Review Essay:  
The Case of the Silent Furnaces

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John P. Hoerr. And the Wolf Finally Came: The Decline of the American Steel Industry.  


The numbers are grim and dramatic: over the past ten years the work force in the basic steel industry has been cut in half, falling to about 200,000 in 1987. Moreover, this massive job loss has not been evenly spread throughout the nation, but has devastated precisely those regions which, for most of the twentieth century, centered their economies around steel. Pennsylvania, from Aliquippa and Johnstown to Bethlehem and Fairless Hills, has been among the hardest hit states. Nowhere has the devastation been more massive than in the Monongahela Valley, the historic heart of the industry. Most of the huge plants in the "Mon" Valley, still major employers just a decade ago, are closed. The victims include the Monessen Wheeling-Pittsburgh plant, the McKeesport, Duquesne and Homestead plants of United States Steel, (now USX), and the Southside Works of Jones and Laughlin (now LTV Steel).

What caused this? What organizations, institutions or individuals bear responsibility? Could or should anything have been done to avoid this radical downscaling of the industry's employment? What, if any, lessons can be learned that might be applied to other sectors of the economy? The decline and/or modernization of the steel industry has prompted a spate of books that grapple with these and other questions. These books are of interest not just to specialists in business, labor or economic history, but to most citizens of the Commonwealth and nation. Two such books are Paul Tiffany's The Decline of American Steel and John Hoerr's And the Wolf Finally Came.

Paul Tiffany is an assistant professor of management at the Wharton School, and has served as an advisor or consultant to USX and the American Iron and Steel Institute, the trade association for manufacturers of basic steel. At the heart of Tiffany's book is the argument that the "decline" he describes did not stem primarily from short-sighted or get-rich-quick decisions by the management of the steel firms. Instead, it must be seen as the outcome of long-standing conflicts between management, labor, and government that shaped corporate policy in the
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period from 1945 to 1960. Tiffany locates the roots of the decline of the steel industry in the fifteen years following World War II and names his culprits: public policy failure, excessive labor demands, and management conservatism.

In his preface Tiffany describes the 1959 steel strike as the “beginning of the end” of a process that would plunge the steel industry into “a shattering collapse from its proud heritage.” (p. vii) He maintains that the traditional or standard explanation holds that “greedy and narrow-minded corporate managers, attempting to maximize short-term investor profits in a near-monopolistic setting” (p. viii) led to the industry’s decline. Tiffany calls this simplistic and misleading.

Since Tiffany believes that government policy in the post-war years was exceptionally dependent on the experience of the first half of the century, he begins with a chapter describing that troubled relationship, interspersed with a sketch of some of the economic background of the industry. He notes the high fixed costs of steel-making which require high capacity utilization to reach a break-even point. He argues that prices have been inelastic, and he cites the high transportation costs that have rendered plant location such an important factor. Tiffany shows that, with the formation of United States Steel in 1901, the oligarchs of the industry effectively set prices and limited competition until 1929. This was possible despite occasional governmental sniping including an unsuccessful Justice Department anti-trust suit from 1911 to 1920 and the restriction of the Pittsburgh Plus system of price-fixing. Foreign trade was of little significance in this period, as efficient US mills, the tariff and, probably, a “non-aggression” arrangement with the major European producers kept trade low.

The collapse of steel demand in the 1930s traumatized the executives in the industry. With World War Two and a dramatically increased demand for steel, management balked at significantly expanding output until the government intervened to minimize their risks. The federal government would spend $1.1 billion to add 15 million tons of capacity to the industry, would lease the new mills to the steel giants, and then would sell them to the metal firms at the end of the war at bargain basement prices.

The battle over capacity expansion continued after the war. The Truman administration, anticipating a continuing growth in the need for steel, pressed the industry to expand. In public, the steel firms predicted modest expansion in demand and resisted the push to add capacity. They wished to focus on modernizing their existing plant and, implicitly, on reaping high short-term profits by running at near capacity while limiting potentially destabilizing modern plant construction. In fact, this strategy did bring short-term rewards: the post-tax profits of the industry tripled from 1945 to 1951.

Following the 1946 steel strike, in which the Truman administration unsuccess fully intervened to try to avoid a strike, relations between Big Steel and the President were poisonous. The Administration brought a 1947 anti-trust suit against U.S. Steel, the Federal Trade Commission outlawed the basing point
price system in 1948 and the President consistently criticized the price rises of this period. These tensions culminated in Truman’s disastrous “seizing” of the mills during the 1952 labor negotiations, an action quickly held illegal by the Supreme Court. Yet, beneath this hostility over labor relations and price increases, the government was making some significant concessions to the steel corporations. The most important of these was the Korean War-related change in tax laws to allow depreciation of new investment over five years, rather than the previous twenty.

