
PART I: STEEL PROFILE

Paul Volcker's shutdown of the American steel sector

by Richard Freeman

The American steel industry is being shut down and liquidated by Federal Reserve Chairman Paul Volcker.

As of June 14, U.S. steel capacity utilization for the previous two weeks averaged 43.1 percent—the lowest since the Great Depression. This time, Volcker's anti-industrial London sponsors are determined that the collapse will not be temporary. According to Michael Hodges, a member of the British Royal Institute of International Affairs, the sister think tank of the New York Council on Foreign Relations, "America does not need a steel industry. It can import steel from the newly industrialized countries and produce steel from electric furnaces by recycling scrap."

Thanks to Volcker, U.S. auto production is operating at less than half the level it was the year before Volcker came into office; housing production is down by more than a half; machine-tool output, a crucial indication of capital formation is down by 60 percent; rail production is down 25 percent; and production of other heavy capital goods has begun to collapse at a 50 percent annual rate.

This is the market for steel production, which has consequently collapsed by more than 33 percent in the last three years. Employment has collapsed along with production. In 1953, the American steel industry employed 544,000 hourly production workers. By 1978, this number had already tumbled to 339,000. In March 1982, this number was down to 234,000. For those who are still employed, their week is shorter than 32 hours.

"U.S. steel-making capacity will be reduced by 32 to 40 percent over the next several years, and 25 percent of the 1978 workforce will never be rehired," says one Wall Street banker. "The union doesn't know what is going on, or it knows, but doesn't want to tell its members."

A steel expert at American Express-Shearson Loeb Rhoades, one of Wall Streets's leading investment banks, explained how this is going to work. Joe Wyman stated

June 17, "Volcker has created the market conditions that are forcing the American steel industry to make changes that will reduce capacity. You get the 'market' to do the work for you. This is not a recession; it is a restructuring. . . . We're going to have to have the steelworkers' wages cut by 20 percent and a further 15 percent reduction in workforce size. . . . The recession will make this easier."

U.S. Steel wants to blame the problem on imports by the Japanese, the Koreans, the Brazilians, and the Europeans. "It's foreigners using cheap labor who are flooding the U.S. market with underpriced steel," the steel executives shout. The United Steelworkers of America supports the essence of this argument.

The Morgan-controlled major steel companies plan to use this lie to slash American steel wages, and, through anti-subsidization and anti-dumping suits launched by

FIGURE 1
Age Distribution of Domestic Steel Production Facilities, 1979

Facility	Average age (years)	Percent older than—		
		30 years	25 years	20 years
Coke ovens	17.3	14.2	25.6	45.9
Open hearth furnaces	33.2	43.0	78.5	100.0
Basic oxygen furnaces	11.0	0.0	0.0	2.3
Electric furnaces	14.3	6.1	13.8	25.3
Plate mills	25.6	40.8	45.1	53.6
Wire rod mills	13.7	12.6	17.3	17.9
Hot strip mills	19.0	11.6	16.1	31.5
Cold strip mills	21.2	14.7	29.2	54.1
Galvanizing lines	18.8	4.4	8.9	40.1
Aggregate	17.5	12.5	20.4	33.3

FIGURE 2
Percent Raw Steel Continuously Cast

Country	1969	1975	1977	1978
United States	2.9	9.1	11.8	15.2
Japan	4.0	31.1	40.8	50.9
Canada	11.8	13.4	14.7	20.2
West Germany	7.3	24.3	34.0	38.0
France	0.6	12.8	23.6	27.1
Italy	3.1	26.9	37.0	41.3
United Kingdom	1.8	8.4	12.6	15.5
U.S.S.R.	—	6.9	8.3	—

the steel companies and brought through the U.S. Commerce Department, to consolidate a cartel that will rationalize steel production in all the advanced-sector countries.

Calculated destruction

Volcker moved in on the steel industry at a point when it had already been softened up by a refusal to commit funds to new steel-making technology and a simultaneous diversification out of the steel production into other “higher-profit” activities. In both cases, the trend was led by U.S. Steel, four of whose board members also sit on the boards of the Morgan Stanley investment bank or Morgan Guaranty Bank.

