Steel: A National Crisis

The wave of closings throughout the U.S. steel industry, which was highlighted by Youngstown Sheet and Tube's announcement Sept. 19 that it was closing its entire 5,000-worker Campbell Works in the Mahoning Valley, has made the collapse of this central sector of the U.S. economy a foremost national issue.

STEEL

In Congress steel caucuses have been formed in the House and the Senate over the last two weeks to deal with the crisis. Some 60 steel-district Congressmen attended the first meeting of the House steel caucus on Sept. 21; the approach within the caucus has been notably more far-sighted than that of the industry and USW to date. Congressman Adam Benjamin (D-Ind.), Charles Carney (D-Ohio), John Buchanan (R-Ala.), and other members are drafting an emergency legislative package which includes measures aimed at fostering steel industry modernization; however, the size of the loan program is miniscule, and the package gives equal weight to measures to limit imports.

The outline of the four bills circulated by Congressman Benjamin's office includes the following measures:

* Imposition of a "temporary ad valorem tariff surcharge when imports of a particular iron or steel product exceed the apparent domestic consumption of that product as established by a defined base period";

* Extension of the 1933 "Buy America Act" to domestically manufactured articles which have been more than one-half financed by government subsidies, loan guarantees, etc.

* Allowance for rapid write-off of pollution-control facilities;

* Temporary increase in the amount of credit the steel industry can claim under the Investment Tax credit;

* Increase in the amount of government-backed tax-exempt industrial development bonds that the steel industry and other industries can float from $5 million to $25 million (under Title 26 U.S.C. 103). An earlier version of the legislation called for some $15 billion in government loan guarantees for the industry, but an aide to Congressman Benjamin said the present scale of the capitalization program is "more realistic."

The U.S. Labor Party's $50 billion program is filling the vacuum left by this limited congressional action and the industry's suicidal cries for protectionist measures. Trade unionists and industry executives throughout the nation's steel belts are, for good reason, not sold on protectionism, and are looking for a competent program to reverse the shutdowns and bring the antiquated U.S. steel industry at least into the 1970s. The USLP program is the one practical program on the table: it recognizes that the industry's survival and U.S. steelworkers' jobs depend on restarting the world economy and reviving world demand for steel and U.S. capital goods. On that basis, the program calls for urgently needed expansion and upgrading of U.S. steelmaking under the aegis of new national and international credit mechanisms to finance the industrialization process, for a conservatively projected five-year growth pattern adding 186 million tons in steelmaking capacity and 446,000 productive jobs in steel alone.

In the four-day period following the USLP steel program's release on Sept. 20, 20,000 out of 30,000 copies were sold, amid intense political discussion over how to reverse the plight of the entire economy. Release of the program was recorded in the steel belt press, with a Hammond, Ind. newspaper announcing U.S. Labor Party's Illinois Senatorial candidate Gerry Rose's campaign against deindustrialization proponent and prime Lancegater Charles Percy under the headline "Percy Opponent Brings Steel Program." Within four days 475 copies of the program were sold at the annual convention of the American Association of Iron and Steel Engineers in Clevelend, Ohio. The program's counterposition of the tradition of Andrew Carnegie with the monetarist policy which has doomed the U.S. steel industry to stagnation struck a chord with executives and engineers who are eager to see their industry expand and modernize.

Administration's View

The view of most industry observers — that the Administration will not take any action on limiting imports of steel into the country — was backed up by President Carter's statement at his press conference Sept. 29. He said he was not sure that the industry needed import relief; its problem is its old and inefficient plants. However, the President reiterated his commitment to environmental measures against steel plants, which have resulted in several closings already.

The Administration's general strategy has been to advocate "free trade," while holding up the protectionist sentiments of segments of the steel industry and the USW as a threat to pressure Japan into "voluntarily" restricting imports and into acceding to the Administration's global reflation program. Last week Commerce Secretary Juanita Kreps was the latest of the Administration officials to visit Japan and apply such tactics.

