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I know that everyone here is concerned about the steel industry's future and the Administration's failure, thus far, to implement, effectively, the President's import program. What I want to begin with today, however, goes beyond steel and steel import restraints. Indeed, as long as we approach trade issues in isolation industry by industry -- steel, textiles, footwear, machine tools -- I suggest we will never have an effective trade policy for steel or any other industry under attack. And we will never address the growing problems confronting America's manufacturing base.

So, I want to spend some time with you this morning not only discussing the steel industry but also the state of industry in the United States in general, and whether or not industries like steel have a future in this country. If so, then we need to agree on a strategy for industrial survival -- for our old industries as well as our new ones. A policy supportive of industry -- an industrial policy, if you will -- but not one that picks winners and losers.

Deindustrialization is a popular topic at conferences in Washington these days. Economists, columnists, political scientists and other assorted pundits have produced reams of paper studying this question. Even though America may be deindustrializing at a rapid pace, I can tell you there is one real growth area -- and that is for economists.

By now, however, our trade and investment problems have been so serious for so long, that even economists can no longer deny their existence, even as they continue to preach an ivory tower version of free trade.

Indeed, there is no better place to look for proof than the report of the President's Commission on Industrial Competitiveness which came out in January. Among other things, that document reports:

- Although we spend huge sums each year on research and development, spending on civilian R&D -- that is, non-space and non-defense -- is less than in Japan and Germany as a percent of GNP.
- Japan, with half our population, is graduating more engineers. They have the added advantage of graduating 1/20th as many lawyers.
- American fixed investment as a percent of GNP lags behind Japan, France, Italy, Germany, and Canada, as does our labor productivity. As the report states, "Nations that invest more also have greater productivity growth. The United States ranks poorly in both of these areas when compared to our major trading partners."
- The report states that, over the past twenty years, real rates of return on manufacturing assets have declined. In the past four years they have fallen below the rates for alternative investments. We are sending investors a clear signal about where they should put their money, and it's not into our industrial base.
- And we are raising the cost of that money. Our savings rate lags well behind

our developed trading partners, while our cost of capital is much higher, twice as high as Japan's.

- The report goes on to note that these developments are reflected in employment trends as well. Although we have created over six million jobs during the current recovery, - a remarkable achievement - they are primarily in services. Total manufacturing employment is still lower than in 1981. And in 41 states it is below the level of 1971. Total employment is still below 1979 levels in 17 states.

- Finally, the overwhelming impact of exchange rates has influenced all these developments. The dollar has appreciated over 40% in value in the Reagan Administration. This has been good news for consumers, but bad for U.S. jobs. As the dollar has gone up, our trade and current account deficits have soared with them. And companies have responded accordingly. Caterpillar, for example, is closing down two of its modern facilities here in favor of new production in Korea, Scotland and Belgium. That kind of action is not only threatening to our national and defense manufacturing capability, it is also nearly irreversible.

As the President's own Commission concludes, "Our ability to compete in world markets is eroding . . . U.S. leadership in world trade is declining . . . The U.S. position as a world leader . . . depend(s) on the ability of American industry to compete both at home and abroad." Those of you who know President Reagan will understand this is the last result he wants or seeks. But the message is clear. "Wake up, Mr. President, before its too late.

How did we get here? To begin with this problem certainly did not start with Ronald Reagan.

We have reached this point through a combination of missed opportunities in trade policy and misunderstandings in tax and investment policy that reaches back well over a decade. And no one knows that better than the steel industry.

There is no need for me to go over with you in detail the staggering -- and well documented -- record of unfair trade practices by your foreign steel competitors. That record is clear, and it is compelling.

As if all the foreign government ownership and support of steel exports was a plague enough, the industry is facing a new challenge, and that is the deliberate effort by both importers and foreign producers to disrupt the restraints that have been negotiated by overselling steel and counting on buyers to pressure the U.S. government into raising the quota limits after they have been reached. A major task for you -- and for the House and Senate Caucuses -- is to see that the President holds firm when these pressures are applied. The alternative is the destruction of his program.

Unfortunately, this is not the first time the Administration has been asleep at the switch. We have for four years pursued a policy of benign neglect of international trade and financial systems. Even more, we have been proud of our ignorance.

