A sunset policy for U.S. basic industry?

by Richard Freeman

Two wholly different proposals for "reindustrialization" of the United States have now been placed before the Democratic Party nationally. One, issued last Aug. 4 by the Subcommittee on Industrial Policy (SIP) of the Senate Democratic Party Task Force, is premised on the proposal that the U.S. economy should no longer be based on agriculture and basic industry. A second, issued this week by the National Democratic Policy Committee, has rejected the SIP proposal as "incompetent" and calls for a revival of basic industry like steel and auto on a high-technology basis.

This week brought fresh evidence that the SIP proposal is already being effectively put into operation by the continued tightening of interest rates under Federal Reserve Chairman Paul Volcker. In August, it was announced that a 200 basis point increase in six-month Treasury rates helped cut new factory orders by 2.3 percent for the month.

The SIP, a think tank for the party, is a relatively new creation under the direction of Democratic Senators Lloyd Bentsen of Texas and Adlai Stevenson III of Illinois. SIP, although nominally created to guide Democratic electoral campaigns, authored proposals to phase out basic industry and shift capital flows into electronics and telecommunications fields that are essentially in agreement with those "reindustrialization" proposals favored by the policy advisers and controllers of the Reagan campaign and the John Anderson campaign.

The basic tenet of the SIP is that the U.S. economy must now be transformed into a postindustrial economy, with a heavy dose of military expenditures, a massive synthetic fuels sector, and a buildup in computer-based office and home gadgetry. This view was also expressed in the perspective of a parallel group, the White House Commission for a National Agenda for the 1980s, set up by Hedley Donovan, the former publisher of *Time* magazine. According to a report on a mid-July Commission conference:

> A transformation of the economic base is underway. The once very prosperous, but now mature basic industries—steel, primary metals, paper, textiles—will continue to decline in their relative importance. . . . How should they adjust—scrap excess capacity, reorganize by merger or acquisition, transfer labor and capital to new growth sectors?

To the "older, mature industries" can be added auto, housing, trucking, airlines and the thrift institutions, which have been dubbed by the SIP "sunset industries," and elsewhere "industrial losers." The light industries, along with the defense contractors and coal liquefaction and oil shale developers, have been christened the "sunrise industries." Thus, during this recesson, the U.S. economy is being divided into two tiers, with the winners allowed good credit terms while the sunset tier is phased out.

No capital

The Subcommittee on Industrial Policy singles out auto and steel in particular for immediate gutting.

