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RUSTED DREAMS: DOCUMENTING AN ECONOMIC TRAGEDY

[by Lee Badgett]

In *Rusted Dreams: Hard Times in a Steel Community* (McGraw-Hill, 1987), David Bensman and Roberta Lynch provide a gripping and clear account of steel production and its effect on a once vibrant southeast Chicago community. As a case study, this book unfolds the dramatic story behind the sudden closing of the Wisconsin Steel plant on March 27, 1980, and the rapid production cuts at U.S. Steel's South Works. Within the context of these two plants near Chicago, the authors cover everything from the international trade aspects of the steel crisis to the displacement of workers. Workers throughout the U.S. replay this drama too often.

A conspiracy of circumstances. -- Bensman and Lynch skillfully outline the combination of unfortunate economic circumstances which, taken individually, would spell trouble for many industries. But when these events occurred either simultaneously or in rapid succession, they proved disastrous for the steel industry. The oil crises and high interest rates (caused by a conservative U.S. monetary policy) reduced demand for cars and houses, both major markets for steel. The high interest rates also led to the dollar's overvaluation and cut into export demand, as well as encouraging further imports. Increased foreign competition and changes in technology led to enormous pressure on the large steel companies. The usual government quick fixes could not work in the face of such an onslaught.

Foreign sources of iron ore became relatively cheaper in the 1950s, so the steel business became more attractive to industrialists in other countries, particularly in Japan. The Japanese government encouraged the development of modern steel production with loans, protective legislation, and subsidies that eliminated much of the risk usually associated with this type of business. Also, the more modern plants were less labor-intensive than the U.S. plants. The big break for Japanese steel came in 1959 when a strike over work rules in the U.S. steel industry created a need for alternative sources of steel. Japanese producers continued to encroach on U.S. markets via the three-year cycles of labor negotiations, eventually providing 18% of U.S. steel consumption between 1968 and 1982. Many Third World countries followed Japan's lead in developing a heavily protected steel industry, and after 1982 the overvalued dollar allowed foreign producers to capture even more of the U.S. market.

U.S. Steel's South Works. -- The South Works mill went down also because of poor corporate management. According to Bensman and Lynch, the story of this relatively modern plant that serviced several markets is typical of the decline of steel. U.S. Steel's response to the new competition was to lobby for protection from Congress, to invest in other more profitable industries (oil particulary), and to insist on concessions from the United Steelworkers of America. At South Works, the USWA agreed to drastic changes in work rules and lobbied for tax breaks and subsidies for U.S. Steel's modernization plans, which were never completed. But the debts from the non-steel investments added to the financial burden of losses in steel, despite enormous savings in labor costs, and drained capital needed for further modernization of the mills. South Works was expendable, and 8,000 of its workers along with 7,000 from 35 other plants were permanently laid off at the end of 1983.

The Wisconsin Steel saga. -- International Harvester had owned Wisconsin Steel for 75 years to supply steel for Harvester's products, and it began to feel the financial pinch from operating a relatively old-fashioned mill in the late 1960s. As environmental legislation further raised the cost of running Wisconsin Steel in the 1970s, Harvester decided to sell its steel business rather than close down and pay out $62 million in unfunded pension liabilities, severance pay and other benefits spelled out in Wisconsin Steel's contract with the Progressive Steelworkers Union (PSWU).

After years of search for a buyer, Harvester finally sold the company in 1977 to a subsidiary of Envirodyne Industries. The union found out about the sale only a few days before it was finalized. A the union president frantically tried to get information and guarantees from Harvester for the benefits specified in the union contract, he apparently misunderstood the role of the Pension Benefit Guaranty Corporation, a federal agency, in guaranteeing certain pension benefits. Consequently, he bargained with Harvester for a guarantee of the benefits that the government already guaranteed and gave up other contractual benefits worth over $24 million: severance pay, accrued and extended vacation pay, supplementary unemployment benefits, and pension supplements.

The sale went through with Harvester and Chase Manhattan Bank lending Envirodyne's holding company the purchase money. Envirodyne then went in search of funds to modernize the plant. When President Carter set up a loan guarantee program for small steel companies under the Economic Development Administration (EDA), Wisconsin Steel's future seemed to brighten. But procedural delays and environmental problems and equipment breakdowns at the mill delayed the loan, which was not approved until late in 1979. During these delays, management at Harvester set a collision course in negotiations with its workers, represented by UAW. It happened that on the day the Wisconsin Steel loan was finally approved, Harvester workers began a six month strike. Harvester lost money continually, and on May 27, 1980, both the company and Chase Manhattan reclaimed their Wisconsin Steel collateral and shut down the mill. Many efforts to sell and reopen the mill then failed -- even those of locally influential politicians such as Alderman Ed Vrdolyak and Mayor Jane Byrne.

The economic devastation of a community. The layoffs of steelworkers continued at other steel companies. Inevitably, related businesses began to fail, further cutting off employment possibilities for laid off steelworkers. Black and female steelworkers, in particular, faced the worst setbacks. In a community where the only growth industry is hazardous waste dumps (the waste comes from outside the area), job possibilities are few and far between. Former steelworkers tell of their willingness to accept low-paying but scarce service jobs. Even the infamous Chicago political patronage system proved inadequate to the task of finding jobs for the people of Southeast Chicago. After a reorganization of CETA retraining program, many graduates began to find jobs until the Reagan administration eliminated CETA.

Short term and long term solutions. The authors offer several suggestions for cushioning the blow to workers who are the victims of an industrial debacle. Advance notice of plant closures, worker buy-out assistance, retraining funds, continued health care coverage, mortgage assistance, and more flexible income support programs would all help to alleviate economic and social strain. Ultimately, however, broad economic policies must be developed for the survival of steel and similarly troubled industries. The authors suggest policies to reduce steel imports and increase exports by lowering the value of the dollar, helping to modernize plants, increasing research, redirecting capital to domestic needs rather than military uses, and directly restricting imports. Taking into account the impact of import restrictions on Third World economies, the authors propose "an import tax based on the differential between what American workers need to live decently and what Third World workers are paid" (p. 219).

None of this will happen overnight, and certainly not without an enormous political struggle. As always, the solution is to organize a broad based political movement led by unions, churches, and community-based groups. The authors note that such groups sprung up on Chicago's Southeast side, which won small victories over the location of hazardous waste dumps.

Effective solutions to restore the health of the steel industry (and many other U.S. manufacturing industries) require much discussion and thought and analysis. Bensman and Lynch's book makes an important contribution to this process.

--by Lee Badgett