-- the dollar's appreciation, out of control and out of proportion has become a sign of strength.

-- non-tariff barriers imposed by others against us are really signs we're not trying hard enough to sell our goods:

-- the failure of our manufacturing sector to share in the economic recovery is a sign we are becoming a more sophisticated economy.

-- when shoe workers in Maine are unemployed, that is, apparently, in the words

of one ITC Commissioner, their own fault for not moving.

-- trade deficits, like the budget deficits of only two years ago, apparently do not matter. Although I'm still waiting for the supply siders to tell us how we can grow our way out of them.

This approach to the global economy is like Alice in Wonderland. The effect of our non-policy is the same as telling American industry "off with your head," and the long term result will be to leave us with little more than the Cheshire cat's grin instead of a live body.

There have been some recent signs the Administration is waking up. Most of them have come from the Treasury Department, notably its agreement to discuss international monetary issues and coordinated economic policy with our allies and trading partners. And there are encouraging signs in the leaked revisions in the Administration's tax reform proposal.

Congress is waking up too, but equally slowly. The good news is that the Finance Committee - alarmed by the strong dollar - recently held hearings that clearly made the case for better coordination of fiscal and monetary policy among the major trading countries, including agreement on coordinated intervention in the exchange markets as a part of that larger policy and as a means of bringing the dollar down . Further good news is the Senate action of 10 days ago where we passed a budget cutting spending by $300 billion over the next 3 years. Tough, even bitter medicine, but essential to our economic survival.

And, last year, although little noticed, Congress also established the case last year in the Trade and Tariff Act of 1984 for a more aggressive attack on non-tariff barriers. There can be no doubt that we have given the President the tools he needs for that purpose. His continued failure to use them will only force Congress - albeit with blunt, probably two edged instruments - to do his work for him.

In an effort to move ahead on our attack on dumping, subsidies, and non-tariff unfair trade practices, I will shortly be introducing comprehensive trade policy and reform legislation supported by the Labor-Industry Coalition for International Trade (LICIT) and the Trade Reform Action Coalition (TRAC). I urge you to review the provisions of these bills, as they truly embody an aggressive trade policy for the 1980s and 1990s, and I ask for your wholehearted support as well.

As I indicated earlier, deindustrialization is not just a problem of trade policy. It is also a result of a budget policy that emphasizes consumption without the willingness to finance it or curtail it. We are mortgaging future economic growth and foreclosure on industrial America is in process. And beyond the budget, another piece of the puzzle is the failure of the Administration to sustain the pro-investment philosophy that was the hallmark of its first tax bill.

The Administration apparently still clings to the belief that we can grow our way out of our deficits, and that rate reduction will be the engine for that growth. But the overall effect of the original proposal, Treasury I, is to discourage investment and savings in favor of consumption, largely through repeal of ACRS and the Investment Tax Credit. The only way such an approach can promote growth is by stimulating still more consumption at the expense of saving, and shifting aggregate investment into industries that are less capital intensive. In other words, it has been proposed to shift investment into sectors where there are more jobs per dollar of investment -- which means still more service jobs and fewer in manufacturing. We should be reforming our tax code, but it should include more emphasis on savings and less for consumption rather than the other way around. The Treasury proposal is essentially a blueprint for the deindustrialization of America through the creation of a service based

economy.

And by definition that will mean increased still more reliance on imports and the dislocation of thousands of more Americans in manufacturing jobs. Ladies and gentlemen, such a vulnerable position is totally inconsistent for a nation that claims the right to world economic and political leadership.

I am well aware of the need, and, the steel industry's concerns to go beyond the ITC and ACRS and find a way to use current Net Operating Losses and unused credits.

I have been a strong proponent of obtaining a refund of unused NOL's and credits. In my judgment, this is a goal still worth pursuing, even though we were not successful in obtaining it in the past. But at the same time there may be a need to defend against a possible tax increase on investment through a corporate minimum tax that fails to distinguish between companies making money and those that are not. There are several such proposals pending, including one in Treasury's revised tax reform package. Neither the President nor the Congress can resist the political allure of taxing corporations that have millions in earnings but are not paying any taxes, so trying to stop a minimum tax per se will in my judgment not succeed. But I believe that it is possible to draft one which protects companies that have several years of losses, and I intend to work closely with the Institute on that issue.

