

# Year of 'Great Recovery' devastates physical economy of United States

by Joyce Fredman

The year 1987, characterized by the Reagan administration as the most recent stretch of the 60 months of the "Great Recovery," has been a year of devastation for the physical economy of the United States. From the shipping industry, where the United States fulfilled its last order for a merchant ship and sold three of its jumbo container ships for scrap, to the steel sector, where capacity was slashed by more than 25% in the past 10 years and the work force permanently cut by over half, the death knell for American industry has been rung.

Over 50 million Americans, especially infants, the elderly, and displaced blue-collar workers, do not get enough to eat; 37 million Americans have no health insurance; and perhaps most horrifying, more than one-third of the nation's homeless population, its fastest growing segment, consists of families with children.

The United States now is one of the only leading industrial nations in the world with one-third of its population living in poverty. Rather than building new plants and factories, the order of the day is to close steel and auto plants, convert shipyards into restaurants, and to pay farmers not to grow food. The trade deficit, at \$17.6 billion, is the largest in history.

## The once great military-industrial complex

One of the most frightening scandals this year was the security threat facing the military industrial sector as a result of the deindustrialization of the United States. In early July, Pentagon officials announced that the Armed Forces were so short of spare parts, that they were being forced to cannibalize existing machinery, a practice normally reserved for combat circumstances. One strategic piece of equipment that has fallen prey to this process is the B-1 bomber. New bombers, each costing \$200 million, sit immobilized, because parts have been taken from them to be installed in other planes. Air Force officials say it will be 1990 before 30% of the new U.S. strategic bombers can be kept on alert. Thirty percent

is the standard percentage for quick response. Today, out of 54 bombers in the force, only one plane is on alert!

Imports now account for approximately 70% of all fasteners in the United States. For standard nuts, bolts, and large screws, it is well over 90%. One type of fastener is called the Grade 8.0 automotive bolt and is used by the Department of Defense in approximately 500 different weapon systems. In one agency alone, a random survey showed 29% of its inventory to be counterfeit bolts. When five defense contractors sampled their inventories, 50% of the Grade 8.0 bolts were counterfeit.

One of the Army's main battle tanks is the M-60. Out of 10,000 tanks, 1,220 have been crippled by weak bolts. The Navy as well, has had difficulty with engine bolts for mine-sweepers and howitzers because of faulty bolts.

As of late August, one-third of the completed MX missiles lacked their electronic guidance systems because of delays in their production. The MX missiles cannot be deployed without their guidance systems. Ten years ago, the United States had a virtual monopoly on semiconductors. Now, the Department of Defense has come to obtain 80-90% of its semiconductors from abroad.

The manufacturing base of the industry is shrinking so rapidly that government intervention is needed to restore both the defense and civilian economies. One of the priorities would be to develop a 64-megabit dynamic random access memory (DRAM) chip, with 64 times the capacity of the present-day 1 megabit DRAM chip. In this area, the United States once had complete control; now, U.S. manufacturers supply only about 10% of the market.

The machine-tool industry, the core of any industrial society, is also on the "critical" list of ailing sectors. Machine tools are power-driven devices used to shape metal parts, from vacuum cleaner parts to tractor gears, to tooling for aircraft, tanks, and sometimes ammunition. Thirty years ago, machine-tool purchases accounted for some 7% of durable equipment purchases in the United States; by 1985, the figure

had dropped to 1.2% of durable equipment purchases. Today, the level of orders is pathetic for a third-rate country, let alone a superpower. Imports now comprise 50% of the market!

### **The sinking of the merchant marine**

One of the worst tragedies of 1987 was the demolition of the shipping industry. The last order for an ocean-faring merchant ship was in October 1984, when three container ships were ordered for delivery in 1987. Those vessels, built in Sturgeon Bay, Wisconsin, were the last merchant ships built in the United States. On Nov. 10, 1987, the last one, owned by Sea-Land Corporation, was delivered.

Since 1946, the U.S. Merchant Marine has dropped from more than 3,000 ships actively engaged in U.S. ocean-borne foreign trade to a mere 470 today, of which 100 are inactive. Only 5% of American trade is carried on U.S. flag ships. At the end of World War II the United States had the world's largest merchant fleet, employing more than 200,000 experienced merchant mariners. In 1987 that number went to less than 30,000 active seafarers and the United States dropped to 16th in rank in number of ships.

