

How U.S. Machine-Tool Sector Was Destroyed

Here are excerpts from a presentation by EIR economics editor Paul Gallagher to the the second panel of the June 15, 2006 Mexico-Argentina video conference on nuclear energy, exposing the shocking destruction of the U.S. machine-tool sector. Subheads have been added.

Beginning in February 2005, economist Lyndon LaRouche publicly forecast that the major United States automobile companies were in a profound debt crisis and headed for collapse. Within 30 days, LaRouche had written a memo, “Strategic Action by the Senate,” which warned that preventing the virtual disappearance of the U.S. auto sector, depended on a Congressional intervention to use the discarded capacity of that sector, for large-scale modern infrastructure projects desperately needed by the nation. In April 2006, in a meeting with state elected officials and heads of auto union locals, LaRouche introduced an outline of Congressional emergency legislation, to create a Federal Public Corporation, and to act through it to take the scores of auto plants being closed down, and issue credits for their retooling for building rail transport, power, water and other infrastructure.

Arsenal of Democracy

Here is the way Lyndon LaRouche described the auto/machine-tool sector, the “last line” of such technological capability left in the United States:

“We have in society, certain categories of people who are associated with the machine-tool sector of industry. If you want production, if you want progress, science is not enough.

“For example: Suppose you’re a scientist, you make a discovery: How do you certify a discovery? Well, you have to design a test apparatus, which actually is a test-of-principle apparatus. Now, in that apparatus, you will have built in something, which actually is new. It tests the principle you have never consciously used before. You’re testing to see if it actually works, the way you have conjectured it would.

“Now, once you’ve done that, and it does work, now you have a secret you’ve discovered: That test apparatus, that you designed, is the basis for what we call, a ‘machine-tool design.’

“Now, this is the way you take a population which has moderate skills, moderate scientific skills, and through the machine-tool approach, you produce product and systems whereby a large population, thousands of people, can work

around a few hundred people, who are involved in machine-tool design. In a sense, the machine-tool designer, by introducing innovation into the productive process, and employing thousands of people in using the innovation, increases the productive powers of labor of the entire population. So, what they're trying to do by destroying General Motors, and the rest of the auto industry, and the aircraft industry, is destroying the machine-tool capability of the United States! Which means, what? We no longer have the ability to develop technology, we can only copy other people's. We're being destroyed."

Already today, the United States: has only two domestically owned potential builders of nuclear plants, and those builders have *no suppliers at all* in the United States, should they receive contracts to resume building nuclear plants at home; has no builder of any kind of railroad cars, and only one maker of railroad locomotives; has no domestically owned producer of modern tanks for warfare; does not domestically produce guidance elements for space rockets and missiles; has outsourced production for the majority of parts content for civilian aircraft, and a large fraction of parts content for military aircraft. As the Machinists union's president Thomas Buffenbarger told a Washington, D.C. conference in May, "the United States doesn't produce the means of its own prosperity; and now, it can no longer even produce the means for its own military security."

The lathe is one of the oldest and most common of machine tools. The "potter's wheel" of production of industrial machinery, the lathe's flexibility and precision determines the exactness and the variety of machine shapes that can be made, symmetrically around an axis. In the production of high-speed electric rail locomotives and cars, wheels, magnets, springs, and many other parts must be "turned" to within tolerances of one-tenth or one-twentieth of a millimeter—for magnetic levitation systems, even greater precision in relatively large mechanical parts is required. And these tolerances must be optically measurable over an entire assembly—say, of a rail car's wheel-and-axle truck, or its suspension.

Lathes capable of this precision are found in the auto supply plants now being closed down wholesale in the United States, along with the flash-optical systems to measure the tolerances—and these machine tools are being auctioned off over the Internet, at pennies on the dollar, as the plants close.

This is but one example. If Congress takes this priceless unused capacity, and preserves the workforce which is experienced in using it, and issues credit and contracts, it has taken hold of the basis for a new national infrastructure for the United States. If not, the completely post-industrial economy crashes in the ongoing collapses of its financial bubbles.

