'Industrial restructuring' comes out of the closet

by Lydia Schulman

"The escalation of energy prices and recurrent threats of oil shortage have forced harsh adjustments and new ways of thinking on the average citizen, calling into question a style of life dependent on cheap and abundant energy."

With these words to the convention of the National Association of Mutual Savings Banks in Florida on May 14, Federal Reserve Chairman Volcker made explicit the long-range policy objective behind the Fed's restrictive monetary regime: to force a fundamental restructuring of the U.S. economy.

Tight money will be a continuing element of the Federal Reserve's program, Volcker emphasized. He warned that the dramatic drop in interest rates over the past month was a reflection of "a fall in the demand for money and credit, not an increase in supply"; the Fed is fully commited to a policy of "restraint on growth in the money supply and credit." The post-1975 economic expansion, which added 14 million to the employment rolls, had a "false glow" to it, and is an unrepeatable experience. "I suspect you already realize there can be no simple retreat to 'business as usual'," Volcker said.

Volcker's comments were followed by a rash of calls last week for the forging of a national "industrial policy" from such diverse quarters as the Kennedy and Reagan presidential campaigns, private thinktanks of left and right persuasions, and the Department of Transportation. The common theme of all these calls was the need to "streamline" America's crumbling basic industries, such as auto and steel.

Reagan's defense and foreign policy advisory group, centered at Georgetown University's Center for Strategic and International Studies and the Committee on the Present Danger, are circulating discussion papers calling for a big increase in government defense spending to stay the U.S.'s waning military strategic position.

The Club of Rome-linked Academy for the Study of Contemporary Problems, the Urban Land Institute, and allied urban development thinktanks held semi-secret conferences around the country last week on the topic of rehabilitating the nation's older urban centers "on an appropriate scale"—i.e., around white collar, "information" industries. According to one ULI staffer interviewed, the consensus at these forums was that the reality of the energy crisis and the breakdown of public transit systems dictate new development patterns for the country. The trend must be toward "compacting" and "infilling" urban centers on a scaled down basis; the suburbs are a thing of the past. The only question is, what do you do with the blue-collar workers and lumpen population now residing in the cities? "Are they suitable for any work?"

Earlier this month, the Harriman-sponsored American Assembly held a seminar at Arden House on the topic of "The City and the Farm," which reportedly treated the mutual benefits of "recentralizing" the cities and turning the suburbs back into farm land.

The policymakers who are dreaming up such proposals are ignoring the obstacles to so neat a "restructuring" of the U.S. economy, not the least of which is the *out-of-control* nature of the economic unravelling unleashed by chairman Volcker. The other major obstacle to an "industrial recovery" program keyed to a defense build up is the depleted state of the U.S.'s capital goods infrastructure and its skilled labor pool.

The *EIR*'s recent series on the loss of American military superiority, which located the problem in the neglect of broad-based scientific research and in-depth basic industrial development, is now being echoed widely. An op-ed in the May 19 *Wall Street Journal* by Harvard sociology professor Ezra Vogel, for example, noted that contrary to the myths about cheap labor and protectionism, the key to Japan's industrial success has been its "better educated" labor force and its government-business collaboration for strategic development. "Japan will soon be investing more in absolute terms in modern plant and equipment than the U.S.," Vogel reported. (This comparison doesn't even take into account the superior composition of Japanese capital investment.) "The proportion of GNP going into R&D has been falling in the U.S., but rising rapidly in Japan."

Despite the sudden alarm that has gone up in leading U.S. policy circles, the solutions that are being proposed by these same circles are incompetnet "quick fixes," typified by the Committee on the Present Danger's proposal to have a manpower training program for the armed forces alone.

The occasion for the new discussion of economic restructuring is, of course, the deepening of the U.S. economic collapse. Orders for durable goods plunged 4.2 percent in April, as orders for machinery and capital goods joined the collapse. The steel industry's operating rate dropped to 71.6 percent of its usable capacity in mid-April. The auto industry now has 217,000 workers on indefinite leave and 55,000-70,000 per week on temporary leave. On May 16 the Chrysler Corp. made the expected announcement that it will close its Lynch Road plant in Detroit permanently and get out of the full-size car business for good. This decision, industry sources report, was one of the conditions that had to be met before the Chrysler Loan Guarantee Board would release $1.5 billion in loan guarantees to Chrysler earlier this month.

In this atmosphere of economic doom, the May 20 *New York Times* gave prominent coverage to an ongoing study by the Department of Transportation on the viability of not just Chrysler, but the entire automobile industry. The study, which was initiated last winter by Transportation Secretary Neil Goldschmidt, reportedly raises the broader issue of "industrial policy": what must government policy be vis-à-vis the aging basic industries of the advanced sector? As the *Times* noted, both the Trilateral Commission and the New York Council on Foreign Relations have undertaken major research projects on industrial policy, the latter of which will be the next volume in the CFR's "1980s Project" series and is being conducted by William Diebolt. "Industrial Policy" was also the topic of a major international symposium in Madrid May 5-9, jointly sponsored by the Organization for Economic Cooperation and Development and the Spanish Ministry of Energy.

The DoT study, according to sources in the department, will recommend a comprehensive government policy on auto which could include import protection, tax breaks for the industry, and some relief from clean air and safety regulations. The present government assistance package for Chrysler, which has already entailed a 35 percent permanent reduction in Chrysler's workforce and a dropping of all the auto company's full-size cars, points up the actual content of the "industrial policy" under discussion: government-directed shrinkage and cartelization of basic industry with only the most limited assistance for "modernization." This is precisely the policy of the Italian and German fascist regimes put into effect in their respective countries.

"When you have a deepening economic crisis, people start thinking about the need for a national industrial policy," Gail Garfield Shwartz of the Academy for the Study of Contemporary Problems said in an interview last week. Ms. Garfield was a featured speaker at the Council on Urban Economic Development conference in Washington on May 19, where "Industrial policy" was the leading item on the agenda. "There are some very important people in government who realize that we must formulate an industrial policy and fast. We need policies for 'mature' industries like steel, auto, and electronics, and for our growing industries like biochemicals, medical instruments, and environmental devices. The government is going to have to step in with revolving loan funds, interest rate subsidies; government is going to have to share some of the risk."

As for the future shape of U.S. industry, Ms. Schwartz predicted that the older industrialized centers "are going to shrink. Younger people are going to have to move." The government must undertake a comprehensive approach to the basic industries, she emphasized: "If government is going to assist the steel industry for example, it has to look at the whole industry. Last year the Economic Development Administration of Commerce granted a subsidized loan to Wisconsin Steel, a small company in Chicago. The company recently folded. Had we had a comprehensive program, we would be able to decide which companies can recover and which can't. Now everything is done on an ad hoc basis; you always have a cliff hanger—a Chrysler crisis."

The recent speeches of Alexander Trowbridge, current president of the National Association of Manufacturers, formerly of Allied Chemical, are taking up a similar theme. Felix Rohatyn recently made a renewed pitch for a new Reconstruction Finance Corp. to "aid" U.S. industry. Left and right are converging in the restructuring discussion. As Ms. Garfield put it, "There are some strange bedfellows in the industrial policy bed."