Steel on Merrill Lynch auction block

That's where White House Chief of Staff Donald Regan apparently wants to put it.

Is Donald Regan, the drug lobby's towel boy on economic policy questions in the Reagan administration, planning a possible death blow against the U.S. steel industry? That's the question being asked in the wake of published accounts of a cabinet-level study group on the future of the steel industry. New York's investment bankers also have their own "restructuring" plans developing.

The cabinet level committee, functioning under the Economic Policy Council, came to light in an Oct. 24 spread in Katharine Graham's *Washington Post*. The Economic Policy Council is known to be the bailiwick of presidential Chief of Staff Donald Regan, and his collaborator from the Treasury Department, James Baker III, as well as the unfortunate Malcolm Baldrige who heads the Commerce Department.

Set up in July, after LTV, the nation's second-largest steel producer, filed for protection under Chapter XI of the bankruptcy code, the administration, according to the *Post*, was concerned to prevent the collapse of the steel industry. The cabinet task force reportedly believes that U.S. steel-making capacity would be reduced by as much as one-third as a result of the shakeout.

Does this mean that the Reagan administration's economic policy makers have finally waken up to the urgent need to start protecting the nation's basic, smokestack industries? There's no need to worry about that. The concerns of the committee are very different, but conform to what has been reported about Donald Regan's policy towards the AIDS epidemic.

The concern is, that the collapse of the steel industry would cost the government too much; $4 billion would be required to cover the elimination of the mooted 30% of capacity. But that would only be for starters. Then the government would have to pick up the tab on steel worker pension obligations and related matters, which would run to billions of dollars more.

According to Senator Heinz of the one-time steel-producing state of Pennsylvania, "The main concern that the government ought to have is that $3.5 billion in unfunded pension liabilities."

What happens to the actual steel industry in all this? The relevant government bodies don't seem to be interested in keeping the productive capability going, merely in reducing the amount of cash they have to spend to liquidate it.

Don Regan's friends at his old company Merrill Lynch are right now working on the answers to that one. Presumably Merrill Lynch's expertise in the seamier side of what is now known as "creative financing," like laundering the proceeds of the drug trade, qualifies them as competent to discuss the fate of the industry.

Charles Bradford, steel analyst for Merrill Lynch, wrote in that house's latest quarterly report on the industry: "We believe the restructuring of the steel industry is now finally under way. Industry leaders now seem to recognize that much less capacity is needed in the United States and that cost cutting is their only salvation."

According to the *Washington Post* article, Commerce Secretary Baldrige, and his under-secretary on the cabinet task force, Bruce Smart, have been quoted to the effect that the capacity of the industry should be reduced from the present 128 million tons per year, by 40 to 50 million tons. Bradford at Merrill Lynch is less drastic, he only thinks capacity should be reduced by 30 million tons.

The government's 128 million ton capacity figure was proven to be a lot of bunk in *EIR*'s June 1985 Quarterly Report on the economy. Eighty to 90 million tons capacity would be a better estimate of which only about 40 million tons represents new steel manufactured in old smokestack industry mode. Donald Regan's allies in the administration's economic policy apparatus, and the money launderers in his old company, are thus actually discussing reducing steel-making capacity to somewhere in the range of 50 million to 60 million tons per year. This would rank the U.S. at about 50% of Japanese capability in this core industrial branch, and perhaps one-third of the Russian capability. The United States would be reducing itself to second-rank power capability.

Instead of figuring out how to restore U.S. industrial capabilities to world levels, the post-industrial ideologues of the Reagan cabinet, and the drug-money launderers, are trying to figure out how to shut down the maximum amount of the steel industry, with the minimum outlay of government funds. According to the *Post*, Sen. John Heinz (R-Pa.) thinks the shutdown can be accomplished for about $100 per ton reduction of capacity. Data Resources is said to argue that it is this high cost of closure that has kept the industry operating as long as it has.