This slow contraction of steel production began as early as the 1950s. At that time, the United States was the world’s dominant steelmaker, accounting for 40 percent of production and a large share of exports. But since 1950, only two greenfield integrated steel plants (that is, plants encompassing the entire production process from coke facilities and limestone to iron and steel blast furnaces and rolling or extruding mills) have been built in the United States: U.S. Steel’s Fairless Works in eastern Pennsylvania and Bethlehem Steel’s Burns Harbor plant on Lake Michigan.

The American steel industry used its export capacity in the most destructive way possible: to dump steel on selected countries, wiping out those countries’ nascent capacities.

The results of the post-1950 policy are shown in Figures 1 and 2. Today, the average age of an American steel-producing facility is 20 years. In 1969, only 2.9 percent of U.S. plants used the continuous casting. This was slightly lower than Italy and Japan’s use of continuous casting and higher than France’s. Now, those three economies have between 1.5 and 3 times more continuous-casting capacity than the United States.

The process was instigated by financial representatives on steel-company boards who overrode the impulses of production men. In 1979, then-U.S. Steel president Edgar Speer announced that “we are in the profit-

making business, not the steel-making business.”

Already by 1978, only 12 percent of U.S. Steel’s profits came from steel-making. This year, the company spent \$6 billion to buy the Marathon Oil Company. This is capital that could have built a 5 to 10 million-ton new integrated steel plant, or totally refurbished two to three existing steel plants. Instead, U.S. Steel has announced that it is in the “petroleum business,” and one executive told the *Wall Street Journal* on June 7 that the company would begin shutting down its steel capacity. “The manufacturing group is a collection of things that may not fit in where we want to be tomorrow.” Meanwhile, since 1974, the industry’s debt has doubled to \$10 billion, largely because of Volcker.

Steel companies in the United States consume 5 percent of national energy consumption.

The 1979 recession, and the British-instigated Iranian revolution, cut demand and pushed up costs. U.S. Steel shut down permanently 15 of its smaller plants, laying off 12,500 workers. Youngstown Sheet and Tube closed down its 1.7 million-ton capacity plant in Campbell, Ohio. The Alan Wood Steel Company in Conshohocken, Pennsylvania, with 1.1 million tons of capacity, filed for final bankruptcy. In total 4.3 percent of U.S. steel-making capacity was done away with.

Enter Paul Volcker

In the steel state of Pennsylvania, Paul Volcker is referred to as the biggest bloodsucker since Dracula. Since he began his austerity regimen in October 1979, Volcker has waged a campaign against the industry, with two basic objectives: 1) force the Big Eight steelmakers—U.S. Steel, Bethlehem, LTV, National, Republic, Armco, Inland, and Wheeling-Pittsburgh—to cannibalize their plant, equipment, and workforce, dumping entire sections of their operations; and 2) bankrupt the rest of the smaller companies that taken together hold only 25 percent of U.S. capacity.

Accordingly, under Volcker, the previous policy of unwillingness to invest in new plant and equipment has been transformed into a policy of running existing equipment completely into the ground and turning it into scrap metal. The perspective was enunciated by U.S. Steel president David Roderick, who predicted, according to the May 31 issue of *Business Week*, that “management may decide to close a mill over a period of years by providing money only for the barest upkeep.” Walter Williams, president of Bethlehem Steel, added that Bethlehem had already selected its 3.5 million-ton capacity plant in Lackawanna, New York for this Nazi practice of running assets into the ground. “We expect to keep Lackawanna running for quite a while with no capital improvements.”

National Steel chairman Ben Love has announced that his company plans to make no investment in its 4-

million-ton plant in Weirton, West Virginia, which needs between \$300 and \$500 million in capital improvements if it is to survive. National Steel has told its workers that they can either pay \$250 million in deductions from their wages over 15 to 20 years to buy the plant, or National will close the plant; and National will make no capital improvements before it sells.