There are some lessons, Congress can learn from the tax policies of our foreign competitors. The Business Transfer Tax takes a page from our competitors' book by imposing a tax on both imports and U.S. companies; it also learns from the Al Ulhman memorial value added tax proposal. The BTT basically eliminates payroll taxes by allowing U.S. companies an offset of their tax against their FICA payments. This proposal should be given serious consideration. With modifications, it could provide some of the protection that U.S. companies need.

What I am saying is that Tax reform should not be just about lowering rates and eliminating preferences. It should be an opportunity to find a way to better implement our investment and trade policy goals. The two are linked, and it is time for both the White House and Congress to recognize that reality.

It is clear that the continued pursuit of trade policies that ignore others' barriers and tax and exchange rate policies that ignore the investment needs of our manufacturing sector can only contribute to our further deindustrialization. I'm not against service jobs per se, but I don't think that Americans all want to end up working for K-Marts and Taco Hut. If we give away our industrial base through benign neglect on the international front and passive budget and tax policy here at home, we will never get it back. And with it will go our position of world leadership -- first economically and then, just as certainly, our political leadership will fail as well.

You here in the steel industry understand this better than most. This industry has been a primary victim of the policies I've been discussing. But you don't need me to tell you that. What I hope I can do, however, is to provide some perspective as one who devotes a great deal of time in Washington to the steel industry and to share with you my view of the obstacles we face in trying to advance the interests of the vital industry.

There is some sympathy for the steel industry because of the irrefutable record of unfair trading practices you have documented. But, frankly, when I discuss steel in Washington I get other reactions that are less sympathetic.

There are still arguments that labor costs are too high; technology is old and outmoded; and when capital has been available, it has been paid out in dividends or used to diversify.

You have heard these observations before. They may be neither accurate nor fair. But they are operative perceptions in Congress when Jack Murtha and I try to pass a quota bill or obtain a refundable ITC.

Gaining ground is not easy. You know it means still more adaptation to new technology and adjustment to new economic realities. It means the $5 billion per year in investment that Paul Roedel was talking about yesterday.

And your adaptation is underway. But even beyond a return to profitability, its progress will depend on a tax policy in this country that encourages savings rather than consumption.

Adjustment means changes in attitudes by labor and management toward each other. Labor must understand that the industry is shrinking, that many lost jobs will never be recovered, and that only a leaner more flexible industry will be competitive. That means modern work rules, and it means union willingness to cooperate with management in making those changes.

If that does not happen it will be because of continuing labor concern over a company's long term commitment to a particular plant or to steel-making in general. And that, it seems to me, is a fair point. The steel industry is not just plant and equipment. It is the reservoir of people, of community resources and support systems that have made this industry the backbone of our economy in this century. These are the people I represent, and I know them well. They are proud, independent, patriotic; they can also be stubborn, but they will cooperate and they will make further sacrifices if the company's commitment to survival is as strong as theirs.

Such a two-way street is a basis -- an indispensible one it seems to me -- for allowing the industry to modernize in a less confrontational way than we have been witnessing in some parts of Pittsburgh's Mon Valley. And it will enhance the industry's credibility in Washington. But it will not happen easily, and more than yolutions to our international trade problems, budget and tax problems will come easily.

All of these issues we have discussed today will take a fight. And they will take unity ... unity of those who share the same objectives. The steel industry must make aggressive common cause with the rest of America's manufacturing base before it is too late. You know how -- you were successful in a major way on the 1979 trade act. You were largely successful in the pro-investment provisions of ERTA, the 1981 tax bill. Despite this record, and it should include obtaining last year's Presidential commitment to import relief, the deep problems of Wheeling-Pittsburgh and Sharon Steel, and, last week the J&L closing of Aliquippa and the restructuring of that company'a steel operations -- all this emphasizes the necessity for wider, bolder initiatives. Your fight is not -- and must not be -- for steel alone, but to preserve the industrial strength of America and, by doing so, our leadership role in the world, and I thank you for this opportunity to encourage you in your work.

Thank you.