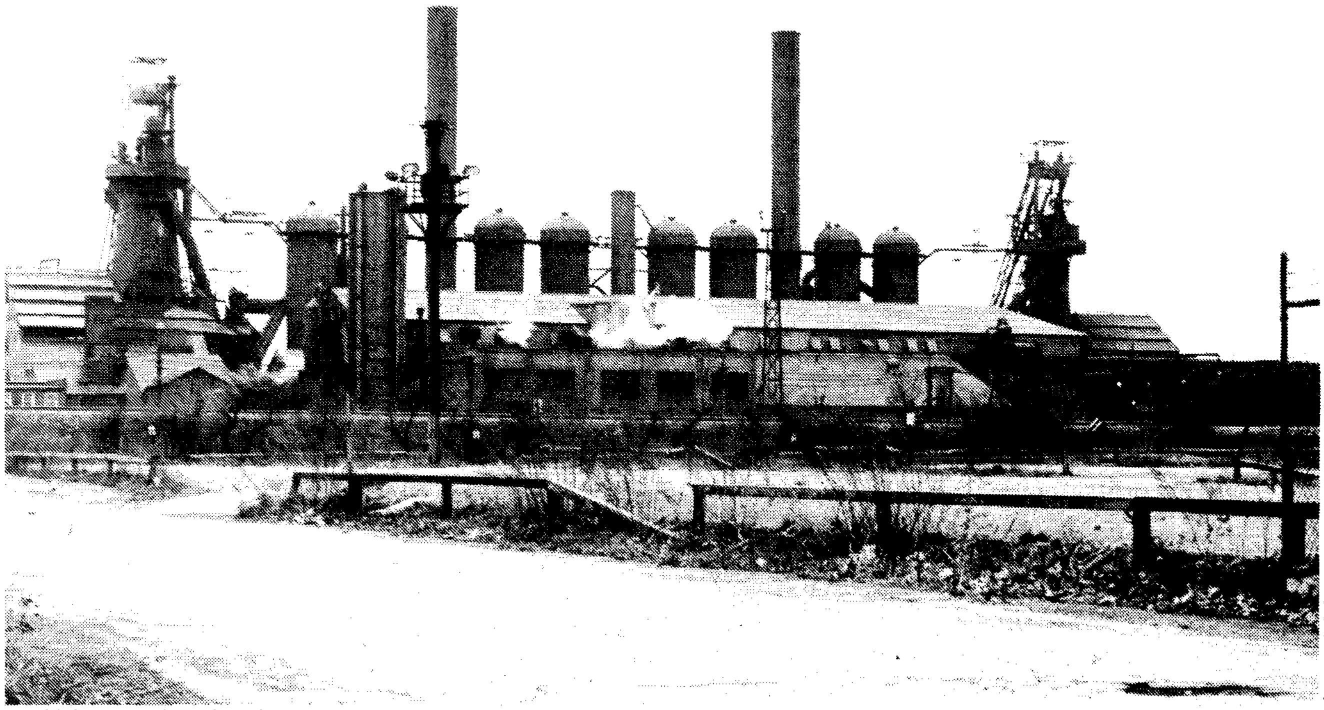

Photo: NSIPS/Kacprzak

Bethlehem Steel on short hours.

"There is little economic justification, if any, for the bailout of industrial losers. . . . The process of disinvestment is essential for economic growth."

In particular, the Bentsen and Stevenson-led SIP states that the steel industry cannot be resuscitated. Although Japan revitalized its steel industry in the 1960s, this success story is not generalizable, says the SIP. "Radical steel restructuring being promoted under the European Community's Coal and Steel Authority [the Davignon Plan—ed.]
and political problems, particularly in France. Nowhere has the revitalization of basic industries been accompanied with growing or even stable employment, although output may expand."

Thus, because revitalization can't work, states the SIP, the basic sunset industries must close down, or at least be seriously contracted. To do this would mean having to dispense with the auto industry as well. "The Chrysler Corporation will cut its North American car production capacity from 3 to 4 million car output to 1.5 to 2 million by 1983," stated a well-placed source at the Department of Transportation Sept. 10. "This was agreed to on the dotted line, as part of the Chrysler loan guarantee from the Congress," he added. "Ford may have to reduce their North American car output from 5 million car units to 2.5 million units in the same period. Ford's North American car operations profit loss this year will be $2 to $3 billion. They can't sustain that for much longer, without closing down their operations here and taking them overseas," he stated.

A White House source was more blunt. "There's no use trying to bail out ailing industries like auto. The auto industry is an industry of the past and it will have to face that fact."

Precisely because these industries will be shut down, the SIP has prepared an elaborate worker relocation plan. States the SIP document, "In light of the current situation in the auto industry—an estimated 300,000 workers are on layoff—consideration should be given to a special larger scale demonstration 'worker adjustment plan' " which will relocate workers into the sunrise industries.

The postindustrial economy is to have a heavy base of $200 billion military procurements; an energy autarky, based on $600 billion in synthetic fuels investment over the next 25 years; the growth of the "information" sector of computers, paper processors, and the like. Select high-technology areas like semiconductors and telecommunications would be steered into support for the same military, synthetic fuels, service and information economy buildup instead of high-technology reindustrialization.

