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Man from Mars

The big news this last month was, of course, the congressional elections and the changes they may bring to national policies over the next two years. We thought that it would be appropriate at this time to discuss some of those matters – their importance, where we stand on addressing them, and where we might expect to be going in the future. (The overarching issue, Iraq, is beyond the purview of these letters.)

If we dropped the proverbial “man from Mars” into the midst of our country, it would not take him long to discern the major issues that we must address, with some urgency, over the next years. In many cases, the solutions are not excessively complicated, except as they involve political issues that might be beyond the comprehension of our Martian (and many Americans as well).

- Global Warming. Evidence abounds that our planet is warming, and this fact is no longer disputed by any significant body of scientific or political opinion, including President Bush. What is in dispute is whether we can do anything about it, and, if so, what. One thing that we can do is to decrease carbon emissions, a tactic that has been endorsed, at least in principle, by all, including the United States. The dispute is about how we should do it - through mandatory limitations or by volunteer compliance reinforced by government benefits. Our country has utterly failed to exercise international leadership on this issue, first walking away from the flawed Kyoto Treaty rather than seeking improvements and then by disputing for many years the evidence of global warming. Instead of marshalling the international community to reach sensible programs to reduce emissions, we have postured and provoked, leaving the world’s response in disarray and losing valuable time needed to confront the problems. It appears that the new Congress will attempt to deal with global warming; what remains uncertain is how the White House will respond.
- Oil Dependency. Another grave problem is our dependency on foreign oil, which President Bush has described as an “addiction.” Our appetite has contributed to the very high world prices for oil, which are equivalent to a tax on our people assessed by oil exporting countries. It is not an overstatement to say that we have been financing the mischief-making of Iran and Venezuela, whose internal problems would be overwhelming without the beneficence of oil buyers like the U.S.

Until very recently, our government has addressed these problems chiefly by seeking to expand domestic oil production, but, whatever the wisdom of those efforts, they will do very little to satisfy national demand. What has not been done – for over twenty years – is to require *any* improvement in the fuel efficiency of our huge fleet of cars and trucks. While some modest proposals have been adopted to require some improvement, they will do little to reduce the demand for gasoline as the fleet increases in size.

Meanwhile, as the energy demands of China and India rapidly increase, oil prices will go up and up, weakening our economy and making Ahmadinejad and Chavez very happy. Again, we can expect the new Congress to take up proposals to curb energy consumption and expand energy production, but the question will be how the White House will respond.

- Social Security and Medicare. Another problem acknowledged by all is the financial stability of the Social Security and Medicare programs. Both are now on a course towards insolvency unless we change their financing and benefits. Yet, while everyone knows that the problems exist, Congress has done *nothing* except to *increase* Medicare benefits. The Social Security fix is not complicated, involving relatively minor adjustments to eligibility requirements and, perhaps, certain changes in cost of living adjustments. However, nothing was done legislatively because the White House insisted on privatizing Social Security accounts – an interesting and debatable idea, but one that would not do anything to improve the financial stability of the program. As for Medicare, the road to insolvency is shorter and the abyss is deeper; the solutions so far deemed politically acceptable have more to do with cutting health care costs (an objective demonstrating the victory of hope over experience) than making short term sensible changes to eligibility and benefits. It is hard to tell what the new Congress will do in this area – every year of delay makes the problems grow and the solutions more unpalatable, but politicians have shown remarkable reluctance to address them.
- Deficits. Our Martian would be puzzled by this one. In six years, we have gone from huge surpluses to huge deficits while doing virtually nothing to stem the trend. Faced with the unforeseen costs of 9/11 and Iraq, we have increased spending and decreased revenues at a record pace. Tax cutting has gone from a policy to a mania, and spending on pork has become a national embarrassment. (One of the treats that CSPAN brings – very funny if it were not so tragic – are Senator McCain’s recitation on the Senate floor of some of the projects earmarked in various appropriation bills.) Of course, all of this spending excites the lobbyists, like ants at a picnic, and the inevitable results are the bribes and corrosion of the political process we have seen in the last years. The new Congress promises to address pork and corruption, but these are very strong adversaries. Even stronger is the wish to be loved by cutting taxes.

- International Relations. As solutions to our problems more and more require cooperation by the international community, we have lost the ability to assert our leadership in that community. We have conducted foreign policy with arrogance, dismissed the value of other countries' contributions, lagged on issues that are critical to our own national interest and otherwise acted in ways that have led others to question our moral compass. Fixing this problem will not only require a change in behavior – a return to the leadership we accepted and other countries wanted us to exercise – it will require time, probably decades, to earn again the respect and deference of others.

Our Martian might see a common thread in the problems that he has discerned: Each represents the real threat that we shall leave to our children and grandchildren a country plagued by calamitous effects of climate change, deeply in debt, subject to extortion by oil producers, without adequate social protections and with few friends in the world. Politicians are fond of talking about “mortgaging our children’s futures;” this time, the possibility is real and scary that the mortgage is about to be signed.

Now, for some information on costs:

- Scrap and Pig Iron. Number 1 dealer bundles and #1 busheling (Chicago) continued their recent price decline, each dropping by about \$30 per mt to \$216 and \$220, respectively. These are the lowest prices since July, 2005 and represent a drop of about 35% since July, 2006. The spot price of Brazilian pig iron (cif New Orleans) was also off slightly to \$280 per mt, still \$55 above the July, 2005 level.
- Natural Gas. The Nymex contract price jumped last month by \$1.56 to \$7.74 per mcf. Given the recent declines in crude oil prices and the mild weather so far this fall, this kind of increase was not expected.
- Exchange Rates. The dollar weakened against the euro and the pound last month. As of this writing, the euro was at \$1.28 and the pound at \$1.90, both up three cents. The Canadian dollar slipped a penny to 87¢.

We at Corey hope that you and your family had a pleasant Thanksgiving – a time where we can put aside for a time the problems we face to recognize the many blessings we enjoy as Americans. As is our custom, we are posting this letter on our website, www.coreysteel.com and on the international site, www.steelonthenet.com. Please let us have your comments and suggestions.