During World War II, the leadership on whom the entire anti-fascist world of nations depended for production of the sinews of war—President Franklin Roosevelt, and his chief production aide Harry Hopkins—showed the number-one importance they gave to the number and quality of machine tools America's factories and machine shops possessed, by

referring to the entire nation's productive capacity as "machine tools." Following major wartime conferences, Hopkins would issue summaries: the orders for military operations which had to go out to each of the top U.S. and British commanders, would be listed; and then, "and orders to be given to Machine Tools, that priority is the production of light warships for transport. . ." or something similar.

"Machine Tools," to Hopkins and Roosevelt, referred immediately to the Defense Plants Corporation; and to the national machine-tool reserve which they had deliberately called into being, stored at various armories and military bases, immediately available for lease to any corporation that was retooling for a war-industry production mission. "Machine Tools," to Hopkins and Roosevelt, meant the ability to retool, to shift production to what was urgent to the national economy and military capability—and the ability to produce entirely new types of facilities, for new breakthroughs like the nuclear Manhattan Project. Thus, to them, "Machine Tools" were the primary potential to defeat the fascist powers.

From at least October 1940 onwards, the United Auto Workers union founder and leader Walter Reuther had called national attention to the fact that the strongest retooling capacity the nation had was in its auto and auto supply plants—the country's most technologically progressive industry, and the creation of just the previous 25 years. As Reuther foresaw, these auto plants became the nation's retooling reserve for military production, its Arsenal of Democracy.

Roosevelt's and Hopkins' national defense reserve of machine tools became the definition of what policy planners call "surge capacity," the key to national survival.

The United States, today, has no surge capacity. It can recreate one out of the auto industry, which must be saved to do so.

