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Steel Crisis and Steel Policy – A Comparison

by J. Esser, W. Fach, G. Gierszewski, W. Vöth, Constance*

The recent steel conflict between the USA and Europe has once again dramatically highlighted the close links between political and economic strategies in this field. The world-wide steel crisis has provoked permanent state intervention in the steel industry. The forms taken by this intervention are examined and compared here for four Western European countries: the Federal Republic of Germany, France, Britain and Austria.

The recent steel conflict between the USA and Europe – triggered off by accusations of dumping made by the American steel groups brought about by the practice of export-promoting subsidies in most Western European countries – has once again dramatically highlighted the close links between political and economic strategies in this field. Market competition, the “proper” rule, has not only become a rare exception but is indeed increasingly regarded as a nuisance – certainly by those producers and countries which do not feel equal to it.

In its present intensity, this *politicization of the economy* is a result of the world-wide steel crisis since 1974: the deep slump caused severe economic upheavals and provoked permanent state intervention. True, this state intervention differed from one country to another; its form, the principles governing it and the means used are determined by each country's social (either statutory or merely factual) relations, in particular the triangular relationship of State, entrepreneurs and unions.

The spectrum of national steel policies, together with its place in international regulation models, will be illustrated below by four examples: the Federal Republic of Germany, France, Britain and Austria.

Federal Republic of Germany

The onset of the steel crisis in the Federal Republic of Germany was marked by a 25 per cent drop in production in 1975. The subsequent development clearly reveals two stages. Those affected in the first phase were the economically weakest producers in the old mining and steel region of the Saar. There, the massive sectoral crisis of the iron and steel industry simultaneously meant a grave regional crisis. The reasons why the Saar enterprises were hit with

particular severity by the slump are various: they extend from the specific disadvantages of an inland location through the smallness of the enterprises, an unfavourable product structure (ordinary low-carbon steels, sections) to the inappropriate ownership pattern with a correspondingly narrow capital basis as well as below-average investment and modernization by an all-German scale. The combination of these factors – the steel crisis revealed the structural problems relatively quickly – rapidly confronted the Saar enterprises with the question of survival. During the initial phase of the reaction to the slump defensive measures preponderated: cut-backs in production, short-time working, shutting down of individual units – but already in 1977 extensive redundancies occurred in two enterprises. A thoroughgoing reorganization simultaneously covering the following areas became indispensable: unification of the ownership and capital structures, reorganization of the production pattern and a socially acceptable reduction in employment.

The Luxembourg ARBED concern, which was prepared to take over the Saar enterprises, acted as the private-enterprise sponsor of this restructuring process; however, the scale and the consequences of the problems calling for solution exceeded the organizational potential of a private concern.

Hence a political settlement cartel, composed of the State, private enterprise and trades unions, was formed which, with a functional division of labour, took over the necessary industrial restructuring and the indispensable reduction of jobs. The leading role in this process was indisputably played by the private company, which developed the industrial concept. The State provided subsidiary measures and rendered rehabilitation possible by means of extensive financial aid; the unions, finally, provided the necessary legitimization and ensured that the restructuring process proceeded with relatively few social conflicts by pushing

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through relatively generous monetary compensation and social indemnities for those made redundant.

Judging by its results this variant of crisis control was relatively successful: a far-reaching industrial restructuring – at the end of the process the production capacity of the Saar steel industry will be greatly diminished and the number of jobs reduced by nearly one-half – was accomplished without major political conflict. Admittedly the Saar region is faced with long-term costs: no replacement is in sight for the industrial capacity lost in the steel industry. Long-term costs also have to be borne by the younger generation of workers who are thus compelled by the permanent loss of jobs into involuntary mobility. Moreover, the renewed exacerbation of the situation in the steel market since 1980 looks like making certain cuts necessary in the present restructuring concept, so that the need for further industrial and social adjustment is beginning to be obvious.

1980, incidentally, marks the second phase of the steel crisis in the Federal Republic; this now affects with full severity even the centre of German steel production in the Ruhr. In contrast to the Saar, the development of the steel industry in the Ruhr had been characterized since the sixties by a continuous process of modernization and rationalization; take-overs and mergers had given rise to bigger enterprise units, production programmes had been both diversified and extended into further processing. Nevertheless, the renewed deterioration of the world market in steel since 1980 has also affected the “marginal enterprises of the second stage” in the Ruhr. The centre of the crisis is Dortmund, the location of the Hoesch Works, whose merger with the Dutch Hoogovens enterprise in the early seventies did not yield the desired results. On the strength of its Saar experience the Federal Government, in particular – whose political and financial participation in coping with the crisis was regarded as indispensable given the scale of the necessary measures – insisted on “enterprise-transcending solutions”. This found concrete expression in the programming of a merger between Hoesch and Krupp into “Ruhrstahl AG”; the entrepreneurial concept pursued here revealed marked similarity with the Saar solution, i. e. reduction of production capacities, plant modernization, concentration of location, increased emphasis on high-grade steels – all this once more accompanied by a drastic reduction of jobs, with trades unions and works councils participating from the outset in social planning congruent to the intended industrial restructuring. At present the realization of the overall concept, though originally approved by all those

