Weirton Revisited:
Finance, the working class, and rustbelt steel restructuring

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Abstract: I met Dave Houston while researching an article on the 1983 employee buyout of Weirton Steel. This contact initiated a journey that led me to a PhD in economics and research on financially driven corporate restructuring in an era of troubled capital accumulation. Dave counseled and practiced a clear-eyed look at the conditions for "acceptable" surplus value extraction when analyzing viable avenues for worker resistance. With a quarter-century's hindsight, this paper applies that approach to an assessment of what restructuring has meant for the industrial working class in steel and related sectors.

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1. Weirton and the 1970s Steel Crisis

The U.S. steel industry underwent a spectacular collapse in the late 1970s and early 1980s. The “Tri-State Area” of eastern Ohio, western Pennsylvania, and West Virginia’s northern panhandle was especially hard-hit. I met the radical political economist Dave Houston at the University of Pittsburgh while I researched an article on the worker buyout of National Steel’s Weirton, West Virginia tin-plate steel plant (Goldstein 1983). Dave’s guidance continued over the years as I became a professional economist myself. In this paper honoring Dave’s life and contributions, I look back at Weirton and the big steel collapse: how they played out, and the insights offered by Dave’s work in light of a quarter of a century of hindsight.

The 1970s U.S. crisis in steel came at the conjuncture of vigorous new international steel competition and a world-wide economic slowdown. With sales falling and imports rising, companies resorted to shutdowns and demands for labor concessions. The Steelworkers union mounted mostly ineffectual protests, which spilled over into broader and more radical movements in Pittsburgh, Youngstown, and other places, demanding community and/or democratic worker ownership of sites abandoned by corporate giants.

Dave Houston supported these efforts, but was neither shocked at the collapse nor optimistic about turning it around. Dave’s research (Houston year unknown) showed that steel in the Pittsburgh area had been declining since the early 20th Century. Capital accumulation had slowed in the face of shifting geographical demand, a rising organic composition of capital and, later, unionized workers’ winning a high share of value
added. With reduced profitability came slowing regional population growth and a progressive change in focus for major regional capitalists, toward surplus value extraction in other industries and locales. Financial capital moved from rationalizing production via creating industrial behemoths to the re-invention of Pittsburgh as a corporate headquarters and banking center, where surplus value “produced…in every corner of the world…would be managed from the corporate towers of the Golden Triangle” (59).

Regarding working class resistance to steel shutdowns *circa* 1980, Dave sadly observed that the battle was long lost. Sobered by Dave’s pessimism, my analysis of the Weirton buyout emphasized anemic industry demand and the shift of productive dynamism to other regions. Nevertheless, I also focused on the company’s failings prior to its abandonment of the site: failure to modernize and, especially, movement into financial activity as a hoped-for source of profits. National had made no significant investment in the plant after the mid-1970s. Profits from the steel business were re-invested, instead, in industries like finance and real estate. National “had transformed itself from the nation’s fourth-largest steelmaker to its fourth-largest savings and loan holding company” (Goldstein 1983, 595).

Others on the left were also attracted to the idea that steel could be profitably made in the region by well-paid labor but for capital’s speculative financial route. An example is the 1984 documentary “The Business of America” (Dir. Adelman et al.), treating concessions and shutdowns at U.S. Steel’s Pittsburgh-area plants and the company’s 1982 purchase of Marathon Oil. The film argued that “shareholder pressures to increase profitability have
led many American firms to transform themselves from manufacturing enterprises into financial conglomerates…,” whose “emphasis on short-term profits” excluded “the long-term investments industries—and the country—need” (California Newsreel 2008).

In fact, recasting steel businesses as portfolio companions to energy and financial concerns was not profitable for either National or U.S. Steel. National created National Intergroup in 1983 to hold all its businesses and sold off the controlling interest in National Steel in 1984. National Intergroup’s units lost heavily in the eighties oil patch and S&L crises, and the company had become primarily a drug distributor by the time it went bankrupt in 1996. As for U.S. Steel, in 1986 it added to its energy holdings and renamed itself USX. In 1991, the steel and energy groups’ shares were disentangled to trade as separate entities; and in 2001 the steel business was disgorged entirely, once again simply as U.S. Steel (U.S. Steel 2008). By then, a wholesale downsizing and reconfiguration of the U.S. steel industry was underway. Before examining that process, it is important to consider the emerging role of the financial markets in relation to industrial capital during the 1980s and 1990s.