Big Steel greeted the election of Dwight Eisenhower with enthusiasm. Now there would be an end to government “interference,” “prudent” expansion would take place, labor costs would be held down, and prices would be permitted to move quietly upward. Some of this was to occur, especially during Eisenhower’s first term, yet frequently with different consequences than those visualized by the metal magnates. From 1953 to 1960 the industry expanded its capacity by 37%, investing almost $9 billion. It is here that major errors were made. Investment took place in processes that were already outmoded, or soon would be. The use of open hearths instead of Basic Oxygen Furnaces was the most glaring of such errors. Tiffany notes that “critics” have charged that this mistake was due to monopolistic market control and pricing that heightened interest in rounding out existing capacity, rather than introducing new plants. Tiffany argues against this explanation. Instead, since the companies were slow to foresee the expanded demand of the 1950s, largely due to squabbling with the Truman administration, they had to rush to add capacity during the Korean War. Rounding out was the cheapest and quickest way to meet this demand.

Steel prices rose substantially in the first half of the decade. By the late 1950s, however, as inflation heated up and the Democrats began a political resurgence, price hikes faced more public scrutiny and opposition. Wages also moved upwards in the last years of the decade. Costly strikes took place in 1956 and 1959 with settlements that Tiffany characterizes as overly-generous.

The 116 day strike of 1959 was for Tiffany a turning point, from which he dates the rapid decline of the industry. Noting that steel imports to the United States surpassed exports in that year, he also shows that the percentage increase in the volume of imports was large. He gives us the impression that after 1959 the battle was essentially over, with an industry under siege from an ever increasing and invincible tide of imports. Buried in this image is the fact that total imports in 1959 were only 4.4 million tons and that, far from being the opening wedge of steady growth, imports fell back drastically in 1960 and did not recover to 1959 levels until 1963. Not until 1965 did imports reach even the 10 million ton mark. This growth came in the context, however, of an enormous expansion in the U.S. output of steel, a growth which Tiffany must ignore for his arguments about the centrality of the 1945-1960 period and the critical nature of the 1959 strike to hold.

The disappearance of the expanded steel market of the 1960s in *The Decline*
of American Steel leaves several vital questions hanging. If the demand for steel rose enormously, as did Big Steel's actual tonnage and sales, why was capacity not modernized, since profits were once again high and the technological handwriting on the wall was much clearer? Capacity was expanded by only 7% in the 1960s and the U.S. steel industry fell technologically behind, especially as measured by the use of Basic Oxygen Furnaces and continuous casters. Was it not because, once again, Big Steel was following the short-sighted policies of the past: run at high capacity and high profits by limiting expansion and avoiding expensive and price-disruptive modernization?

The second issue ignored is the source of the high demand of the 1960s. The key factor was the general expansion of productive capacity in the booming American economy of 1962-69, with steel demand given an extra, "artificial" stimulus by the Viet Nam War and its demands for the hard metal. This might well raise an even more interesting question: could not the demand for steel have been "artificially" stimulated in the most recent ten years by a relatively modest expansion of government spending for bridges, highway and urban construction or redevelopment, at least mitigating the intensity of the 1979-83 collapse and suffering?

Tiffany raises some interesting and puzzling questions in another important area: Why, over the course of the twentieth century, was Big Steel so uninvolved in the export market? How and why did foreign producers, after their near elimination from the game in the World War Two era, rapidly return to dominate the world export trade and then begin to penetrate the U.S. market?

Before World War One, as Tiffany shows, the American steel industry used foreign exports as a place to dispose episodically of excess production, rather than as a steady market source. Following the first global conflict, the potential to expand heavily into European markets existed. Tiffany explains (in one of his very few discussions of ownership patterns in the industry) that the Morgan interests, who controlled US Steel, prevented this. The reason was that it would have jeopardized the Dawes Plan for German repayment of the huge loans issued by the Morgan banks. After World War Two, with the steel industries of its rivals almost totally devastated, American Steel had an unequalled opportunity to seize European and Japanese markets. Instead, a combination of corporate and governmental decisions limited this and actually encouraged (primarily for political reasons related to the Cold War) the rebuilding of foreign competitors. There is a strong implication by Tiffany that a cartel arrangement was again hoped for (and perhaps actually functioned for a time) whereby the US steel industry would relinquish the world market in return for protection at home.