affected, seems once more called into question as – apparently through the intervention of the market leader Thyssen – new possibilities for co-operation are emerging for the Krupp Stahl AG in the high-grade steel field, which would mean the detachment of a central component from the Ruhrstahl AG concept.

France

French industrial structural policy since the early sixties was directed towards making up as rapidly as possible France's lag in modernization and competitiveness in promising industries in the world market, and above all in the European market. This was to be done in close symbiosis between the State apparatus and industry, under exclusion of the trades unions. This policy also applied to the steel industry which, though privately owned, was especially closely involved in this State-industry complex. The steel crisis of 1975 hit France at a time when the development of new capacities and the regional shift away from the traditional locations (Lorraine) to coastal locations (Fos, Dunkirk) was not yet completed, while the older enterprises were scarcely any longer competitive in the international field. In 1975 production declined by 20 %, dropping back to the level of 1969. The traditional regions in Lorraine and in the North suffered above the national average, with 28.2 % and circa 22 % respectively, while the Fos (Marseilles) enterprise, still under construction but working to approximately 80 % of its capacity, succeeded in stepping up its production by 49 %. As surplus capacities existed even beforehand, and had not yet been reduced, the capacity utilization rate of the industry as a whole declined to 63.5 %; in Lorraine it was well below this level. Exports, too – with a previous export rate of 33 % – dropped by approximately 17 %; exports outside the EC declined even further.

The French Government's crisis policy after 1975 passed through three stages. Initially, still clinging to the optimistic extrapolation of the options of the current Seventh Economic Plan, it continued to be oriented towards the extension and simultaneous modernization of existing production capacities. At the beginning of 1977 a first, though still half-hearted, step was taken within the framework of the “Ferry Plan” which, while maintaining existing capacities, intensified rationalization efforts (reduction of 16,000 jobs) and cautiously moved away from the previous line. This caution was due to the precarious political situation at home and the risk of an electoral victory of the united Left Wing parties in the spring 1978 elections. However, following their defeat an offensive was launched in the autumn of 1978. The “Giraud Plan” initiated the radical

shrinkage of the steel industry to the leaner and healthier shape considered necessary; this was carried out by the State to the exclusion of both enterprises and trades unions. On the basis of a *de facto* nationalization of the two biggest steel concerns USINOR and SACILOR, which between them accounted for approximately 75 % of crude steel production, a strategy of rationalization, reductions in the workforce, closing down of obsolete plants (and only partial replacement by modern plant) and specialization on high-value products was pursued with an investment of approximately 40 billion French francs from State sources. This reorganization was finally completed in the spring of 1981 by the inclusion, likewise state-organized and financed, of the high-grade steel sector which had hitherto been exempted. By means of a regrouping of capital shares the engineering group of Creusot-Loire brought its high-grade steel sector into a joint subsidiary controlled to 75 % by USINOR, while Pechiney-Ugine-Kuhlmann similarly transferred its high-grade steel branch to SACILOR.

These shrinkage processes entailed enormous regional and social consequences, which found their most spectacular expression in the violent protests of the Lorraine steelworkers. While the employer camp, virtually bankrupt in the steel sector, was unable and unwilling to offer any resistance to *de facto* nationalization, the attitude of the unions was divided. The CGT saw nationalization as a possible solution, but only for the purpose of further extending existing steel capacities in conjunction with a stimulation of steel consumption in France and a fencing-off from the world market. It resolutely opposed the concept of shrinkage to a leaner and healthier shape and the reduction of jobs. It refused to cooperate in any way with the State, and by mobilizing its membership in a multiplicity of militant actions tried to make it change its plans. By way of contrast, the second union of importance in the steel sector, the CFDT, expressed itself basically in favour of a restructuring of the steel industry and was even prepared to accept job losses provided new jobs were created elsewhere. This was the first time that an industrial reorganization strategy was pushed through in France on a social partnership basis, whereby the result achieved – loss of 21,000 jobs, no substitute jobs, social welfare plan – reflects the relative weakness of divided trades union power.

