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June 22, 2009

A Renaissance for American Manufacturing

Some call those who fought in World War II our "greatest generation." Much can be shown that justifies that honorific, but too often we leave out what those men and women did after the war was over. An equally compelling case can be made that those individuals gave us our greatest era of economic achievement. During the period from 1947 through 1972, our GNP (in real dollars) increased more than two and a half times. Total personal income from wages and salaries paid by private industry went up more than *five times* (again in constant dollars). Over the same period, U.S. production of automobiles almost tripled and college enrollment almost quadrupled.

What made a good deal of this prosperity possible was the growth of the U.S. manufacturing base. Those industries provided good paying jobs with health care and pension benefits that enabled families to buy houses, educate their children, provide for their retirement and generally enjoy life.

That has mostly changed today. Manufacturing, which accounted for about a third of U.S. jobs in 1950, employs fewer than 12% today. The health benefits that insured millions of American retirees (long before Medicare) are now called "legacy costs," which many struggling companies seek to shed, through bankruptcy if not negotiation. Pensions, particularly defined benefit plans, are becoming a thing of the past. Wages for manufacturing employees have barely kept up with inflation over the past thirty years. In short, the engine that produced a golden age for the American economy has stalled.

Given this state of affairs, it is surprising, even shocking, that the government has mostly ignored the manufacturing sector. At a time that we are spending trillions to improve our transportation and energy industries, when we are remaking our health care system, when we are revamping our financial services providers and their markets, and as we inaugurate new approaches to education, that we are doing nothing to rebuild the manufacturing sector. Instead, our elected officials and executive branch planners seem to be taking the view that nothing can be done except to watch the ship sink.

But much could be done. Just a few ideas are set out below; many more would appear if people were called to action:

- An end to tax and other incentives aimed at bribing foreign producers to come to particular states and localities. Those who protested most strongly against bailouts for GM and Chrysler seemed to forget that billions in largess have been paid to attract foreign producers setting up shop in the U.S.

  We should welcome foreign investment in the U.S., but not with government subsidies to compete with U.S. companies.

- There should be a similar clamp down on the tax benefits available to U.S. manufacturers moving abroad in search of cheaper labor. President Obama has promised a proposal to this end, and it should become a matter of high priority.

- For sixty years, our trade policies have been guided by economic philosophies detached from the real marketplace. The most recent example is, of course, our trade relationship with China, a country that has built its economic strength by exporting freely to the U.S. while disregarding its international obligations to maintain a realistic value for its currency, to crack down on piracy of intellectual property and to conduct trade without dumping and subsidization. U.S. trade policy should just get real.

- Even with the mounting unemployment rate, many American manufacturers and other companies cannot find people to fill scientific and technical jobs. This fact is living proof that we need to tackle the problem of college education, whose costs are running out of control and where programs to make education affordable have been disintegrating. Aid to students should be aimed at getting them into schools, not to provide profits for lenders, and schools taking those students should be required to reappraise their cost structures. (One example: faculty salaries went up 16% between 2000 and 2005, while pay to administrators increased 26%.)

- Manufacturers have known for years that a large share of their health care expenditures go to treat the uninsured. As companies struggle to provide decent benefits for their own employees, they see medical costs exploding. Much of those increases are due to the extreme cost of caring for the uninsured, who become sicker because they cannot afford early intervention and who must seek the most expensive treatment available – in hospital emergency rooms. America’s foreign competitors simply do not bear this burden and it will soon break our own companies unless it is addressed.

- Our economic stimulus programs require the use of domestically produced materials and products in the public works projects they finance. That requirement is perfectly legal under the international rules on trade, and we should enforce it rigorously.

- Perhaps most important of all, the Congress and the Administration should wake up to the importance of reinvigorating the manufacturing sector and to take it into account as they consider their economic objectives. In a world humbled by the follies of its financial institutions, two countries that have focused on manufacturing – China and India – appear to be less adversely affected by the meltdown. There is a lesson there.

Here are this month's cost data:

- Scrap and Pig Iron. There was not much movement in the prices for #1 dealer bundles or #1 busheling (Chicago). The former was down a nickel to $210 per mt, and the latter was unchanged at $215. The spot price for Brazilian pig iron (cif New Orleans) was up $30 per mt to $280. There is some opinion that the Chinese, who have been making large purchases of raw materials for stockpiling, may soon curb those buys.

- Natural Gas. Prices continue to be at levels not seen for many years. The Nymex contract price this month was $3.53 per mcf, off 5% from May.

- Ocean Freight. The Baltic Capesize Index more than doubled, to 6382. This surge seems directly connected to the Chinese buying spree of bulk commodities.

- Exchange Rates. The dollar continues to weaken. The euro is, as of this writing, at $1.39, up three cents, the pound costs $1.64, up nine cents. (In just two months, the pound has strengthened more than twenty cents, a dramatic increase.) The Canadian dollar is now at 89 cents, three cents more than last month.

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