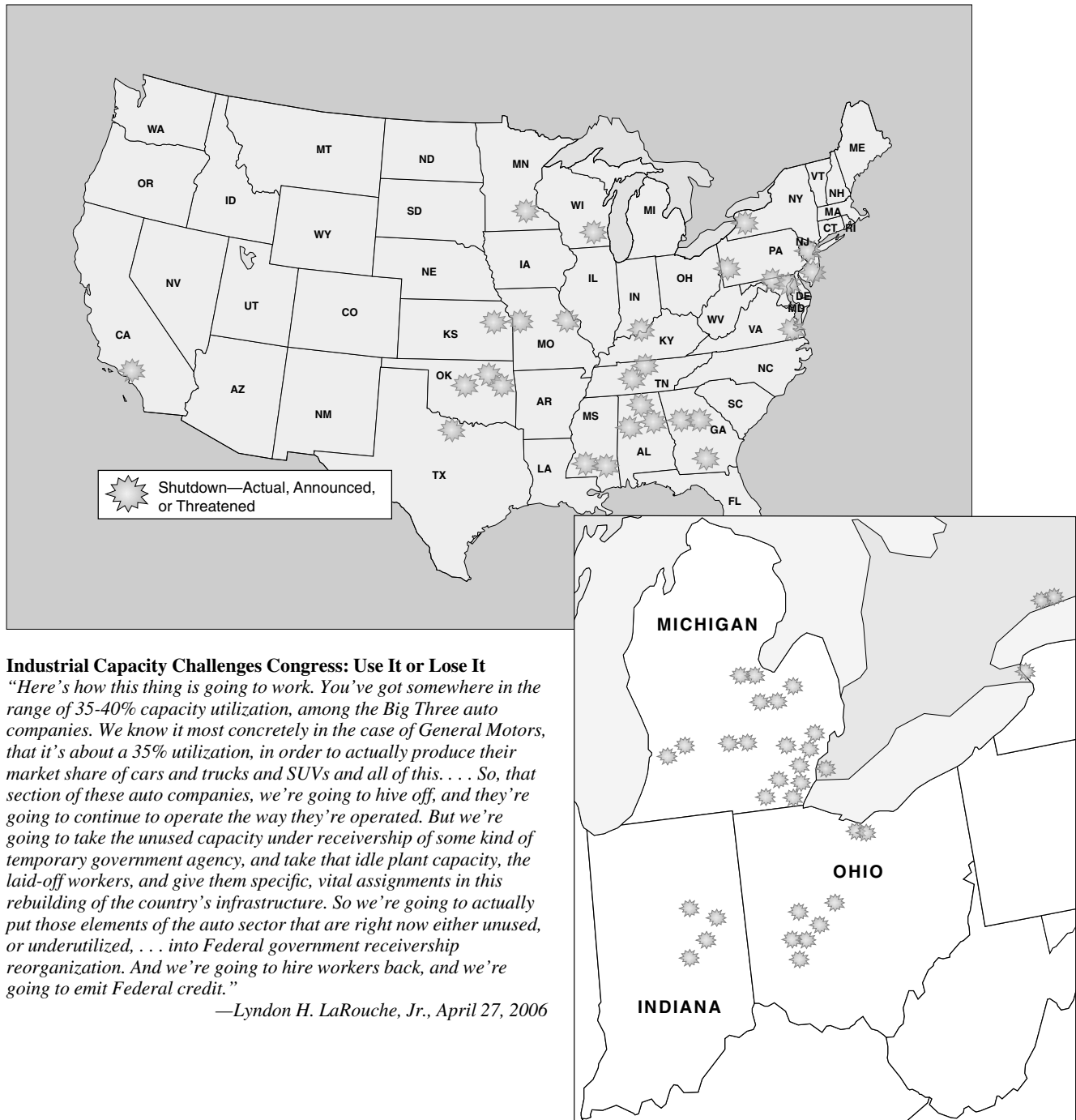
Idea of a Century of American Empire

What has happened under globalization, that LaRouche declared war upon in his Party Platform, and is fighting to reverse? Here are the most important parameters.

In 1989-90, "the Berlin Wall came down," and the economic/national security competition between two superpowers, the United States and Soviet Union, quickly lost all approximation of a balance. Around the United States Administration of George H.W. Bush, father of the current White House resident, an explicitly "imperial" faction emerged toward power, epitomized by current Vice President, then Defense Secretary Dick Cheney, his controllers in the Project for the New American Century (PNAC) and Committee on the Present Danger (CPD), notably George Shultz, and others. This faction believed that global, "imperial" looting of poorer nations' workforces should take the place of national production, even as they fatuously believed the United States would keep hold of a permanent "technological advance" through secrecy and denial of "dual use" technology. Globalization, from that policy shift onwards, no

FIGURE 1

64 'Excess' Auto Plants Available for Operation by a Federal Infrastructure Corporation



Industrial Capacity Challenges Congress: Use It or Lose It

"Here's how this thing is going to work. You've got somewhere in the range of 35-40% capacity utilization, among the Big Three auto companies. We know it most concretely in the case of General Motors, that it's about a 35% utilization, in order to actually produce their market share of cars and trucks and SUVs and all of this. . . . So, that section of these auto companies, we're going to hive off, and they're going to continue to operate the way they're operated. But we're going to take the unused capacity under receivership of some kind of temporary government agency, and take that idle plant capacity, the laid-off workers, and give them specific, vital assignments in this rebuilding of the country's infrastructure. So we're going to actually put those elements of the auto sector that are right now either unused, or underutilized, . . . into Federal government receivership reorganization. And we're going to hire workers back, and we're going to emit Federal credit."

—Lyndon H. LaRouche, Jr., April 27, 2006

longer knew any bounds.

From 1990-97, an incredible 65 million square feet of industrial space in the American defense/aerospace industries, was closed down and the advanced machine-tool reservoir within it, auctioned off. National employment in the aero-

space industry fell from 900,000 to 550,000—by 40%—in those few years, and has fallen more slowly but continuously since. We know this from our data; I also know this from talking to the auctioneer companies who sold off the machine tools, who say, "This was a scary time" for the nation.