Tiffany's discussion of the work force is limited. In this book, workers exist mainly as a cost factor in production and as perenially troublesome "labor" at contract negotiation time. There is no serious discussion of the wretchedly low standard of living of American steelworkers in the first half of the century. Thus, the modest standard of living gains of the 1940-65 period and the more rapid
improvements from 1965 to 1975 start from nowhere, instead of from poverty. Tiffany can easily then describe the contracts of the late 1950s as too generous, while ignoring the very modest, if not straitened circumstances most steelworkers were still in as late as 1955.

One might also add that, for the most part, in the world inhabited by Tiffany, profits exist, not to enrich their recipients, but primarily to provide new funds for productive expansion. Permit me a bit of skepticism here. From this perspective, however, any wage settlement not easily recouped by quick price rises will be clearly seen as excessive.

For John Hoerr, in *And the Wolf Finally Came*, workers are more than just factors of production. They are living, thinking, breathing creatures who desire productive, interesting work at good wages and who suffer when treated like machines or when thrown aside. From this vantage, Hoerr concludes that workers must be incorporated into the productive process if the industry is to thrive and that the failure to do so in the past has been a decisive factor in its decline.

John Hoerr, a long-time labor reporter and editor for *Business Week*, was born and raised in McKeesport, the heart of the Mon Valley. The son of a beer distributor and hotel manager, he occasionally worked in or around steel mills during his youth, before leaving Western Pennsylvania. Hoerr’s sense of the loss involved in the closing of these major steel facilities and the consequent loss of livelihood for thousands of workers is a striking subtheme in this massive book.

The focus of *And the Wolf Finally Came* is the Big Steel-United Steelworkers negotiations over wage concessions from 1982 to 1986. Hoerr provides an account of these negotiations with a level of detail and penetration that even an expert would find enlightening. His description of these negotiations is interspersed with many lengthy asides, making his narrative difficult to follow. The asides include reminiscences of his youth, historical vignettes of the industry and its labor relations, biographical portraits of the major actors in the labor relations drama of the 1980s, as well as sketches of some rank and file workers and low-level managers.

In one of my favorite digressions, Hoerr provides an interesting and even elegaic account of growing up in McKeesport in the 1940s, when the town was a cramped, dirty, bustling, thriving, small metropolis, full of life. He sharply contrasts this image to his 1982 visit to the Valley, when “death was in the air.” He conveys his regret at the loss of the sights and sounds of steel making, the familiar clanging of huge machinery, the roar of furnaces, the cry of the crane sirens and the bizarre but beautiful orange/blue flickering of the night sky.

From a combination of personal experience, interviews with boyhood friends (now mostly middle managers), and some discussions with workers, Hoerr provides glimpses of work life in the steel mills of the 1950s, 1960s and 1970s. He portrays a world in which the average worker was frozen out of any initiative or control over his job, an authoritarian and bureaucratic world which led to enormous waste of all kinds. Perhaps no other practice portrays as clearly
the absurdities that could result as the quota system on the levying of safety violations, a well-documented caricature of a safety program. Hoerr experienced the practice of sleeping on the job, a symbol to him of the enforced and ordained worker indifference to productivity in the mills. Hoerr makes a convincing case that the lack of worker involvement that developed in response to the bureaucracy was more pronounced than elsewhere in the economy. I would, however, add two qualifiers: I have never experienced or studied any job in the public or private sector, primarily physical or primarily mental—that did not alternate periods of intense activity with unabashed loafing. I also believe that Hoerr underestimates the physiological difficulties of rotating shifts around the clock over a prolonged period.

Hoerr is at his best when he deals with personalities and specific events. His portraits of such USWA leaders as Lloyd McBride, Lynn Williams and Joseph Odorcich are generally perceptive, informative and sympathetic, although his description of Lloyd McBride as "professorial" brought a chuckle. (I have read, in archival sources, contemporary accounts of Lloyd McBride physically beating intra- and inter-union rivals during the 1940s, when he was a young staff member for the USWA.) Hoerr gives us a sense of the feelings of crisis, fear, chaos and pressure felt by McBride as the industry fell apart from 1979 to 1983. He shows that McBride was not able to formulate or implement a coherent strategy for responding to the crisis and that he often misled union members and local officers about what was occurring in negotiations with the major firms. McBride had come to the conclusion that just about everyone in the steel industry, from workers to union leaders to corporate officials was overpaid. Hoerr also does a good job of explaining why it was that Lynn Williams was able to implement and develop a more coherent labor relations strategy. Williams was better educated and had a broader social vision of the union than his predecessor but, even more importantly, confronted industry in a period of stable or renewed demand.

