GUEST EDITORIAL

STOPPING THE GREAT AMERICAN GIVEAWAY

Inviting an American shipbuilding industry official to discuss the subject of meeting foreign competition is like inviting Jackie Gleason to speak on dieting. I am painfully aware of the commercial shipbuilding industry situation. Let me tell you a little about it.

A Market Disappears

There was a four-month period in 1984 where not one single ocean-going commercial vessel was being built in the entire U.S.A. or Canada. That had not happened before in the 208-year history of the U.S. Except for naval ship construction and the construction of very complex merchant ships, North American shipyards cannot compete with foreign yards, expecially Japan and Korea. This is true even for shipyards, such as ourselves, which have made heavy investments in the most modern of facilities and use the most sophisticated computer aided engineering and manufacturing systems available.

Why such a dismal picture? Well, our critics are quick with several answers: noncompetitive labor costs, obsolete facilities, low productivity, poor quality, and questionable management—to name a few.

And I'd be the first to admit that there is some truth in some of these charges, but the real reasons we cannot compete are fourfold. First, the major foreign yards in the Far East do have labor rates which are only 10 to 30 percent of ours. Second, overseas yards are generally a part of highly integrated companies, which supply materials to their shipyard at low cost. Third, overseas yards enjoy government construction subsidies, and fourth, their customers receive government financing at well below market rates in that country or anywhere else.

What does this shipbuilding problem have to do with iron castings? The point is that our problem is also your problem. All four items I just presented also apply to your industry. In addition, your market with my industry in North America is rapidly decreasing as we lose ships to Korea and Japan. Why is that true? Well, ships, particularly tankers and other product carriers, contain a maze of pipes, valves, pumps, compressors, deck and other machinery, all of which use tons of castings. Approximately 12 percent of the cost of a ship is in your type of material, representing about $18 million per ship for today's standard tanker of $140 million.

It's a market which has disappeared for shipbuilders, and one that is also gone for you.

Lopsided Trade Balance

From the battered industrial giants of the Atlantic Coast to the high tech wizards of the Pacific Coast and almost everybody in between, where most of you come from, there are cries of alarm over the erosion of their North American market position by overseas competition.

Since 1970, the merchandise trade balance of payments showed only two winning years for the U.S. Significantly, the scores are getting even more lopsided in favor of our competitors. Our $3 billion trade surplus in 1970 went to a $26 billion deficit in 1980 and is trending to a $150 billion deficit this year. Plainly, the balance is out of control, and will require dramatic nationwide action.

Much of the blame can be attributed to the natural generosity of the U.S.A. and Canada. We freely shared our resources in the late 1940's and 1950's with war-devastated nations, friend and foe alike. We generously exported our technology and management. We allowed our great inventions of the past forty years to be exploited by others, mindlessly exporting jobs and profits. Like happy children on Christmas morning, many nations have

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From time to time articles appear in journals of other industries that contain information we think will be of interest to our readers. Such a case is that of the address by Mr. E. J. Campbell, President and CEO of Newport News Shipbuilding Co. given at the Tenth Annual Meeting of the Iron Castings Society. Mr. Campbell's remarks about foreign competition and our trade policy have relevance to our industry as well as to the shipbuilding and iron casting businesses. Therefore, we reproduce here, with permission of Ironcaster Magazine, Mr. Campbell's remarks.

enjoyed the fruits of the great North American giveaway, but show little in the way of tangible gratitude.

During the thirty years following the end of World War II, our economies were the strongest and most productive in the world. Our citizens enjoyed a rising standard of living, our governments financed a strong national defense, millions of new jobs were created, and developing nations of the world were helped by us in their economic growth.

The early multinational corporations were blessed with significant growth in sales and profits, both at home and overseas. They brought management methods, technology, and capital to both developed and undeveloped countries. This effort raised the standard of living for the countries in which they opereated, created jobs in North America, and sent millions in profits back home. Other American industries, although without significant overseas manufacturing facilities, were able to export products, thus sharing in an expanding world wide economy. Sure, there was growing competition from a recovering Europe, led first by the so-called "German economic miracle,"—but it was encouraged by the United States and Canada, and it provided funds for those foreigners to buy our goods. Detroit, for example, hardly noticed the Volkswagen invasion. But sometime in the early 1970's the cumulative effect of political change at home, slowing American productivity growth, and particularly competition from the Pacific rim countries, began to have a profound adverse effect on the competitive status of major North American industries.