During 2004, Internet auctions were held at military bases in California, by which most of the “national defense reserve” of the United States was sold off, as if on E-Bay. This national defense reserve consisted primarily of a reservoir of advanced machine tools “packages” for various lines of industrial production. After World War II, it had been preserved and maintained by act of Congress—the National Industrial Reserve Act of 1948—expanded by the 1973 National Defense Reserve Act of 1973; modernized in Defense Appropriations annual bills. But amendments in 1992—when Dick Cheney was Defense Secretary—and then in 2002, focussed instead on the Defense Secretary’s responsibility to declare this reserve surplus and sell it off, relying instead on private machine-tool capabilities—which had themselves been auctioned off continuously during the 1990s. Under Defense Secretary Rumsfeld’s “military modernization” doctrine, the machine-tool reserve was surplus and was sold off.

The third leg of the United States’ once-pre-eminent machine-tooling capabilities was auto.

Now, in 2006-07, we face the scheduled closing down of at least 65 major auto plants, taking into account closings announced *only* by General Motors, Ford, and their biggest suppliers Delphi Corp., Visteon Corp., and Tower Automotive Corp. Many of the other major suppliers have been thrown into bankruptcy in the crisis, such as Dana Corp., Collins and Aikman Corp., and Johnson Controls, as well as Delphi and Tower Automotive—but their shutdowns are not shown here.

Although there have been periods of layoff and shutdowns in auto for 25 years, this is a completely new order of magnitude. These closing plants—some have already closed down—are shown on the national map you have there (**Figure 1**), and particularly in the inset map of the three central upper Midwest States Michigan, Indiana, and Ohio.

More major plants are being closed down in two years, 2006-07, than in the previous three decades. Some 75,000 skilled industrial jobs are being eliminated directly, and including the indirect effects on the supplier industries, 300,000 skilled jobs will disappear if this is allowed to proceed, representing a third of the entire auto sector.

The closing plants constitute nearly 80 million square feet of capacity, most of it full of versatile machine tools. This is more than the frightening shutdown of 60 million square feet of aerospace capacity in eight years during the 1990s. And it is the only large, diversified reservoir of machine-tool capability—and matching workforce skills—which remains to this country.

The immediate factor closing these plants is the global fall of real wages of workforces, in the globalized economy. Indeed, this fall in real wages is the objective of globalization, and it is working. Real wages are falling throughout North America, Europe, and Japan, while the lowest-wage nations and regions are looted of their labor. In the United States, for example, the consumer price index of inflation against which

these wages are measured, is full of obvious frauds. *EIR* has exposed them since the 1990s. It does not, in fact, measure the actual rise in the cost of living. But even against this fraudulent official index, real wages have fallen every year from 2001-05. They have fallen every month but one in 2006 thus far. And in May alone, the U.S. real wage fell 0.7%, so the pace is accelerating. Under these conditions, auto sales steadily fall; they are very sensitive to drops in real household income. So despite the major auto companies’ cheapening of cars by outsourcing and globalization, they are cheapening the wages at the same time, and their sales crisis gets worse.

What is happening to these plants? Their machinery content is being sold off within months of their closing, in auctions of entire plants at once, from floor to ceiling. The machine tools, even if new, are usually sold for 15-20 cents on the dollar of their replacement value. Those that are not scrapped are then, for the most part, shipped out of the country, because the majority of the buyers in these, largely Internet, auctions are foreign firms, and in some cases, foreign divisions of the same auto companies which are selling them off. The destinations, most often, are in Asia, or in Mexico and a few other Ibero-American countries.

This Internet auction process—tens of millions of square feet of the most productive capacity which U.S. industry still has—has caused shock among those in Congress, and other elected officials, who have learned about it from LaRouche PAC.

Although elected officials are being moved by discovering at the very last stage, a destructive process which has been accelerating for 15 years, this can be the shock which stops and reverses it.

At the beginning of June, we delivered another shock—the revelation that the Delphi Corp. bankruptcy—the centerpiece of the unraveling and outsourcing of the entire industry, with 25 auto plants of that company closing down—had been “strategically planned” for Delphi by the fascist banker Felix Rohatyn, personally. Rohatyn is Lyndon LaRouche’s leading enemy for influence in the Democratic Party in the United States.