Hoerr also offers valuable sketches of corporate officials. His portrayals of such managers as J. Bruce Johnston and David Roderick explain their backgrounds, their roads to power in the steel firms, and their positions in the corporate culture. By doing so, Hoerr sheds light on the virulence with which they fought for major worker concessions in the 1980s. It becomes possible to understand, if not sympathize with, the combative, "I told you so" attitude with which Roderick announced the shutdown of so many steel plants and operations in the 1980s.

The description of the 1986/87 lockout at USX is also good. Hoerr explains not only how and why such a lockout could occur, but why many people on both sides were spoiling for a fight. He makes the union and corporate strategies in the battle come alive and depicts the process by which mediator Sylvester Garrett helped work out an agreement. He skillfully draws the contrasts between the impact of the 1959 and the 1986/87 confrontations, noting that by the latter period a strike at USX was no longer front page news, sometimes not even in
Pittsburgh. My only quarrel here is that, by focusing so heavily on the Mon Valley, especially on McKeesport's National Tube, where a handful of pickets protected already doomed plants from non-existent strikebreakers, his image of the strike as pathetic and absurd can become overdrawn. Had his focus been Gary or Lorain, the mood described would have been much different, as to some extent it was at the Mon Valley's Clairton and Irvin Works.

*And the Wolf Finally Came* is not as strong or as rigorous on financial matters as it ought to be. Hoerr's interesting account of corporate raider Carl Icahn's attempt to gain control of USX in 1986 is an example. He is clearly unsympathetic to this takeover and to such financial devices as leveraged buy-outs, pointing to the negative impact they often have on production and employment patterns. But, from whom was Icahn trying to buy USX? Put another way, can we identify individuals or institutions, such as banks, with important control over the various steel firms (as Tiffany did with the Morgan interests and US Steel in the early twentieth century)? Surely this information is of great importance to investment and productive decisions and thus central to the arguments of both books.

One such important investment decision in steel was the much-publicized $6 billion purchase of Marathon Oil and Texas Oil and Gas by US Steel in 1981. This came at a time when the company was complaining that high wages and low or non-existent profits were making it impossible to modernize the mills or keep many of them open. Hoerr is critical of this decision because the purchase, handled crudely, antagonized workers at the steel firms and made them less likely to agree to wage and working condition concessions. Yet, Hoerr seems to accept the two main arguments put forward by US Steel to justify the purchase: first, that capital, mostly in the form of loans from banks, was not available for modernizing the steel industry but was available for purchasing an oil firm; and second, that the profits from the booming oil business could be used to subsidize the modernization of the steel segment of the firm, or at least enable it to survive hard times. Once again, the steel bosses had their timing off, buying Marathon just as the oil industry was entering a disastrous downturn. The issue of the availability of capital would require a serious study of the ownership and financing of the steel firms, an accounting which neither David Roderick nor John Hoerr has provided.

For one whose focus is so heavily on the costs of the poor labor relations in the industry, Hoerr's discussion of the economics of steel labor is uneven. He identifies the hourly labor costs per firm at various points in the 1980s, their role in the concessions negotiations and in the Wheeling Pittsburgh strike and the USX lockout. He does do a superb job of explaining the importance of pension and early retirement benefits, especially in the knotty LTV bankruptcy case. But he sloughs over two important issues. One is the fact that a key determinant of hourly labor costs was operation at high or low capacity levels, since unemployment benefits, SUB, and other benefits add heavily to the cost per hour worked.
of productive labor in periods of downturn. Worse, the casual reader would gain the impression that a slash in steel labor costs from $24 an hour to $12 an hour would cut the costs of making steel in half. The truth is that, due to high costs for technology, raw materials, and transportation, the savings would be a fraction of that. Some data about labor costs as a proportion of total costs would help to clarify the situation but would weaken Hoerr's argument for the centrality of labor relations to the collapse of steel.

For Tiffany, the game is over by 1959. For Hoerr, play scarcely gets under way before 1980, at least in terms of the negative consequences for workers. Both views are misleading. I worked in McKeesport and Clairton from 1969 to 1972 and there already existed an atmosphere of decay and decline. This was due, in part, to the heavy job losses of 1957–61 and 1970–71. The even more devastating decline of 1975–75 was still to come. Yes, the recession of 1979–83 was the most devastating to hit steel since the 1930s, but the difference was one of degree, not essence. Most of the twentieth century decline in basic steel employment came before 1979, not after. The fact that the US steel industry is producing substantially more steel in the 1987–89 period than thirty years before, (check the figures, skeptical reader), with a work force only 40% as large, indicates that the panacea of modernization of the industry under the existing pattern of control and ownership has been a remedy that, for 60% of the steelworkers, has been as bad as the disease.