Industry Attacked

There were also numerous politically inspired changes. Many were beneficial, concerning the health and safety of our citizens and employees, protection of the environment, and equal opportunity for all. The problem was that all were expected to be implemented almost immediately and paid for largely by industry. Not surprisingly, U.S. industry balked, and Congress, ever ready to exploit opportunities to be in the public's eye, jumped to the attack. The bruise brothers and sisters of the media, always delighted to spread the bad word, sank to the occasion. Ralph Nader, the man who brought us the $17,000 Chevrolet, became a media folk hero.

Industry was cast as the bad guys, unconcerned polluters, and bereft of social responsibility. Multinational corporations got extra special treatment. They were cast as tax evaders, job exporters, payoff artists, and heartless exploiters of third world countries. International oil companies were cast as perversely making "indecent profits" from the Arab oil embargo. All of it was nonsense, but great fodder for irresponsible politicians and the media.

Since scapegoats are supposed to be sent into the wilderness after the sins of others are placed on their heads, no one in the government or elsewhere was particularly interested in listening to industry's side of the story. The result was the drawing up of even more government regulations imposed on top of the volumes already in force. Among these were restrictive laws on doing business in foreign countries. For example, changes in income tax regulations on U.S. citizens' foreign earnings made it almost impossible for them to work overseas.

Add to that Carter's grain embargo, his high inflation and interest rates, budget and trade deficits of historic proportions, and you have a scenario for some very difficult times for companies which must compete internationally—and, of course, that includes all of us.

Motorola recently estimated that the United States is losing 3500 jobs every day to foreign competition. Most people ignore this statistic until one day they discover "today's the day" for them. We really entered the "world economy" in 1973-1974, with the first oil crisis. But, even then, that event was considered by many as an isolated case, and they soon returned to business as usual. It really wasn't until the early 1980's, when problems surfaced on a broad front—autos, electronics, steel, machinery—that the magnitude of the problem became obvious.

Getting Back Into The Ballgame

Considering the suffering that has occurred to many of you and your employees, I hate to say it, but the fact is that the massive problems of our manufacturing and basic industries over the past several years have been a "blessing in disguise." They "woke us up" to a changed world. And, to our credit, we're all taking measures to "get back in the ballgame."

Consider, for example, the new strategies of General Motors—such as the Saturn car plans announced in January for meeting the competition of the next decade. And Ford and Chrysler have made monumental gains in regaining competitiveness and are committed to maintaining their

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position. Our machinery and equipment people have all-out efforts underway to improve productivity. And, I know that most of you have been doing the same things.

Like most of you, I am convinced that our industries can come back, provided a reasonable atmosphere for development is maintained, and, as Lee Iacocca says, a level playing field is provided. A good indicator of national industrial performance is the recent gain in U.S. manufacturing productivity, certainly a key factor in determining competitive position.

I want to remind you of the importance of constantly working hard on improving productivity. Our long head start has disappeared; there is nothing in reserve. We have to find new ways or rework previous successful methods to extract the maximum gain.

To give you some ideas for consideration, John W. Kendrick of Georgetown University, a long-time authority on productivity, has determined that since World War II advances in knowledge (essentially R and D), capital investment, and an educated workforce, contributed around 75 percent on all productivity gains. He says that R and D offers the highest payoff, contributing around 35 percent, with the other two around 20 percent each. These figures are for all manufacturing industries combined. Individual industries obviously will show different results.

Another interesting finding from Kendrick's studies was that the secondary users of basic research benefited up to ten times more than the original developers. The gains from these secondary uses of R and D are substantial. The Navy itself told Congress that they will save at least one billion dollars on the three aircraft carriers now under construction in our yard, mainly because we'll be delivering each of these ships in 17 to 18 months less time than previous carriers. Just last month, the Defense Department notified Congress that they were taking $430 million from the money already saved on two of the three unfinished carriers, and were applying it to other programs.