This is not only the view of the Carter administration, but of the campaign of Republican Party presidential hopeful Ronald Reagan as well. Indeed, many of Reagan's advisers are drawn from the Georgetown Center for Strategic and International Studies (CSIS) and the Stanford Research Institute, whose proposals in the areas of synthetic fuels and *Wunderwaffen* defense procurements far exceed anything floating in the Carter camp administration circles.

The problem with this approach was incisively analyzed by a newly formed think tank that rejects the "sunset/sunrise" strategy and instead bases itself on a high-technology solution for America's economy. This group, called the National Democratic Policy Committee (NDPC), in a document released this week, stated its own premise: for an economy to function, it must promote productive activity. Most of the purposes to which the sunrise activities are to be placed are nonproductive in the extreme. Take for example the synthetic fuels program. Coal gasification will produce oil equivalents at the price of $75 to $90 per barrel, three times the commercial price set by OPEC. Compared to the high-technology use of coal in magnetohydrodynamics (MHD), which turns coal into an energy-dense plasma and converts this directly into electricity, it is grossly inefficient. In addition, the U.S. could and should move rapidly to the use of nuclear power, both the construction of 1,000 nuclear power plants by the year 2000, and the commercialization of fusion power by the 1990s, as provided for by the McCormack fusion bill. Within such an energy-dense regime, the NDPC says, the use of coal liquefaction represents a deduction from the type of allocations that must be made for such a competent energy-dense energy program.

If the misallocation of materials proceeds on a massive scale, and the Volcker high interest rate policy continues into the next year, then capital formation rates will plummet, not just for steel, but for all basic industrial processes. At this point, the productive goods needed for the sunrise industries' construction will collapse.

The U.S. economy would benefit instead, said the NDPC document, by building the U.S. economy around the two real sunrise industries of the U.S. economy: nuclear energy and food production. The basic steel, specialty metal alloy, and equipment production parts of the U.S. economy would be technologically upgraded and its production capacity expanded to meet nuclear power requirements. Waterways, dams, and internal trucking and rail transport would be upgraded to meet the expanded shipment of food. A return to low-interest credit, coupled with the U.S. participation in the gold-based monetary system started by German Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing, would be the needed financial and monetary arrangements to make the industrial policy work.

Yet, John Sawhill, testifying before the Senate Energy Committee Sept. 17 confirmation hearings on his nomination as director of the newly created Synthetic Fuels Corporation, told them that the Carter version of the coal program will emphasize synthetic fuels production, as well as some coal production for export.

Interviews

'Use credit controls to cut consumption'

The following is an exclusive interview with Lester C. Thurow, Professor of Economics and Management at the Massachusetts Institute of Technology and the author of the Zero-Sum Society. *Thurow, a former editorial board member of the* New York Times, *was among the people consulted in the drafting of the Senate Democratic Policy Task Force report on "sunset and sunrise" industry.*

EIR: What is your view of the administration's so-called revitalization program? Do you feel that it is too oriented toward helping the so-called sunset industries?
Thurow: I think that all the particular steps are oriented that way. . . . This is a "prop up the losers" program.

EIR: Can we talk a little about the losers?
Thurow: One thing that I think ought to be made clear is that people often talk like if we don't help the steel industry, it will go out of business. The steel industry is not going to go out of business, it is going to get smaller. There are many kinds of steel where it still makes sense to make them in the U.S. We ought to be doing high-technology, high quality steel and get out of making massive numbers of tons of pig iron. The real question is how are we going to prop up the "winning" parts of steel. . . .

EIR: You have talked of funding these changes with an
Thurow: I don't think auto is a loser. Textiles are a loser. Chrysler is a loser, but that is because of the management of Chrysler. Ask yourself what the Japanese would have done about Chrysler. I think there are two answers. They would have opted for one healthy auto company, instead of one very sick company and one semi-sick one. . . .

EIR: Isn't the economy too skewed towards a service economy now?
Thurow: I don't think so. Not at all.

