

## Domestic Credit by Richard Freeman

### Machine tools and national security

*The severe decline in the industry bodes ill for America's wartime mobilization capability.*

**T**he criminal destruction of the machine-tool industry is a direct threat to national security, a petition brought by the National Machine Tool Builders Association (NMTBA) alleges. "If a war breaks out, there's no guarantee we'll have capacity left to give American factories what they need to build weapons," said Richard Lindren, head of Cross and Trecker, a major machine-tool builder.

The machine-tool industry is the capital-goods maker that produces other capital goods. As such, it is the critical industry for any economy. The American machine-tool industry was always small, relative to the size it should be. Even at its height, annual sales of the machine-tool industry never exceeded \$5 billion, out of total goods sales of \$1.5 trillion, a miniscule fraction.

But the machine-tool industry since 1979, when Federal Reserve chairman Paul Volcker instituted his October "revolution" sending the prime rate into double digits for more than five consecutive years, has experienced disaster. Its condition now, as the NMTBA charges, is unfit for national defense mobilization. The United States could not contemplate a World War II-style mobilization with the industry in its current condition. In fact, and this point is related to the defense issue, the United States cannot even manage peace-time survival.

The machine-tool industry reached its high point in sales in 1981, with \$5,111.3 million. This plunged to \$2,132.6 million in 1983, as the bottom fell out of the economy. But in

the so-called recovery year of 1984, the machine-tool industry for the first six months of 1984 has registered shipments of \$1,063.0 million, or 0.3% less than 1983 on an annualized basis.

In constant 1972 dollars, the picture is even more bleak. 1981 shipments were \$1,940.5 million, while 1983 shipments were \$745.9 million, and on an annualized basis, 1984 shipments will be \$721.3 billion, one-third the 1981 levels.

The work force, one of the most skilled categories of workers in the world, has been decimated: 66,000 workers were employed in the machine-tool industry in 1980. In 1983, this had been halved to 37,577. More layoffs have occurred in 1984 and more will occur in 1985.

The NMBTA petition, filed in March 1983, seeks to have the American President invoke Section 232 of the Trade Expansion Act of 1962. Under the authority of this act, the President can restrict imports that threaten to undermine the country's national security. The NMBTA petition charges that imports are destroying the machine-tool industry and that imports have jumped from 20% of the U.S. market in 1980 to nearly 40% presently. The petition seeks to restrict foreign imports of machine tools to 17.5% of the market. The suit is now back in the news and a final ruling awaits the completion of a National Security Council study on industrial mobilization for a war economy.

Certainly, the NMBTA petition isolates an important element, but

while implicitly targeting the real culprit, it ultimately lets the culprit go scott free, and pushes the petition in a narrow direction. The real culprit is Paul Volcker. His high interest rates, first, have destroyed U.S. capital-goods industries, wrecking the market for machine-tool purchases; and second, made the dollar so strong that imports enjoy a price advantage. For example, over the last two-and-one-half years, the dollar has almost doubled in value against the German Deutschemark, which halves the import cost of a German machine tool.

Many industries are taking advantage of this. In June of this year, General Motors, one of the country's largest purchasers of machine tools, placed a \$75 million machine-tool order with Canada and West Germany; in July, GM placed a \$70 million order with Japan.

But according to the NMBTA's own figures, imports in 1981 totaled \$1,431.5 million, 27% of the U.S. market. Imports this year, on an annualized basis, are only \$1,069 million, or 25% less than the 1981 level, although they command 40% of the U.S. market. Imports have been falling because of the depressed state of U.S. industry in general.

This does not invalidate the national security argument. Far from it, it adds more urgency to it. The United States cannot live with a collapsing machine-tool industry; a World War II-style mobilization, under present conditions, a competent NSC study would have to show, is out of the question. With the Soviets moving aggressively as they are in search of global conquest, it is the height of national folly to tolerate for one moment longer the collapsed state of this critical industry.

Firing Paul Volcker becomes all the more a national security issue.