This is policy among the Big Eight. A survey of other steel companies shows:

- **Crucible Steel** of Midland, Pennsylvania, a division of Colt Industries, closed down permanently on Feb. 10. The 300,000-ton-capacity Crucible had tried 270 "cost-cutting" steps.

- **McClouth Steel** is the eleventh largest American steel manufacturer, whose 2.2 million tons of capacity in Detroit supplies General Motors. In late 1981, McClouth was forced to file Chapter 11 bankruptcy but was still allowed to operate. On March 19, a group of 10 McClouth creditors—banks and insurance companies—refused any new financing. McClouth is now shutting down its blast furnaces, and a federal bankruptcy court judge has ordered that it must close permanently Sept. 1.

- **Ford Steel** is the tenth largest American steel-maker. Once owned by Ford Motor, this River Rouge, Michigan-based company with 2.8 million tons of capacity, was said by one leading financier to be a likely candidate to "go belly-up" in two years.

- **Kaiser Steel**, the ninth largest American steel-maker, with 3.2 million tons of capacity, most of it concentrated at its main plant in Fontana, California lost \$437 million last year. After losing again in the first quarter of 1982, Kaiser announced in April that it will stay in business until early 1983 and then close down

permanently. Kaiser has held open the possibility of unloading this profitless plant on the workers.

- **Wheeling-Pittsburgh**, the smallest of the Big Eight producers, is on the brink of bankruptcy. Wheeling-Pitts, which has 4.4 million tons of capacity, lost \$8.7 million in the first quarter of 1982. It is currently holding talks with Kobe Steel, Japan's fifth largest steel-maker, in a bid to avoid bankruptcy with a Kobe buyout.

These five companies combined represent 10.9 million tons of capacity, or 7 percent of all U.S. raw steel capacity.

For the companies designated to be survivors, there will be rationalization, i.e., liquidation, on an even larger scale. Three of these—U.S. Steel, Armco, and National Steel—have extensive "diversification" programs.

- **U.S. Steel**, the biggest U.S. producer, will reduce itself by a third to a half within the next five or more years as follows:

The **Fairfield, Alabama** plant, with 3 million tons of steel-making capacity, closed on June 15. U.S. Steel announced that this plant, which has been Birmingham's largest single employer, will not reopen until 1984. How did U.S. Steel choose the 1984 date? "The company never plans to reopen the plant but does not want to say so openly," said one source close to the management.

Geneva, Utah, a 2.2 million-ton-capacity plant, will most likely be closed down soon," according to Joe Wyman.

- The **Southworks** in Chicago and the **Homestead**, Pennsylvania plant, with 2 to 3 million tons capacity each, are also on the chopping block. Southworks used

FIGURE 3
American Steel Production Capacity & Imports
(millions of net tons)

Year	Raw Steel Capacity	Raw Steel Production*	Finished Steel Shipments	Imports	Total U.S. Consumption (exports deducted)	Imports as % of Total U.S. Consumption
1971	154.8	131.5	87.0	18.3	102.8	17.8
1975	157.4	120.4	80.0	12.0	89.0	13.5
1979	155.3	136.3	100.3	17.5	115.0	15.2
1980	153.7	111.8	83.9	15.5	95.3	16.3
1981	154.3	120.8	87.0	19.9	104.0	19.1
1982	151**	90**	68.1	17.9	83.9	21.3

(Jan.-Apr.)

* Not all raw steel produced is used. Some gets filed off when the steel is shaped into a product; some does not meet specification standards, some is spilled, etc. Roughly, for every four tons of raw steel produced, three tons are fashioned into finished steel products.

** Estimate

Source: American Iron & Steel Institute

Graphics courtesy of *New Solidarity*



to employ 15,000 to 20,000 workers. As of June 10, both these plants were made divisions of U.S. Steel's plant in **Gary, Indiana**, which is one of the few plants slated for continued production full blast. American Express's Wyman reported, "Gary will continue to make raw steel. The iron and steel furnaces at both Southworks and Homestead will likely be closed down for good. Some of the mills at these plants may be kept working."