EIR: You have talked funding these changes through an investment policy, that someone will have to give up consumer goods so that they can become investment goods, that there will be a five-to-ten-year period when consumption must fall.
Thurow: If you think about how long it takes to build new factories, it takes five to ten years. If you really talk about a major shift of investment, the money that is

going into investment or the goods and services that are going into investment have to come from somewhere. They are going to have to come out of consumption. I've spoken about ways to do this, like the value-added tax.

Another possibility is to really use credit controls to stop people from buying consumer durables. If you can't buy a car except by paying cash for it, then you do two things to savings. First, somebody else's savings don't have to finance your car. And second, business can use your savings for investment until you get the full amount to buy a car. The Europeans use a value-added tax to drive down consumption. The Japanese drive down consumption by making consumer credit much less available. Nobody will like this. These are not popular things. I think that you have to do this in such a way that you spread the consumption cuts across the whole economic spectrum. If you are saying that "look, we can't do this, it is too unpopular" then you are saying, really, "look, we can't compete."

I recently wrote an article for *Psychology Today* on the role of economic trust as it deals with these kind of political economic questions. They ended up not publishing it because there was too much economics in it and not enough psychology. I started off by pointing out that Roosevelt in 1936 got 65 percent of the vote, yet everything was worse than it was in 1932. How did he persuade people to re-elect him though he had not solved the problem. He had persuaded the people that although he didn't solve the problems in four years, he had a vision about how to solve them.

You must absolutely build a coalition around the following unfortunate choice: we can deliberately lower our consumption standards in the early 1980s in order to start them on that upward path in the late 1980s or we can do nothing in the early 1980s and we will be on a slow downward path for the next 20 years. This must be done. And it can be done only through a real recognition of the crisis. People have never responded with the kind of sacrifice necessary because they never have had to respond. You look at the British, we surpassed them in per capita GNP in 1900; ever since then they have been writing articles about pulling up their socks and doing something. They never have. The same group of human beings, when they were confronted with an invasion in World War II, pulled up their socks in ways in which very few societies have ever pulled up their socks. So you can't say that there is anything wrong with the human beings because they did it. But what you can say is that the slow relative decline never gives the feeling of a crisis that we have to survive, yet over 80 years you go from being the number one economic power in the world to number 25.

'Detroit workers can move to synfuels'

EIR *conducted the following interview on Sept. 11 with Eli Ginzberg of Columbia University, who heads the National Committee on Manpower Policy.*

EIR: On the topic of reindustrialization, what do you think?

Ginzberg: Reindustrialization is a major error. The economy is already tilted to nonmanufacturing so while I'm not opposed to shoring it up, it is a small part of the total. I'd prefer the term revitalization of the economy. The American economy is heavily balanced toward services and food.

EIR: What areas should be revitalized?

Ginzberg: It is not clear. People are misled by data. It is not clear what percent of the economy is—much of the decline is make-believe. Our economy is in pretty good shape, especially if we did not have such free and easy cheap gasoline. The classic idea is that we are not saving enough, but I don't think that we should do things exactly the way the Japanese and Germans are.

I don't believe a major nation like ourselves should let its steel industry disappear. What's going on is that for the last 15 years people were not investing in steel. And I don't favor reestablishing the Reconstruction FinanceCorporation. I'm not sure we would not have been better selling off part of Chrysler.

Certain areas of the economy must be permitted to fade; these include industries from inexpensive shoes to computers. The question is which other industries to end. We haven't begun to do the analysis on this. We are shooting from the hip. There will be a new cycle in auto where there will not be as many employed. We have to shift from auto into some industry for these workers. If we go through a big synfuels program then a large number of workers from Detroit can go into that—into synfuels or construction.

Our wage rates are in good shape because they are below Germany and France. But they are not lower than the Third World. Things like cheap shoes should be made in the Third World; they should fade out here. We should have just advanced technologies, agriculture, and advanced services.