2. Finance, industry, and “shareholder value” in steel

By the mid-1970s, top managers of giant U.S. industrial corporations could no longer depend upon powerful flows of internal financing over which they had tremendous discretion. Coinciding with the competitive woes exemplified by the steel companies, there arose new generations of financial institutions, practices, and players with important impacts on industrial capital. Inflation-led disintermediation, institutionalized savings,
and new electronic technologies all contributed to the explosive post-sixties growth of institutional investors: mutual funds, pension funds, and life insurance companies. By the late 1970s, institutions held almost 40 percent of corporate stock in the U.S., and via the commercial paper market they reduced the banks’ lock on short term corporate credit. Facing fresh financial competition and poor prospects among their best corporate clients, commercial and investment banks looked for new profit sources. They and the institutional investors increasingly found these in a highly leveraged market for corporate control. Even the largest industrial companies became vulnerable to outside shareholder pressure if profits lagged, as the 1980s ushered in the era of the hostile takeover (Goldstein 1995, 2000).

This “shareholder value revolution” intensified the pressures tearing apart heartland U.S. steel, shaped the adjustment paths taken by its struggling companies, and helped seal the fates of many steel-anchored working class communities. Top managers’ focus was “riveted on the interests of a single external constituency,” and what they wanted was “a combination of stock dividends and share appreciation” (Useem 1993, 11-12). The path to shareholder value had to be short and direct: quick cost reductions through layoffs and shutdowns, and/or getting rid of lower- for higher-profit businesses. In turning management into funds allocation among a portfolio of business units, in the attraction to financial businesses themselves, and in heavy borrowing for mergers and restructuring, finance came to the fore.
Meanwhile steel, always cyclical, struggled with an especially sharp drop in demand during the global 1970s slowdown; and the rise in international competition it faced was particularly intense as war-devastated Continental European and Japanese steel industries rebuilt. Since the latter used current technologies, it was critical that U.S. steel firms invest: replacing open hearth with basic oxygen blast furnaces, supplementing the blast furnace with scrap-using electric furnaces, and adopting continuous casting (Barnett and Schorsch 1983). Nevertheless, capital investment plunged in the 1970s. While in both Japan and the EEC basic oxygen accounted for three quarters of steel output by 1981, the share in the U.S. was only 61%. The U.S. industry did better with electric furnaces, but much of that came in the smaller, rapidly growing, non-union “mini-mills” (Barnett and Schorsch 1983).

Thus, while profitable opportunities for reinvestment of surplus were circumscribed, the big U.S. steel companies set the stage for collapse by pulling the plug on modernization after the 1960s. The financialization of decision making can help explain why. Quick returns in steel were unlikely, and given the emerging financial climate new equity financing was not readily available (Barnett and Schorsch 1983, 53). At least for the two firms examined earlier, the portfolio-of-businesses approach reallocated investment toward energy and finance. Finally, along with layoffs and shutdowns, consolidation via merger became a key avenue of competitive adjustment, one that was to increase in importance.
As noted, none of this yielded much success for National and U.S. Steel. Nippon Kokan bought the controlling interest in National Steel in 1990, replaced management in 1994, and made significant capital investments. Like much of the industry, National Steel made money briefly during the mid-1990s, as downsizing and modernization positioned the firm to benefit from cyclical expansion and a weak dollar (Holusha 1994). But recession, a stronger dollar, and renewed import incursions sent National Steel into bankruptcy in 2002. Its assets were purchased by U.S. Steel. USX had created separate steel and energy stocks in 1991 under pressure from takeover artist Carl Icahn, who complained “that USX’s steel business has dragged down the performance of its energy operations, which includes the Marathon Oil Company, and held down the price of USX stock” (Holusha 1991). The steel operation struggled to improve efficiency in often contradictory ways: shutting down mills and slashing employment while dabbling with participatory labor relations, and boosting investment while neglecting R&D (an international study ranked USX a woeful 26th) (Hicks 1989a, 1992). U.S. Steel entered the new century facing – along with other struggling U.S. steelmakers, many now bankrupt – a soon-to-be wholesale transformation of the industry at the hands of global capital.

3. Global steel restructuring

Foreign investment in U.S. steel firms began in earnest in the 1980s, as they desperately sought capital, advanced technology, and R&D prowess from Japanese companies (Hicks 1989a, 1992). Another driver was consolidation in an industry suffering from a growing global overcapacity. During the 1990s, neoliberalism, overcapacity, and impatient stock markets combined to swell a wave of mergers worldwide – Germany’s Thyssen and
Krupp, followed by a series of cross-border combinations and re-combinations among already-huge firms: Tata-Corus (Indian and UK-Dutch), Arcelor (Luxembourg’s Arbed, Spain’s Aceralia, and France’s Usinor), and Ispat (Indian-UK) (Economist 2004).

This wave soon crashed over the U.S. industry. From 1997 to 2002, 29 steel firms went bankrupt (Economist 2002). W.L. Ross, a former Rothschild banker “with a sharp eye for cheap assets that can be stripped of costs and turned to profit” (Economist 2004), purchased the bankrupt LTV, Acme, Bethlehem, and Weirton to form the International Steel Group (ISG). With the companies already having “unload(ed) billions of dollars in pension obligations onto the (government)…and cut more than 200,000 workers from their supposedly guaranteed medical care,” Ross “cut more employees and revamped work rules…” (Streitfeld 2008). ISG was in turn acquired in 2004 by Lakshmi Mittal, owner of Ispat Steel, joining its operations in India, Indonesia, Kazakhstan, Mexico and Trinidad (Timmons 2004). The merger created Mittal Steel, which added a Ukrainian works in 2005 and in 2006 purchased Arcelor, becoming by far the world’s largest among a shrinking number of steel companies (Economist 2006).