The cumulative manpower requirement for military surge shipping for the first 30 days in a military crisis would be about 6,000 additional billets, of which approximately 75% would have to be filled within the first 10 days. If only 75% of the active seafarers were to respond, then the surge shipping shortfall would be on the order of 6,000 people. Extrapolations have been done to show that by 1992 we will have an available pool of seafarers of about 21,400 versus a total wartime requirement of 31,000—a shortfall of 10,000 men or higher, depending on how many answer the call. If the rate is 75%, the shortfall could be as high as 15,000.

Needless to say, this shortfall increases steadily with the closing of shipyards. The largest American independent shipbuilder, Todd Shipyards Corp., along with its subsidiary Todd Pacific Shipyards, filed for Chapter 11 on Aug. 19, 1987.

The General Dynamics Corporation shipyards at Quincy, Massachusetts, which had been shut in 1986, were sold in August to the Massachusetts Water Resources Authority for \$49 million. Bethlehem Steel once ran 16 shipyards and employed 12,000 workers. It now has two yards and 2,000 employees. Bay Shipbuilding Corp. had at its peak 1,800 workers. With its last order gone, it now employs fewer than 200. In October 1982, there were 110 shipyards in this country. Now there are 76, of which somewhere around 15 build ships for the U.S. Navy, perhaps 20 do the Navy's repairs, and the rest sit and wait.

The cuts in the defense budget have taken their toll, and the Navy is no exception. In October, John Stocker, president of the Shipbuilders Council, gave a picture of what this budget looks like:

“Our concern for budgetary instability is real. One anal-

ysis shows that if funding for Navy shipbuilding programs declines by a negative 3% over the next five years, more than \$13.64 billion will come out of the planned levels of spending. That number represents a reduction of nearly one-quarter of the planned spending on programs in the near term.

“The impact of such reductions on the industry where a single customer now accounts for more than 90% of our industry's workload will be devastating. Such reductions will also quickly reverse the stated policy goal of maintaining a 600-ship Navy, since budgetary planning requires eighteen to twenty ships per year and funding of \$11.5 billion per year to maintain the fleet's present size. At 3% negative growth, by 1992, \$10 billion will be the expected size of the budget. To indicate how close we are to such an eventuality, let me point out to you that the House and Senate in the Department of Defense Authorization Bills for Fiscal Year 1988 are dealing with funding levels of \$9.93 billion and \$10.08 billion, respectively.

“Let me remind you that roughly one-third of these dollar amounts represent the actual dollars going to shipyards. A \$10 billion program represents \$3 billion in contract awards to shipyards. The remaining amounts are given over to combat system manufacturers and other government furnished equipment. Thus, the shipbuilding and ship repair industries' annual sales will drop to about \$4 billion a year (in terms of both repair and new construction) from the past five year experience of about \$5.5 billion per year. . . .”

In late August, three jumbo container ships from the United States were sold for \$3.8 million each. The ships were 4400 TEUs (20-foot container equivalent units) belonging to United States Lines Inc. (USL) in Cranford, New Jersey. They were held in Singapore since the company and its parent, McLean Industries, Inc. filed for protection from creditors under Chapter 11 of the Federal Bankruptcy Code in December 1986.

In mid-September, American California, a fourth TEU containership belonging to USL, was sold for \$4.48 million. These giant ships, constructed by Daewoo Shipbuilding & Heavy Machinery, LTD, in Seoul, cost the U.S.-flag liner operator approximately \$48 million each when delivered a few years ago. They were sold for less than one-tenth of their original price—virtually as scrap! Malcolm McLean, one of the transportation industry's great innovators, had figured that the huge steaming containerships making regular stops around the world would command market share despite longer delivery time. The ships are 950 feet and have a top speed of about 18 knots. But what McLean hadn't calculated was the demise of the shipping industry. Estimates for deepening and modernizing ports, lengthening berths and expanding cranes to accommodate the new generation of ships cost much more than the depressed U.S. economy would bear.

Now the remaining eight superfreighters, loaded with \$1.2 billion in debt, are rusting at piers in New York, Ta-

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