EIR Special Report

Why the world's steel industry must be saved

by Richard Freeman

The U.S. Commerce Department issued a ruling on Aug. 10, calculated to antagonize Europe and plunge the United States, into a heated round of mutual recriminations and increased protectionist actions that will lead to the cartelization of the world steel industry and the shutdown of 50 percent of its current capacity.

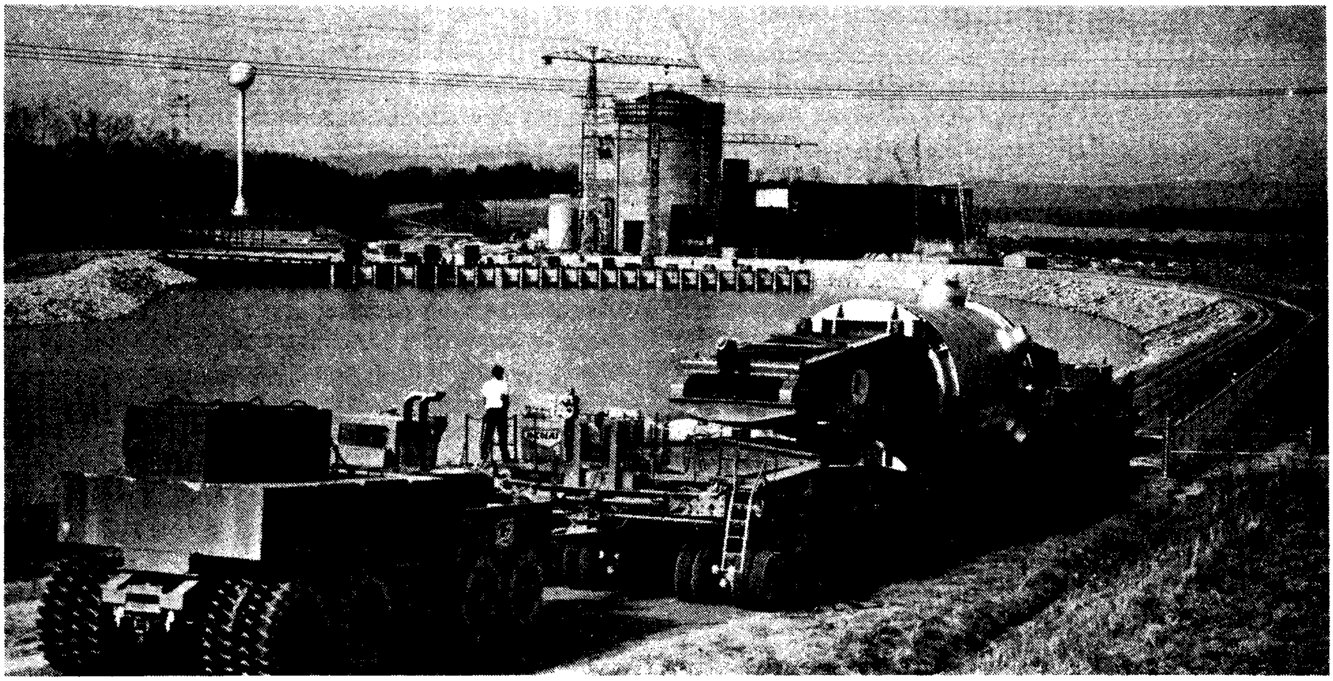
This move is an attempt to bring all world industrial development to a screeching halt, and stifle at birth the ambitious and absolutely necessary plans to industrialize the Third World and bring it out of its backwardness and misery.

The Commerce Department ruling was not written in Washington, D.C. but was devised at the level of the current Industrial Commissioner of the European Commission, French Viscount Etienne Davignon, and his predecessor in that post, Guido Colonna di Paliano, the representative of an oligarchical Italian family that traces its lineage back 2,000 years.

In its ruling, the Commerce Department claims to have found that steelmakers from Germany, France, Italy, Britain, Belgium, and Romania are guilty of "dumping" their steel in the United States—that is, selling the steel at prices that are either below the cost of production or the selling price of the steel in the steelmakers' home markets. This follows a ruling made this spring by the Commerce Department, in which five European nations, as well as South Africa and Brazil, were charged with unfairly subsidizing their nations' steel producers in order to undersell American steel producers.