As the OECD meeting on steel opens in Paris, the U.S. is expected to give the European governments a hard time for limiting foreign (Japanese) steel imports into the European Economic Community under an EEC-Japan "gentleman's agreement," and thus diverting exports to the U.S. markets. But it is clear that "free trade" advocates such as Special Trade Negotiator Robert Strauss do not mind "orderly market agreements" per se; they want them to be international agreements. According to a report in the *New York Times* on Sept. 29, the U.S. will seek the creation of an international "monitoring" body at the OECD meeting. The article also noted that there is one feature of the Europeans' steel rationalization program that the U.S. delegation will give its wholehearted approval to — a proviso which forbids the building of new plants, unless old plants of equivalent size are dismantled.

Gold Up, As Dollar Down

Gold hit its 1977 high of $154.50 per ounce in London last week as the U.S. dollar fell to new lows and the British pound sterling began to shake under the weight of contradiction between falling industrial production and speculative money printing. U.S. Treasury Secretary Michael Blumenthal's taunt to the world's financial leaders at the Washington International Monetary Fund conference that the U.S. trade deficit will run to $30 billion and the current account deficit (trade plus short-term capital flows) will run to $20 billion has brought the dollar to new lows against the Swiss franc and German mark. U.S. Federal Reserve Chairman Arthur Burns' attempts to cushion the dollar's fall by shoving up U.S. short-term interest rates will, if continued, spell early doom for the speculative rush into sterling and the British stock market.

FOREIGN EXCHANGE

Gold's rise, which coincided with the beginning of the dollar slide in mid-June, is due to the perception in both Europe and the U.S. that "the U.S. cannot continue debasing its currency and calling on the rest of the world to debase theirs without serious dents in general confidence in paper money," one trader said.

Sources in Johannesburg, meanwhile confirmed that both the setting up of a new gold market in Luxemburg, where the government has already agreed to revamp tax structures at the behest of the major German banks who want more gold business, and Kuwait's hiring of a West German advisor on international investments, are not unrelated to the South African government's announcement that a new gold marketing strategy is underway.

The Swiss central bank, said the source, has twice this year "swapped" excess dollars to the South African central bank for gold, government to government, to keep the deal from weakening the gold price, and passed the gold on in turn to Arab buyers. The big West German banks: led by the late Jürgen Ponto's Dresdner Bank, may wish to use the Luxemburg market or direct deals with South Africa to get the Arabs on the track to a gold monetary system, he said. Reached for comment at the embassy in Washington, South African Finance Minister Horwood said, "I can't go into that now."

U.S. Demand Dollar Support

This week's dollar decline was largely touched off by Treasury Secretary Blumenthal's threat to Europe and Japan that the U.S. will bloody well run its $30 billion deficit. The rest of the world had better not let it hurt the dollar, "whose health is in the interest of the world," or else the U.S. will let loose a wave of protectionism to shut down European and Japanese export industries. U.S. Commerce Secretary Juanita Kreps in Tokyo bluntly told the Japanese government that Japan's healthy trade surplus is "unacceptable, economically and politically." But the increasing amount of gold buying and dollar dumping *in the U.S. itself* shows that Blumenthal's threats, even if carried out, cannot hold the dollar.

At the same time, President Carter told the press Sept. 29 that the U.S. will double its oil trade deficit this year, from $23 billion in 1976 to $45 billion — a statement which immediately hit the dollar on the markets — and tried to use this prospect to insist the Administration's worn-out no-energy conservation cutbacks be enacted. Morgan Guaranty's latest *World Financial Markets* similarly warned that the U.S. deficit "carries the risk of triggering major dollar weakness...(this) could have serious inflationary overtones...and major destabilizing effects on the international economic and monetary situation."

Finally, the spread between Eurodollar and Euro-deutschemark rates reached what John van Eck of *International Investors* called a "crisis level" this week, with banks paying depositors 25 percent to put their money in 6-month Eurodollars while Euro-deutschemarks are so much more highly valued that depositors received only 4 percent. This spread of more than 3 percent between the two currencies foreshadows a major shift from dollars into marks in the coming weeks. The last time these two barometers of confidence diverged so widely was the height of the Herstatt Euro-market crisis in 1974 when Eurodollars paid 12 percent and Eurodeutschemarks paid 9 percent.