'Auto and steel will recover... a little'

The following are excerpts from an EIR *interview with Fred Knickerbocker, Director of Policy Planning, Department of Commerce.*

EIR: There has been a great deal of debate around the Carter revitalization program about the concept of "sunset and sunrise" industries and how to handle the problem.

Knickerbocker: Not just around the Carter program, but within the Carter administration itself. There is a great deal of disagreement about these ideas. The program doesn't go very far in favor of the idea of picking winners or losers. There are some people around here who don't believe that it's possible. . . .

EIR: But doesn't the program target certain areas of concern, like auto and steel? It doesn't say anything about the sunrise industries like semiconductors.

Knickerbocker: As I said, there was some uncertainty about the viability of a winners and losers strategy. Our program has a generalized stimulus and shies away from too much specific targeting. The tax proposals work in that way. . . .

EIR: What about auto and steel? We have massive unemployment in auto and problems in steel.

Knickerbocker: Let's talk about auto first. The main problem we have there is in reorienting the product line toward high quality small cars. That is taking place. The investment is being made to do this and the industry will be restored to health and it will show some vitality. . . .

EIR: Does the administration accept the idea that the auto industry will shrink in size? Can its former employment levels be restored?

Knickerbocker: The industry can recover. I don't think anyone here has really worked out how much it will recover, whether it can go back to former employment levels. The plants are being retooled. There will be cuts in employment caused by automation. . . . It is not necessarily administration policy to put all the auto workers back to work in auto plants. There is going to be some reduction in the workforce. We want to let the market forces determine the size of the industry. We see the U.S. growing as an exporter of auto parts, not finished cars. That is the way the market is going to work.

EIR: What about steel? Nearly everyone is saying that the production of basic steel in the U.S. will decrease sharply, that it is really a sunset industry.

Knickerbocker: Again, we fundamentally want the industry to have the opportunity to get its fair share of the international market. Let the market say what is profitable and what isn't. As for how small the industry might become, I don't think that anyone can say right now. There is wide disagreement on the subject. If current production capacity is around 100 million tons, I would say that people who are talking about dropping it to, say, 75 million are crazy. I think that it may drop to 90-95 million tons, but let me stress that we feel that it is going to be the market that determines the size of the industry. We are not going to "enforce" a policy here—we are not going to tell the industry which plants to shut down. They will make those decisions and are already making them, just as they are deciding how to go about modernizing the plants. . . .

EIR: Aren't these matters going to be discussed in the newly formed tripartite committees for auto and steel?

Knickerbocker: Yes, they are going to discuss things like that there. They will plan a strategy to revive the industries; that is why they were formed. . . .

EIR: Why hasn't the administration linked the coal development program it has announced to the economic revitalization program?

Knickerbocker: That is a real good question. I'll be damned if I know. We have an interagency task force working right now on spelling out the details of the coal program and what you are saying is right. There are many people who want to go big with the coal program and I think that eventually we will spell it out in that way. . . .

EIR: I have one other question. How can you and the Carter administration be serious about really promoting a "revitalization program" as long as Volcker and the Federal Reserve push high interest rates. No one can afford to borrow capital. Steel, for example, can't afford any real modernization program. So despite what you say, all that is likely to happen is to shrink industrial capacity. . . .

Knickerbocker: What you are saying is at least partially true. It would be nice if interest rates were lower, but I can understand Volcker's policies and what must be done to keep inflation down. . . .

EIR: But do you support the Volcker policies?

Knickerbocker: I think it would be easier if there were slightly different policies. But Volcker knows what he is doing and he will do what he wants anyway. We don't run the Fed, really. . . . ■

"To understand what has gone on in Iran, one must read what Robert Dreyfuss wrote in the Executive Intelligence Review."

—**Empress Farah Diba Pahlevi,**
widow of the Shah of Iran, to the West German magazine *Bunte*

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