overdue.

What is so dismaying is all the new technology, like CAD/CAM and numerically controlled machine tools, is there, but our shops cannot finance it. How can a shop of 30-40 men afford a half-million dollar machine if it doesn't have guaranteed orders? We need long-term commitments from the forging industry.

As far as imports go, the worst offenders are the big companies like GM, Chrysler, International Harvester, Clark, and John Deere, who began buying offshore ten years ago. Since then it has gotten progressively worse. Caterpillar is probably the largest foreign buyer. Then look at the steel companies that buy offshore and stamp their names on it! The tool companies do the same.



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- **History and Mideast policy of the Pugwash Conferences**, whose organization by Bertrand Russell in 1957 involved high-level Soviet participation from the beginning. Pugwash Conferences predicted petroleum crises and foresaw tactical nuclear warfare in the Middle East.
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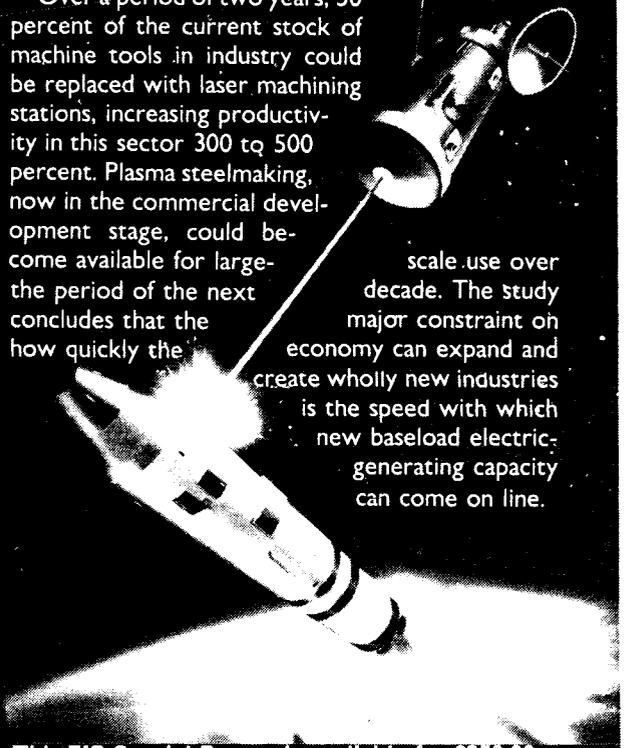
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- the U.S. trade deficit could be eliminated in two years; and
- the rate of growth of real GNP could approach 25 percent per annum.

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