Steel standoff shows policy impasse

by Chris White

Much has been made of the steel industry's announcement, at the annual convention of the American Iron and Steel Institute (AISI), of a program for the permanent reduction of U.S. steelmaking capacity by between 30% and 40%.

The policy was the feature of the keynote speech of Thomas C. Graham, the president of U.S Steel, the steelmaking division of USX Corporation, and also the chairman of the American Iron and Steel Institute.

The industry claims that capacity should be eliminated to match the plateau which U.S. domestic steel consumption has declined to in recent years, that is, a level of about 100 million tons per year, of which approximately 25% is made up of imported steel. Graham reported that total steel imports over the last three years actually comprise 35% of domestic consumption of the metal. He demands enforcing government import guidelines, which would knock 15% out of the total import volume, and eliminating capacity. "Closed facilities," he says, "should be quickly razed to guard against subsequent revival which would add to capacity."

Shocking as this perspective may be, it nonetheless happens to be the policy the steel industry embraced at the end of the 1960s, with the closure of flagship plants in Buffalo and other locations, and went hog-wild with during the Carter administration.

Behind Graham's analysis stands the ugly reality that steelmaking, by basic oxygen furnace, has been reduced to about 30% of the level of total consumption, that another 30% is made up of small-scale shops operating electric arc furnaces, and the rest is imports. Where Graham and others at AISI speak of an existent 140 million tons per annum of domestic steelmaking capacity, they in fact grossly exaggerate. A study, presented in *EIR*'s *Quarterly Economic Report* in June of 1985, showed that present U.S. capacity is probably in the range of 80 million tons, of which the large-scale basic oxygen component comprises less than 50 million. If one applies Graham's demands to those figures, one comes up with an industry which would function in the range of 40-60 million tons of output per year. This level would be reached by eliminating most of the remaining large-scale production facilities in the country, with the exception, perhaps of plants like Inland's relatively new integrated facilities in the Chicago area, in favor of small-scale production based on the electric arc mini-mill.

That is exactly the policy the industry has been pushing since the Carter administration reviewed the future prospects of the industry in the late 1970s.

What was new about the industry's proposals, was the demand that the government now act to implement them. The industry is demanding that the U.S. taxpayer, via the offices of the federal government, pick up the tab for the destruction of what remains of this core industrial capability. The big nut on this account is the industry's pension obligations to its workforce. Last year, the Chapter 11 bankruptcy of the LTV Corp. blew out the government's Pension Benefit Guarantee Corporation. The bankruptcy reorganization permitted the company to off-load its pension and related obligations onto the taxpayer. Since Wheeling-Pittsburgh had done the same in 1985, some viewed that adopted route as the pattern to follow. However the federal teat had run dry even while the piglets from the industry were scrambling to make it back to mama.

A year later, the government has come up with no policy. The industry, as an industry, is on the verge of overall bankruptcy, delayed by USX Corp. six-month lockout and production shutdown, but nonetheless, that is the reality of the industry as a whole.

What was the government's answer to the industry's demands? It was the subject of a speech by Labor Secretary and Trilateral Commission member Bill Brock, even while the AISI conference was going on. Brock told the industry that he was really sorry, but the U.S. government could not permit itself to violate the fundamentals of the "free enterprise" approach on which its economic policy rests. He said that these matters should be left to the workings of the market.

In other words, the government has no policy. There has been in existence, for almost a year now, a cabinet-level, interagency working group, elaborating governmental options to deal with the bankruptcy of the steel industry. Originally established when Donald Regan was White House chief of staff, the task force's mandate was to figure out how to reduce the cost to the federal government of the bankruptcy of the industry. That body, as of yet, has made no report or recommendation which the government has had the courage to make public.

Leaks from the body, nearly a year ago, espoused the same view that Graham presented at the AISI conference: Reduce U.S capacity by 30-50%. Since there is no way the government can "cheapen" the cost of the bankruptcy of the industry without walking away from the industry's accumulated pension obligations altogether, the decision, if left within the guidelines on which the commission was established, is a relatively simple "either, or."

However, much more is involved, under present depression conditions: The future of the steel industry is the future of the economy as a whole. The impasse on the steel industry is therefore a good indicator of the fight proceeding on economic policy as a whole.