In both cases, the Commerce Department levied heavy fines against the foreign steelmakers, after charges were first brought by American steelmakers, led by U.S. Steel, the nation's largest steel producer, which is run lock, stock, and barrel by Morgan Guaranty Bank. U.S. Steel has continued to make the claim that it was "protecting U.S. steel production levels and jobs." This is a gross but almost universally accepted lie.

The reaction in Europe will be swift and acute, all the more so because the Europeans had been attempting to work out a "reasonable agreement" on the first ruling when the second ruling came down. After the first ruling, Wilfried Martens,



Delivery of a nuclear reactor vessel to the Oconee Nuclear Generating Station near Seneca, South Carolina in 1972. World economic recovery and development depend on the creation of such steel-intensive scenes across the Third World, which needs tens of millions of tons annually for roads, ports, nuclear generating facilities, earth-moving equipment, and agricultural vehicles.

the Prime Minister of Belgium, angrily said, "It seems the world's two biggest trading units [the U.S. and Europe] are taking stands heading toward a conflict."

The economics of manipulation

What the British have created through the Commerce Department "anti-dumping" and "anti-subsidization" rulings is a situation in which they control, and therefore can manipulate, each side of the operation. The British intend to implement a worldwide "Davignon Plan" to rationalize the world steel industry, named after Commissioner Davignon, who is shutting down Europe's steel industry through cartelization and rationalization.

In 1977, Davignon succeeded in getting the leading European nations to adopt a minimum price for steel reinforcing bars, as a way of stopping the price-cutting that spread in the wake of the downturn of European steel sales. But this was only the beginning.

In October 1980, using the fact that the high interest rates of British asset Federal Reserve Board Chairman Paul Volcker had devastated the European steel industry, whose capacity utilization rate had plummeted to 55 percent, Davignon maneuvered the European nations into far more drastic measures. These included a quota system for each country *with maximum steel production limits*, as well as minimum prices and import controls. Large fines were established for companies that broke the code. As the steel industry collapsed further in 1981, Davignon succeeded in gaining agreement from the European nations to cease all state aid, including subsidies to their steel companies, by the end of 1985. In Europe, where large chunks of the steel industry are owned by the state, this means cutting back drastically on production.

This is exactly what Davignon has in mind. His plan has explicitly mandated that all subsidies be tied to plans for rationalization, that is, steel-plant shutdowns. This was the plan first put forward in 1970 by the European Community's Guido Colonna di Paliano, on behalf of the European oligarchy. His 1970 "Colonna Report" called for a rationalization of all European industry and a halt to economic growth under the guise of "integrating Europe industrially." Steel is the leading, and most vital, industry that the Colonna-Davignon forces have been able to shut down.

In the United States, the British and Venetian families have chosen to work through Morgan Guaranty, the leading British-controlled bank in America, and its asset, U.S. Steel, the largest American steel producer. U.S. Steel was formed in 1901, when J. P. Morgan stripped Carnegie Steelworks from Andrew Carnegie, and merged it with the steelworks owned by the anglophile Moore family. In the 1960s, the Morgan interests finally steered U.S. Steel out of steelmaking, while working to sabotage plant and equipment expansion throughout the industry. In 1981, U.S. Steel earned less than 15 percent of its profits from steel; most of them came from real-estate speculation and raw-materials holdings. Then, early this year, U.S. Steel spent $4 billion to buy Marathon Oil. A Japanese steel executive reported recently that he had met this spring with U.S. Steel chairman David Roderick and asked, "Why did you buy an oil company? For $3.2 billion, I can build a 5-million-ton new integrated steel plant in Japan." Roderick did not answer.

The Morgans also heavily influence Bethlehem Steel, while the Mellon, Harriman, Hanna, and Belmont interests continue to run most of the rest of the U.S. steel companies. These families assert that "there is too much capacity" and that steel is a "sunset industry."

This viewpoint was explicitly stated in the 1980s Project of the New York Council on Foreign Relations, manned by "patrician" American families, and controlled by British-centered anti-industrial strategists. This project, a purported "look into the future," published 26 volumes of studies. In the 1980s the world must be put through what was termed "controlled disintegration," they concluded, by means of oil shocks and credit contraction. Paul Volcker was a director of the CFR's 1980s Project.

