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## THE COLLAPSE OF THE STEEL INDUSTRY IN AMERICA

by David Brauer

The American steel industry, which was once a world leader, is now in the midst of a precipitous decline. Just ten years ago more than half a million people were employed in the steel industry, but in 1983 only 243,000 remained. According to the industry-sponsored American Iron and Steel Institute (AISI), total domestic steel production fell by one-third between 1979 and 1983, and will likely never again attain its old levels without massive government assistance.

One area which has been especially hard-hit is the Tri-State region centered around Pittsburgh. Numerous plants have been shut down, and a number of communities (most notably Youngstown, Ohio) that lacked any independent economic base have been devastated. In 1979, U.S. Steel was operating six integrated mills which employed a total of 28,000 production and maintenance workers in the Monongahela Valley near Pittsburgh. Each of these mills essentially produced steel from start to finish. In January, 1984, only 8,000 people were employed in these mills, which have been consolidated into one integrated facility and several specialty mills. Many of the workers laid off in recent years are still unemployed, with others relegated to low-wage, often part-time, jobs.

This article will emphasize the causes of the steel industry's decline. In next month's edition, LCR will discuss the Tri-State Conference plan for a Steel Valley Authority patterned after the TVA. The Tri-State Conference on Steel, dedicated to the revitalization of the steel industry in the Pittsburgh area, describes itself as "a non-profit community action organization of workers, the unemployed, local union leaders, clergy, and community activists." The Conference plan to establish a Steel Valley Authority was explained recently in Berkeley by Mike Stout, a grievanceman for United Steel Workers Local 1397, at U.S. Steel's Homestead Works in Pittsburgh.

**Reasons for the Decline**—Both the major steel producers and the USW have blamed much of their plight on the rising share of imports in the domestic steel market, and have petitioned for five years of restrictions on imports. President Reagan recently refused to impose quotas, but he has pledged to attempt to negotiate voluntary restrictions similar to those currently in effect in the auto industry. AISI figures, however, show that while the import *share* of the American steel market rose from 12% in 1973 to 21% in 1983, the actual *tonnage* of imported steel is less today than it was between 1977 and 1979. What has happened is not that imports have swamped the market, but that the market itself has shrunk.

The major steel producers have also blamed high labor costs for pricing the product out of the market. It is true that, counting fringe benefits, steel workers are generally paid better than other American manufacturing workers. In 1973, just before the sharp decline in employment began, the average weekly earnings of production workers employed in blast furnaces and basic steel products, figured in 1983 dollars, was \$510, compared to \$372 for all manufacturing workers. In 1980, the earnings of steel workers had risen to \$543, while those of all manufacturing workers had fallen to \$349.

In 1983, however, the average real weekly earnings of steel workers was only \$509. Thus steel workers improved their earnings position relative to other manufacturing workers during the 1970s, but their relative wage position has been declining in the 1980s. In 1983, steel workers who worked all year on a full-time basis would have earned about \$26,500 for the year, compared to average earnings for all year-round full-time workers of about \$22,000. Also hourly labor costs are significantly higher here than in other countries' steel industries. Foreign producers, particularly in low-wage Third World countries, have an obvious cost advantage, and nearly all are subsidized, if not owned outright, by their governments. Still, until fairly recently, profits in the American industry were quite healthy despite higher labor costs, suggesting that the real problem lies elsewhere.

**The Refusal to Modernize**—The most important reason for the decline of the American industry is in fact the refusal of the large corporations such as U.S. Steel to invest in modernization. While producers

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abroad were installing the most recent, efficient technology available, American companies in the last several years have been investing in other nonsteel industries at the same time that they were cutting back on their domestic steel operations. A case in point is U.S. Steel's recent purchase of Marathon Oil. Some producers, along with the banks which provide most of their credit, actually have invested in recent years in Third World steel operations employing cheap labor, thereby contributing directly to the decline of their own industry and the communities that depend upon them. Imports from countries other than Japan, Canada, or members of the Common Market have nearly tripled in volume since 1974. This can be attributed at least in part to the increasing tendency of American producers to farm out "hot end" (raw steel) production, concentrating on specialized steel products.

The companies argue that investment in modernization of American steel plants is unprofitable, and that in any case they currently lack the necessary resources. With high interest rates it is more profitable to put money in the bank even if that bank uses it to finance competing steel producers. U.S. Steel Chairman David Roderick has stated that his company would undertake no investment offering less than a 20% expected rate of return, thereby ruling out most investments in his own industry. This, however, does not explain the lack of investment in the past, when interest rates were much lower and profits high by contemporary standards (despite "high" labor costs). The record suggests that there was a deliberate decision not to undertake the steps necessary to modernize the industry, but rather, in the words of a Tri-State Conference pamphlet, to "rake in the profits."

In summary, we can attribute the current sorry state of the American steel industry primarily to corporate decisions not to invest in its modernization. The high price of American steel (for which high labor costs may be partly to blame) has contributed to the industry's problems by encouraging customers to find alternatives to steel (or by raising their own costs). The level of imports is *not* the problem, and the imposition of "voluntary" quotas may worsen matters by allowing prices to rise even further. It is clear that saving the industry will require a massive effort aimed at modernization, along with concerted efforts to rebuild the market for steel products.

**The Need for Steel**—Such an effort should be well worth it. There is no logical justification for a country as large and as advanced as the United States to allow such a basic industry to fail. The maintenance of a viable steel industry goes hand in hand with the revitalization of a number of other key industries, including railroads, autos, and electrical equipment. There is in addition a recognized need to rebuild the nation's decaying infrastructure, including roads and bridges, railroads, and urban mass transit systems, with steel playing an important part. Finally, we must ask whether we can allow the greed of a few large corporations to supersede the survival of entire communities dependent on steel.

--David Brauer