Weirton Steel’s *denouement* can now be told. Following the 1983 buyout lower wages, higher morale, and renewed capital spending brought profits (Serrin 1986, Hicks 1989b). From 1990 onward, however, the company suffered losses and layoffs, aside from the brief industry respite in 1994, and went bankrupt in 2003. When acquired by ISG in 2004, Weirton’s union payroll was further slashed. ISG announced plans to repair one blast furnace, re-open another, and upgrade a continuous casting unit. Less than a year
later, Mittal reversed these plans upon taking control. Rejecting a union cost-cutting proposal, Mittal closed the “hot” (steel-making) end of the mill, seen as redundant in the context of company’s five integrated U.S. works. Weirton was reduced to a finishing operation in tin-plating, with continuing employment to range in the 1100-1200 range – one seventh of its pre-buyout level (Reutter 2006).

Closing a steel mill’s hot end is irreversible; the blast furnaces become unusable once fully cooled. Thus ended Weirton’s days as a stand-alone maker of steel and employer of steelworkers, just three years shy of its centennial birthday.

4. Weirton redux: Lessons

The jobs that were saved by the wrenching 1983 Weirton buyout were, ultimately, mostly unsalvageable in the context of global overcapacity, competition, and consolidation. What happened in Weirton can be seen as the playing out of the shifting, uneven geographical distribution of capital accumulation in steel as Dave Houston described it 25 years ago. The once-powerful regional steel industry that had been left behind by the early 1980s has now been fully re-incorporated as a bit player within a consolidated and fully globalized industry. Financially-driven corporate restructuring in steel and other basic industries contributed to the decimation of industrial unions and working class communities.

Are there no alternatives consistent with well-paid, unionized steel jobs and healthy working class communities? In terms of capitalism at its most general level, the answer
seems to be, “no.” Houston pointed out that “labor is just another form of capital to be utilized or not as the accumulation process dictates…capital accumulation cannot afford to consider ‘community’ or ‘sense of place’” (date unknown, 65). He argued that the kind of “hyper-capital mobility” first analyzed by Lenin was now spreading and deepening (1984, 259). In the “metropole,” the relative shift away from basic production toward “control, redistribution, and circulation of surplus value” meant that middle-income jobs would become scarcer. Nevertheless, “(t)he degree to which the United States working class can or should insulate itself from the effects of the international division of labor and world economic crisis is…debatable” (1984, 259). Dave opposed channeling dissent and resistance toward protection or “competitiveness” of U.S. industries, as strategies bound to be politically debilitating for the working class and, ultimately, unachievable. Weirton and its peers provide evidence for his position.

We can, however, draw from their history some conclusions about what does not work as well as what might. Downsizing, divestiture, recombination – all driven by stock profits and returns – have generally failed to foster innovation and productivity. Capital that defines itself in a way specific to the industry, managers with expertise in production rather than finance, workers who by their own struggles and/or the shrewdness of “their” capitalists feel a stake in production – none of this is created by shareholder capitalism. (Although Lakshmi Mittal buys companies through internationalized debt and equity markets, he is both a finance capitalist and a steel maker, as if J.P. Morgan and Andrew Carnegie returned in a single body.)
The fate of Great Lakes steel workers and communities was inevitable only given the state of political and class struggle in the U.S. The place- and industry-specific path of capital accumulation is historically contingent upon a complex web of class and institutional factors. Steel workers and communities facing similar pressures have fared somewhat better in countries where finance-industry and worker-capitalist struggles have fostered climates less hostile to long term investment and R&D, to worker voice and security, and to mitigating the impacts of competitive adjustment. Forced to consider community and sense of place, at least in part and for a time, capital can adjust – for example, in Germany, by making highly-paid steelworkers more productive via apprenticeship programs, technological investment, and union voice. When capital and labor recognize some common interest in universal, government-financed health care, companies can avoid a crushing cost burden that helped ruin dozens of U.S. steel makers. And when the state is pushed to invest in long term infrastructure and technology needs, markets and productivity can be strengthened for domestic industry.

Dave Houston stressed that reform programs “should have a class character. People should know what they are organizing for and against” (1984, 260). Even in the best of times and places, industrial labor in contemporary advanced capitalism faces daunting problems and a future that is uncertain to say the least. Dave was not very sanguine about U.S. or any other capitalism delivering the goods in any fundamental sense, and it is hard to find much evidence in this story upon which to base a rebuttal.
References