In 1980, after Volcker's high interest rates had slashed American steel production, U.S. Steel Chairman Roderick led the move by the American steel companies to obtain anti-dumping and anti-subsidization rulings from the Commerce Department. U.S. Commerce Secretary Malcolm Baldrige, a member of the New York CFR, approved the U.S.-Steel-led request.

It requires no great imagination to see how the requests dovetail, and mutually reinforce protectionism. For example, Viscount Davignon has demanded that Europe's governments stop subsidizing their steel industries. Since, as noted, a large chunk of Europe's steel industry is owned by its national governments, "subsidization" is actually capital investment. The Commerce Department rulings make Davignon's claim that subsidization is illegal official U.S. policy.

And both America and European nations have been forced to attack Japan's steel industry—which is the most modern and technologically progressive in the world, but is now operating at only 60 percent of capacity. The nations of the continent have been thrown at each others' throats.

Not only have the U.S. Commerce Department and U.S. Steel coordinated with Davignon to demand a closing of "excess capacity"—a policy U.S. Steel and other steelmakers are implementing unimpeded in the United States—but these parties have demanded the additional firings of hundreds of thousands of workers and deep wage cuts, even though the American steel workforce has been slashed by 100,000 since 1978, while the European workforce has been cut 200,000 during that period.

In short, the protectionist steel fight the British have rigged between the United States, Europe, and Japan is not protecting the steel industry or steel workers, but rather is the impetus, under the guise of forcing international competition, for making each country slash its steel output, and thus accelerating the imposition of a Malthusian world order.

'Great Enterprises'

At this point, the most criminal feature of the British drive to impose a global Davignon plan is that it sabotages what is absolutely necessary to industrialize the so-called Third World: the steel for high-technology capital goods that will be employed in Great Enterprises around the globe.

As this Special Report shows, plans currently exist to conduct 110 major Third World development projects that will export nuclear energy plants to the Third World; build roads, other infrastructure and hundreds of thousands of factories; and turn current desert regions into breadbaskets. These combined plans not only require the collective finished steel capacity of the entire advanced sector. They require a *quadrupling of the world's capacity for finished steel products,* which is currently roughly 500 million tons per year. Eighty percent of the finished steel capacity is located in the collectivity of Europe (158 million tons per year), Japan (124 million tons per year) and the United States (115 million tons).

This will also demand a tremendous increase in the number of steel plants in the Third World. It will require applying the latest technologies of continuous casting, direct reduction, and as soon as possible, "leapfrogging" to the technologies of nuclear fission- and fusion-based steel furnaces.

The element missing is not awareness that these projects need to be done, nor knowledge of which technologies need to be explored and perfected, but rather the *financial arrangements* to realize the vast expansion of the OECD's steel capacity and export of steel-content capital goods. Without such a financial arrangement, nothing else can happen.

The dimensions of that financial arrangement have been specified by Lyndon H. LaRouche, Jr., founder and Contributing Editor of *EIR*. LaRouche has proposed that Third World debt, which is forcing murderous devolution, be rescheduled. This can be done by setting up an international rediscounting facility by treaty agreement among nations, and coupling it to a gold-based monetary system, with gold revalued for official purposes at the level of $500 an ounce. This new facility would first buy up the non-performing Third World debt on the books of leading commercial banks at a discount. The banks would be issued in turn long-term gold-backed credit.

At the same time, the Third World would be issued gold-backed credit from this new facility, for the purpose of importing high-technology goods from the advanced sector. The bonds would bear a 2 to 4 percent interest rate, and $400 billion of them would be created in the first issue. This would allow for a $400 billion increase in high-technology goods exports from the advanced sector to the developing sector to begin the process of industrialization.

Provided that this international reform is accompanied by the establishment of central banks on the model of Alexander Hamilton's First Bank of the United States, in the advanced-sector nations to funnel cheap, abundant credit to productive industry, then this industrial boom can be realized. Given this potential, any individual who would accept the British-rigged game of protectionist trade war would show himself as insane as he is suicidal.