Hoerr argues that there is a solution to the problems that he describes: the full participation of workers in decision making and in the productivity process. He makes a convincing and powerful case that that has not been true in the past, that workers desire this participation and are capable of it and that such methods enhance productivity. He details past corporate reluctance to accept worker participation and the continuation of this opposition, especially in the case of US Steel, well into the 1980s.

The journalist devotes considerable attention to the sporadic efforts of the USWA, during the 1940–46 period, to develop productivity/participation plans. Here he breaks some important new ground. He points to Clinton Golden and Harold Ruttenberg’s *Dynamics of Industrial Democracy*, which argued strongly for a worker and union role in the achievement of productivity. Yet, Hoerr gives insufficient attention to the context and projected audience for this book. It was written during a renewed worsening of the Depression, when the USWA was fighting for survival, and was aimed at convincing personnel directors, managers and the public that the USWA was a respectable, non-radical union, interested in employer concerns such as productivity.

Hoerr does do an excellent job of discussing the Labor Management Committees set up in World War Two under the auspices of the War Production Board, noting both that they were widespread and usually devoid of significant content. He pays a good deal of attention to the Scanlon Plans, union-organized efforts to boost productivity, while adding a degree of worker participation and
protection from job loss. He sees the union’s failure to extend and develop such efforts as a significant opportunity lost. The problem with this analysis is that, as Hoerr acknowledges, the major firms fought such worker/union participation tooth and nail once the war was over. It was overwhelmingly small and medium-sized firms (often incapable of developing their own sophisticated productivity schemes and facing major capital and competitive problems) that were attracted to the Scanlon Plans.

It is when Hoerr begins to discuss examples of worker participation in the 1980s that he treads on the thinnest ice. These participation models share serious limitations. They are often very small or very modest in their degree of actual worker participation and influence. Despite the fact that he calls for safeguards against speed-up and job loss as part of these productivity plans, most of them seem to be primarily devices that heighten just those problems. A quotation from John Howell, president of National Steel, which Hoerr approvingly gives us, touches the heart of the matter: “I still make the decisions, but I consult all the time with the union people. I think it’s a great way to run the business.”

A further question is also raised. Can or does worker participation save jobs? One of the productivity plans about which Hoerr is most enthusiastic was implemented at LTV’s huge Aliquippa works in the early 1980s, when the plant employed over 10,000 workers. The plan, Hoerr shows us, resulted in a number of improvements in productivity. Yet, as Hoerr briefly acknowledges later in the work, by 1987 almost all of the plant had closed and only 900 workers were clinging to their jobs! Had Hoerr’s productivity measures been fully adopted by Big Steel and the USWA in 1979, most of the workers who lost their jobs over the next five years would still have been on the streets. I am not at all sure that such programs, by boosting productivity at one plant, do not actually cause more unemployment, by forcing competitors to also rationalize or perish.

One last important case study is the Employee Stock Ownership Plan adopted by the former National Steel plant in Weirton in 1982/83. This is a very interesting and important example, which might, Hoerr argues, be a model for employee ownership elsewhere. His description of the genesis and operation of the ESOP is interesting and the approach is attractive, but, at times, it goes overboard. Hoerr’s flat statement that at Weirton “differences between labor and management have disappeared” is difficult to credit. Published descriptions by workers of life under the ESOP, my discussions with workers there, and the extremely authoritarian, undemocratic structure of organization that was established to run the ESOP convince me that such a statement is incredibly rosy, at best. The author also skims over the fact that the ESOP, while so far quite profitable, has had the advantage of being formed just as the industry was rebounding from the depression of 1979–83. He also minimizes the advantage to National Steel and the potential danger to workers caused by the fact that the ESOP deal will allow National to escape from tens of millions of dollars of pension liabilities.
I have pointed to some serious disagreements with both books. Tiffany presents a coherent, focused and plausible set of arguments, some of which I find ultimately unconvincing. Hoerr's book, while packed with insight and with wonderfully accurate and evocative descriptions, has a much less coherent and/or plausible thesis. Yet, both make significant contributions to our understanding of the history of the industry. Both are important books. I would recommend them to every citizen concerned with the future of our industries and economy.