Kendrick left the remaining 25 percent of the contributors to productivity in one package. For example, you may find that mergers and joint ventures among industry members, or with foreign partners, may be necessary to reach economies of a scale to permit automated production.

Your industry as a whole can encourage research into new materials, new applications, and higher standards of quality. University research facilities can be tapped to provide the technical expertise and

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facilities perhaps not generally available in your individual companies.

Individually, or as an industry project, visits can be made to foreign foundries to observe their methods. In ship building, major Japanese and Korean shipbuilders have been willing to do this type of exchange. Your visits could possibly lead to business with Far East companies with enough foresight to know that they had better put some American content in their exports to North America or face more drastic remedies.

Unfair Trade Practices

Our delemma: There are two remaining problems that we cannot solve by ourselves: (1) illegal imports and (2) the unreasonably high value of the U.S. dollar. Our Canadian friends do not have the latter problem. Saying it another way—bottomless foreign national treasuries subsidizing illegal trade and an unrealistic 40 percent exchange rate difference will overwhelm anything we can obtain through our internal cost reductions. In fact, for certain products, if we eliminated all labor, we'd still not be able to meet certain foreign selling values—as their selling values frequently have no relationship to costs!

As to the import issue, after realizing the depth of the problem last year, President Reagan then concluded, "Unfair trade practices are the preponderant source of the injury found in the United States industry."

And Congress, last October, enacted the steel import stabilization act. This far-reaching trade statute is based upon an important Congressional finding: "The ability of our steel industry to be internationally competitive has been impeded by subsidized and dumped foreign steel."

But this problem is not confined to steel. Industry after industry is being impacted, from machinery to textiles, from computers to semi-conductors, from castings to ships.

Proof of this fact is indicated by the record volume of 203 unfair trade cases filed in 1984 by U.S. industry. Never before have the appeals from injured firms and unemployed workers for restraints on illegal and unfair import competition been so numerous and so broadly based.

Now these problems didn't develop overnight. For more than a decade, the United States and Canada have been slowly losing their capability to compete in world markets, especially in the manufacturing sectors. This has led to a significant change in our whole economic system, as basic manufacturing industries shrank or faded away and were replaced by fast food and trading companies.

Problem Solving

What can be done? Well, problem solving begins with recognizing the existence of a problem.

We now hear a multitude of voices from Maine to California demanding governmental action on our budget deficit; that's right, our budget deficit. However, almost no public debate has focused on the U.S.A. expected 1985 trade deficit of $156 billion. And, frankly, I consider this to be the more severe long term problem.

One way or another, we must—and we will—solve the budget deficit. It'll be painful, but it can be done. On the other hand, the continual, astronomical trade deficit is having a negative long-term impact on our country's industrial base. Once an industry is gone, it cannot be reconstituted overnight—if ever.

Therefore, another suggestion: "Let's stimulate more public debate on our trade deficit and its impact on manufacturing. We must remind our fellow citizens and our public officials, especially your Congressmen that our trade problems are not confined to steel, autos, apparel, machine tools, and consumer electronics. Every sector of manufacturing is susceptible to its own version of the steel industry's dismal decade. Let's challenge the all too familiar responses such as: support free trade at all cost; they'll retaliate against our exports; or we need unlimited imports to keep American industry on its toes and inflation down.

Another recommendation: while North American markets should be open to overseas competition, let's also insist that this overseas competition comply with our fair trade laws and regulations. And, it should not be the responsibility of individual companies to be the policemen on the trade law beat. Our federal governments must be persuaded to meet their statutory responsibilities to ensure that American industry can compete on a fair basis against overseas competition.

And a third recommendation: let's force our trading partners to open up their borders to unrestricted equitable—and legal— and fair trade, to us and to the other trading partners of the world.

Japan currently enjoys a $37 billion trade advantage over the United States, and their trade imbalance increases each year. Yet, the Japanese continue to refuse to allow American goods—from telecommunications equipment to baseball bats—to have fair access to its markets. They'll take in potatoes, but not potato chips, because that has "value added." They'll take in wood, but not furniture. In short, they're providing employment for their people—a great idea, especially if your trading partners lie back and let you do it.