The Pittsburgh area's **Braddock** and **Edgar Thomson** plants, both rated 1-million-tons-plus capacity, will probably be shut down permanently," according to a New York steel analyst.

At the few plants it plans to keep open, U.S. Steel has stopped most capital improvements. Said one executive "We are going crazy. People are in a panic. I've been told to sell steel below the cost of production just to keep up market share. I'm doing that. But then everybody at all the steel companies is doing that."

Wyman explained that once the large steel companies have rationalized, "they will compete against one another. They'll cut costs until one goes belly-up."

All told, 40 to 50 million tons of America's 151 million-ton capacity—or one-third—will be liquidated in the next three to four years.

The imports myth

After looking at this pictures, any American who continues to believe that imports are responsible for the industry's problems should be tested for a room-temperature I.Q.

U.S. Steel and several other producers filed suit with the Commerce Department last year, charging that the European steel-makers are dumping in the United States at below-production cost, and that European governments are subsidizing their countries' steel industries. Although Europe exports a grand total of six million tons of steel per year to the United States, Big Steel claims this is the reason American steel output is falling.

In a future installment of this report, *EIR* will analyze the real import-export situation. Here, we briefly assert that imports could never have caused the steel shutdown. Consider this: in 1979, when Paul Volcker took office, American finished steel production was 100 million tons. For the first four months of 1982, it averaged 68 million tons. In 1979, total imports in the U.S. were 17.52 million; for the first four months of 1982, they averaged 17.86 million tons on an annualized basis. Finished steel production has fallen by 32 million tons, but imports have risen only 34,000 tons. Is it possible that 34,000 tons of imports could have caused United States steel production to drop by 32 million tons?

Why is U.S. Steel screaming about imports? To force punitive competition and worldwide rationaliza-

tion, and obtain a sharp drop in steelworkers' wages. The United Steelworkers of American will be asked to give up wage and benefit concessions in exchange for the steel companies bringing anti-dumping and-subsidization suits to "save their jobs."

Robert Crandall, the steel expert for the liberal Democratic Party think tank the Brookings Institution—on which AFL-CIO president Lane Kirkland sits as a board member—argues that American steelworkers make 70 percent more than the average American factory worker. At most, says Crandall, American steelworkers should only earn 12 to 25 percent more than the manufacturing compensation average. This would mean a 30 to 40 percent steel wage cut.

Both Brookings' Crandall and American Express-Shearson's Wyman happily expect that no new integrated steel plants will ever be built again in the United States, and the shutdown of all but a few of the existing ones. Steel in the United States will be produced at electric furnance mini-mills that have two distinctive features according to Crandall: first, they are non-union and pay half the union steelworker wage rate; second they use scrap steel—old car hulks, or wasted steel—as their main input. In a world division of labor, the United States will increasingly become a non-unionized workforce, recycling other nations' scrap steel. Trade war is the pressure to work out an agreement to reduce capacity worldwide along these lines.

There is no reason to accept the underlying philosophy now gripping the steel industry: that at best the goal is capturing a share in a shrinking market. In fact, U.S. capacity is too small, were the United States to undergo a real recovery.

The elements of that recovery have been outlined by *EIR* founder Lyndon LaRouche, in his four-point program for the National Democratic Policy Committee. LaRouche advocates cheap, abundant credit for steel, mining, construction, and other productive industries, and at the same time, the establishment of world gold-based monetary system led by the United States. This would provide the prerequisites for mammoth industrialization projects, including the construction of hundreds of nuclear power plants for home and for export; the construction of the immense North American Water and Power Alliance (NAWAPA) to bring Alaskan and Canadian water to and irrigate the U.S. West and Midwest, as well as parts of Mexico and Canada; an expansion of capital-goods exports (rich in steel use) by several hundreds of billions of dollars every three to five years.

The steel bill of materials needed for this scale of production suggests that the United States will at least have to double its steel capacity by the year 2000, employ 500,000 to 600,000 production steelworkers, and put the existing steel plants on full time.