Talking Shop: The Life and Death Of an American Factory

WHEN THE MACHINE STOPPED
A Cautionary Tale
From Industrial America
By Max Holland
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By Peter Behr

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HE DECLINE of America continues to be a
growth industry, at least in a literary sense.
Washington free-lance writer Max Holland is
a new addition to the chorus of historians and
economists who warn that America's eclipse as the
world's dominant economic superpower has begun.
Holland's contribution is not a sweeping review of
broad national currents. His "cautionary tale" de-
scribes the life and death of a small California company
that is meant to symbolize the plight of U.S. industry
in the past decade. Holland takes his readers deep insi-
de the industrial process, to the bedrock formed by a
small group of companies called machine tool manu-
facturers. These companies (like Cincinnati Milacron,
Ingersoll Milling Machine and the Burg Tool Co.)
make the machines that cut, drill, shape and grind the
metal to form the pieces that manufacturers like Gen-
eral Motors ultimately assemble.
The health of the entire economy, in Holland's view,
rests on the vitality of this foundation, "and for de-
cades this industry was the very badge of U.S. manu-
facturing prowess," he writes. "It is not coincident
that the erosion of the U.S. machine tool industry par-
allels the decline in domestic manufacturing." Between
1981 and 1986, one-third of the American machine
tool plants disappeared.
Holland presents a familiar cast of culprits: inept,
short-sighted management, disastrous economic pol-
ices and the calculated trade offensive of the Japa-
nese. Worst of all, to Holland, is the financial manip-
ulation underlying the takeover, merger and buyout
trend of the 1980s.
Such a parable requires a noble, fallen hero, and
Holland produces an appealing candidate in the Burg
Tool Co., later renamed Burgmaster Corp. It is a tale
that began at the family dinner table. His father, to
whom the book is dedicated, worked at Burgmaster for
29 years as a tool-and-die maker, union steward and
machine shop foreman.

For half of its 40-year history, Burgmaster em-
bodyed the happy myths of American know-how and
progress. Its founder, Fred Burg, was a Czech immi-
grant who seemed destined to spend a career in the
family dry goods business near Chicago. But Burg,
who learned a locksmith's skills as a boy, remained a
craftsman and tinkerer at heart, yearning to stand in
the shoes of an Edison or a Ford. In 1913, at 47, he
quit the family business, moved to California with his
wife and began a new career as a machine tool manu-
ufacturer. His keen mind and close observation of his
customers' needs gave him an idea for a truly unique
improvement in metal-drilling machinery and this dis-
covery in time propelled Burgmaster into the top
ranks of the industry by the mid-1960s.
Twenty years later, in October 1986, Burgmaster
closed to exist. Burg had gone, the company had been
sold to new owners who added it to their large indus-
trial conglomerate and then ran it into the ground,
says Holland.
The conglomerate that acquired Burgmaster was
named Hondaille Industries, a Florida-based enter-
rprise that was once a success story in its own right.
Hondaille (pronounced Who-dye) bore the name of a
Frenchman whose pioneering design for World War I
artillery proved to have valuable peacetime applica-
tions.
Houdaille Industries became famous in the 1980s not for its products, however, but for a legal and political attack on its Japanese machine tool rivals. By the late 1970s, Japan was flooding the U.S. market with high-quality, computer-controlled machinery at bargain prices. Houdaille's counterattack, a petition to the Reagan administration for import restrictions on Japanese machine tools, became a focal point in the escalating trade tensions between the United States and Japan.

Houdaille provoked a major trade policy clash, splitting President Reagan's cabinet in two, forcing the president to make the final decision. Holland offers a fascinating insight into the decision, which went against Houdaille.

But the villain in Holland's account is not Japan, whom he credits for taking advantage of opportunities created by smug American managers and indifferent U.S. policy-makers. Japan's success came not through cheating its American rivals, but by creating a climate in which Japanese machine tool firms could prosper. "It provided a soundly managed economy and an educated work force, probably the two most important 'ordinary' tasks of government," says Holland.

For Burgmaster, the last straw came in the form of a financial reconstruction of Houdaille called a leveraged buyout, arranged by the Wall Street investment banking firm Kohlberg, Kravis and Roberts. Today, KKR is famous (or infamous) as the architect of the $25 billion buyout of RJR Nabisco last year. The Houdaille buyout was KKR's first big success. A decade ago, the firm's founders devised a novel tactic that permitted top corporate managers to purchase a company from its public shareholders, usually by offering a fantastic premium for the stock. Holders of Houdaille stock, then trading at $15 a share, received $40 in the 1979 buyout.

The funds for the buyout (arranged by KKR for a lucrative fee) would be borrowed by promising a particularly rich return to lenders. The financial power or "leverage" of borrowed funds in the hands of the managers gave the tactic its name—the leveraged buyout. In time, KKR and LBO would become synonymous.

The burden of this get-rich-quick proposition fell on the company, which suddenly had to contend with a huge new amount of debt in the form of high-interest-rate junk bonds. The lenders' demands for repayment became a noose around Houdaille's neck when the devastating 1982 recession struck—accompanied by the surge in Japanese machine tool imports. The managers were forced to squeeze the company for every possible dollar of cash to meet its debt payments, Holland says. Corners were cut on quality; wages were tightened; customers and dealers were short-changed and Burgmaster's good name was soiled.

Holland's story, shined it seems by his attachment to his father's old employer, gives a little too much significance to the machine tool industry's hard times. He doesn't allow for technology-based changes which create new opportunities for American firms to rise where machine tool companies fell. He also puts too much blame on LBOs, which despite their garish patina of greed, are as much a product of their times as the cause of the bad news for business in the 1980s.

But Holland is right in offering Houdaille and Burgmaster as models of the trauma that lies ahead when the next recession strikes the many new debt-burdened U.S. companies created by LBOs.

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