WHEN THE MACHINE STOPPED

THE triumphs and tribulations of major corporations and their wealthy founding families are the stuff of a bustling trade in book publishing. Now comes what's seldom seen: a tale of the rise and decline of a small company, Burgmaster Corp., a machine-tool producer, over a 40-year life span.

This isn't one of those do's and don'ts books for budding entrepreneurs. Its focus is the struggle of one company to fend off Japanese competition and how that company became a centerpiece in a struggle over protectionism that provoked a bitter, high-level dispute within the Reagan Administration and got the Tokyo government riled up. At times, though, the book seems more like a tale about the peril of getting swallowed up by large companies. It encompasses, and discusses, two of the big corporate consolidation waves since World War II—the conglomerate craze of the 'Sixties and the takeover-leveraged buyout boom that began in the late 'Seventies and continues today.

So, the book seems timely as it cuts across several hot topics of our recent history. The account is absorbing in places, particularly the heated controversy over an attempted clampdown on imports of machine tools from Japan. But there are gaps and flaws in author Max Holland's account. The book is slow-going and tedious to the point of superficiality in discussions about the machine-tool industry. Some details on the machines themselves will be mind-numbing for readers without much appreciation of what a machine tool does. For one who seeks to understand economic trends and troubles, the book might seem to have one other shortcoming: It doesn't seem to put the problems of the machine-tool industry clearly within the context of how American industry has been trying to cope with foreign competition. The efforts of the steel and auto industries, for example, to fight a tide of imports, obviously are more far-reaching in their impact, but it's hard to find a reference to them. But there's no argument that the problems of Burgmaster weren't at the core of U.S. problems with its trading partners.

The book is divided chronologically into two parts, covering roughly equal periods. The first is a flowery portrayal of how Fred Burg, a Czechoslovakian immigrant, built a machine-tool company in Los Angeles from scratch, beginning in 1945, with the help of a son, a son-in-law and a close-knit group of employees. (The author's father worked there for 29 years.)

For a time, Burgmaster had a near-monopoly on one type of machine tool. Burgmaster went public in 1961, just as a cyclical boom in the business was in the offing. But, even then, the company was running into competitive problems and was having difficulty catching up with the technology of computer-controlled tools. In 1965, Fred Burg sold out to Houdaille Industries, a conglomerate that was on the prowl for machine-tool makers.

What followed were management bloopers, growing friction between parent and subsidiary (not unusual in buyouts), defections by employees, an inevitable downturn in the machine-tool cycle, technological woes and an ominous rise in Japanese competition. Ignoring their own arrogance and complacency, U.S. tool builders started accusing the Japanese of unfair competition, aided by Tokyo's industrial policy. By 1976, imports from all countries—increasingly from Japan—amounted to 22% of U.S. consumption of machine tools, vs. just 10% five years earlier.

By then, Houdaille was in trouble, as were many conglomerates. In April 1979, the company succumbed to a leveraged buyout, at that time the largest engineered by Kohlberg, Kravis, Roberts & Co., the LBO kings. The LBO was a near flop, as business rapidly skidded. Houdaille's ability to service its heavy debt load was in serious doubt when the severe recession of 1981-82 hit. Holland touches all too briefly on Houdaille's pathetic efforts to squeeze every possible nickel from its operating units, including Burgmaster.

One key out of the plight, it seemed at the time, was to seek protection from Japanese imports. A Houdaille lawyer suggested using an obscure tax law to punish foreigners by refusing to allow investment tax credits for certain imported machines. Houdaille's petition came at a time when U.S. industrialists were increasingly blaming their woes on the Japanese. Japan-bashing became voguish, and ardent protectionists within the Reagan Administration began pushing hard for import relief for Houdaille. But Washington's free traders fought equally hard. When the Senate almost furtively pushed to pass an anti-trade resolution in Houdaille's behalf just before the Christmas 1982 recess, Tokyo became alarmed. In the end, it seems, Prime Minister Nakasone intervened with President Reagan to get the petition killed the following spring. Ironically, in a separate move, the National Machine Tool Builders Association has had imports rolled back for five years, beginning in 1987. But this came too late for Burgmaster; Houdaille closed most of its machine-tool operations in 1985.

Near its end, When the Machine Stopped includes a poignant section on the final liquidation of the company's assets at auction.

Holland does a service in raising lots of pertinent questions about U.S. manufacturing and how it can remain healthy. He doesn't provide any easy answers. But, in this era of quick profits, LBOs and to hell with capital spending and R&D, who has simple solutions?

—Harlan S. Byrne