Felix Rohatyn is perhaps the most active “mergers and acquisitions” banker in the world; he has represented the Lazard Frères bank group, and was trained there by André Meyer; this places Rohatyn in the center of the heritage of synarchist fascist bank circles in Europe in the 1920s and 1930s, centered around Lazard Frères and Banque Worms. For ITT’s board, Rohatyn helped plan the Pinochet takeover in Chile. His public U.S. roles have been in planning bankers’ takeovers of government functions and infrastructure, including privatization of military logistics and warfighting, and including the bankers’ dictatorship established over New York City in its bankruptcy crisis of 1974-75.

Since Rohatyn has prominently opposed LaRouche on the entire auto crisis question, the revelation that he personally planned the worst outsourcing debacle in U.S. industrial his-



Niagra Falls Historical Society

Just a portion of the Lockport, New York auto plant complex now owned by Delphi Corporation, a part of which has been closed down—and other parts 50-70% underutilized. Served by railways (below) and highways, and heavy lifting machinery in one huge bay, the plants here have built aircraft in the past, and could build rail systems in the immediate future.

tory, has had a very healthy shock effect. Here is how Rohatyn's strategic plan was stated to the bankruptcy court by Delphi—exposing its very declaration of bankruptcy as a fraud:

“Delphi believes that a substantial segment of Delphi's U.S. business operations must be divested, consolidated, or wound down through the Chapter 11 [bankruptcy] process. . . . In the meantime, the Company will continue the strategic growth of its non-U.S. operations and maintain its operations as the world's premier auto supplier.” The objective—to reach a company with 150,000 employees outside the United States, and perhaps 15,000 remaining in America.

Mexico and U.S., Nuclear Power

On June 14, another shocking revelation in a Midwest newspaper is that Ford Motor Company's top management has been in secret talks with Mexico's government about moving a large part of the auto assembly it is closing down in the United States, to Mexico, with tax concessions and other subsidies from the Mexican government. It seems that with globalization, the United States private sector requires Mexicans to do everything, because at much cheaper wages—whether by importing the immigrants, or by exporting the industry.

Is this good for Mexico? LaRouche has said that the cooperation policy must be one of cross-border economic development, Great American Desert greening projects and other infrastructure, with a border open to migration. Here is how he has discussed this specific question:

“We have to think about upgrading the entire world population. . . . How do we do that? We create large projects, which utilize high technology, as expressed by science and by the machine-tool sector, to drive projects. We absorb the less-skilled layers of the population, into supporting roles, but being upgraded through their association with technological progress. We then take the United States and Western Europe, which still have advanced-technology and have the technology-driver capabilities. . . . And we insist that those areas which are capable of maintaining a high-technology driver program, commit themselves to specializing in things that are needed by the rest of the world which needs access to that technology. . . . They need a large infrastructure-development program, of cooperation among them, to be able to develop their countries, in concert.”

This is the role of nuclear technology—but also, of the retooling of the auto industry's advanced capacities. The United States still has advanced nuclear technology institutes and firms—the LaRouche Youth Movement in Southern California toured one of these com-

pany's facilities two weeks ago, seeing the entire potential process of constructing the pebble-bed type fourth-generation high-temperature nuclear reactor. But let us start building the reactors! Then it becomes obvious, the United States no longer has supply firms to build the pressure vessels, the heat-exchangers, the compressors and vacuum pumps, the mass production of pumps, valves, and piping involved. The constructing firm will have to turn to the military or the national laboratories for fuel assemblies.

These systems can be built in auto plants, especially in the auto supply plants which are much more rich in machine tools, than the assembly plants—in the past, in fact, auto plants in both St. Louis and Adrian, Michigan have built nuclear fuel assemblies; auto plants in many locations have built compressors and full aircraft jet engines; auto plants in Michigan and Louisiana have built rockets for the space program; auto suppliers in California have built satellites. Probably only for the nuclear pressure vessels' construction, will entirely new facilities have to be built.

The relationship LaRouche described is not only that between technology-driver economies and those nations which need nuclear technology. It is also the relationship, in infrastructure projects, between the skilled machining without which they can't be done, and the much larger number of semi-skilled and unskilled jobs which are always thus created.

As the financial markets crash, the demand for such projects will force the U.S. Congress to act, given that LaRouche and his movement have clearly shown them, what action must be taken.