Production Is Base of the Economy

Remember, if smokestack America slides slowly down the chute, the economic base of this country and Canada (and the country's defense capability, by the way), slides right along with it. For example, do you know who uses the most silicon chips? It's General Motors, Ford, and Chrysler for computers in every car. If more and more cars come in by ship, they not only bring the steel and the glass and the castings and the tires with them; they bring the chips with them, too. And go ask the people in Claymont, Delaware, Lackawanna, New York, or Johnstown, Pennslvania, what happens to the drive-in hamburger business and the real estate business and the hardware business, when steel mills cut back or close down.

Or visualize us without a viable DuPont . . . Bethlehem . . . Alcoa . . . Ford . . . Caterpillar. What replaces these industrial keystones in an area's economy? Banks? McDonald's? Travel agencies? To sell to whom?

Don't get me wrong. I have nothing against these businesses. But we need balance between building and producing something—and financing it, selling it, and servicing it. If you don't have a healthy producing base, overtime, you lose the other three. Yank production out, and the entire economic base starts to collapse.

Another good reason to not depend on service industries is that the Japanese are now taking heavy aim at the banking and insurance areas.

Dollar Unrealistic

Let me turn to the second and final concern I want to discuss—the strong U.S. dollar. To talk about the problems a strong U.S. dollar creates gives rise to this response: But, our nation's interest rates are down. Inflation is down. The economy is strong. So what's the problem?

My response: I'm simply trying to convince public officials, business leaders, and opinion makers that the time to fix the leaky roof is when the sun is shining. And believe me, it's damn difficult to get America's attention on tomorrow's potential problems.

So let me repeat: Meaningful actions must be initiated to change the overvaluation of the dollar and its impact on all of us. Too often, we are told America is better off with a strong dollar and cheap imports, a formula which equates to reduced inflation.

In fact, what we're doing is putting a "heavy tax" on our exports and subsidizing imports. As a result, we're pricing ourselves out of world markets. And, as you notice from recent media reports, this problem is now even adversely impacting on our agricultural exports. American consumers may be pleased with the bargain prices, but that won't last very long if their jobs keep moving overseas.

Governmental actions—prompted and supported by all of us—must focus in on this dollar valuation problem. The old formula for managing your business is no longer valid. Trade—like the economy—has become completely global.

Endangered industries in North America can profit from government help in some form—for example, the Section 201 relief your industry is seeking from the International Trade Commission of the United States. It is usually a slow and torturous procedure. Nevertheless, the timing appears to be right—the U.S. Congress has begun to pay attention to the trade balance problem. There's movement on Capital Hill. We don't know yet exactly where it is heading—but at least there are signs of life.

Individual and National Resolve

Where do we go from here? Americans must take on the challenge of competitiveness as the economic agenda for the next decade!

We must insist that our industrial base be considered as important to our country as our defense capability and our domestic support programs—it must be, as it supports the other two.

We must convince our policymakers and lawmakers to focus on the budget deficit, the trade deficit, capital investment, the dollar value, and export promotion—all in a coordinated manner. Piecemeal legislation would be typical, but most unfortunate.

We must get across the following points:

1. Foreign governments' involvement in world trade matters is no longer limited to "smokestack" industries.
2. The current distortions plaguing world trade and exchange rates will not simply go away with the passage of time.
3. Without an equitable world trading environment, no amount of North American knowhow, improved productivity, or reduced labor costs will arrest our slide into deeper trade deficits.
4. From hi-tech to agriculture, from the service industries to basic manufacturing, all of us must work for industrial policies which fit today's world.

In short, North America's competitive position is rapidly deteriorating, and we'd better do something about it.

In the final analysis, it comes down to a question of individual and national resolve, a question of whether our countries really want to get tough and compete in world trade—now and in the future.

Before we can regain control of our own economic destiny, we as one continent of people with common interests must develop a combined will to compete. We must reject any thought that we can make it through this century and into the next without getting back into the mainstream of global competition.

We must stop the great giveaway.

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