In the autumn of 1981 the new left-wing government followed up *de facto* nationalization by formal nationalization. The reorganization concept has been kept, although a loss of a further 10,000 jobs has been included in the plan. And moreover, a state control

committee is to ensure more effective coordination of production and investment share-out between the two state-owned concerns; both major unions (i. e. also the CGT) which, in the absence of an alternative, will perhaps accept this incorporation as a second-best solution, are to be involved.

Britain

The principal characteristic of the British steel industry in the postwar period was its low performance by international standards; this was due to enterprise units being too numerous and too small, and moreover obsolete. In 1967 the 14 biggest enterprises were amalgamated by the Labour Government into the state-owned British Steel Corporation (BSC) after a lack of modernization and concentration had resulted in major slumps in profits and had further increased the industry's lag behind its foreign competitors. This decision to nationalize was accepted, on pragmatic grounds, even by the Conservatives when they came to power in 1970. In 1973 they adopted an ambitious programme of expansion, planned for 10 years and calculated to cost £ 3 billion, a programme envisaging large-scale closure of obsolete plants, concentration of production at six modern giant plants near the coast and an increase of capacity to 34 million tons of crude steel annually. This was intended to strengthen Britain's steel position following her accession to the EC. This plan was confidently based on a continuous growth of the world market for steel and of domestic demand for steel. Envisaged also was a loss of 30,000 jobs; the level of employment was to balance out at 180,000.

Implementation of this programme was embarked on at a time when the world-wide steel slump was beginning to take on clear outlines and a disastrous "scissor movement" began for BSC: on the one hand the volume of the British steel market steadily declined, while on the other capacities were further extended. The two together led to a demand-supply gap which has called the economic viability of BSC in question to this day. The situation was exacerbated by the fact that modernization had been started too late and that even during the crisis the bulk of the steel was still being produced by totally outdated production methods and an accordingly low productivity of labour. As the weakest link in an intensified world-wide competitive struggle, its losses were therefore substantially higher than those of its competitors, resulting, because of the slight financial scope for improvements in efficiency, in ever growing losses of market shares. At the same time, the weakness of the accumulation capacity of the entire British economy was far greater than that of other capitalist industrialized countries, with the result that

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V E R L A G W E L T A R C H I V G M B H - H A M B U R G

domestic demand for steel declined to a much greater extent than elsewhere.

The Labour Government's reaction to the new situation was initially one of wait-and-see. Between 1974 and 1977, in spite of a massive decline in demand, it persevered with the investment policy it had embarked upon, while at the same time, because of opposition from within its own ranks and the unions, not implementing the intended closures. Superficially, this policy was job-oriented. But in the final analysis it exacerbated the situation. Maintenance of unprofitable plants caused BSC's level of indebtedness, as well as State subsidies, to rise exponentially, while finance for investments for modernization or the creation of substitute jobs was lacking. By 1977 financial pressure had grown to such an extent that a change of course in crisis policy was unavoidable. The original expansion programme was cut down to one-half and in cooperation with the unions the closure of unprofitable plants and a reduction in the number of jobs by 40,000 was initiated. While this policy of shrinkage to a leaner and healthier shape envisaged a gradual job reduction over a prolonged period, the Conservative Government which came to power in July 1979 decided to get rid of the BSC problem quickly and without much consideration for steel workers or steel regions (North and South Wales, the Midlands, the North East, Scotland). However, the objective of being profitable again by 1980/81, of having radically liquidated so-called over-employment and of producing at the same standard as the European competitors, was not achieved. That was why the measures already taken were complemented in 1981 by an even more massive "survival plan" extending into 1983 and involving partial privatization. So far the results are: labour force reductions by 50,000 to a present 94,000; reduction of capacity to 14.4 million tons crude steel annually; diminishing but still high losses; decline of the domestic market share to 40 %, though this was supposed to rise to 50 %; utilisation of capacity at the remaining six plants 65 %. At present both management and Government regard BSC's survival and the overall success of the reorganization pessimistically.

Union resistance to this reorganization was broken after one of the longest strikes ever seen in Britain. The strike, begun towards the end of 1979, had to be ended by the unions after 13 weeks when it became clear that intra-union and international solidarity were inadequate. Since then, the unions have again been cooperating with the management, as only thus would it be possible to save BSC's "healthy core". Admittedly the union's part in this cooperation is confined to negotiating redundancy payments.

Austria

The Austrian steel industry (nationalized since 1946) seems to have survived this sector's chronic crisis rather well compared with other European steel producers: while production in the EC countries declined by 20 % from 1974 to 1981 and employment dropped by over 25 %, the decline in production of the VOEST-Alpine concern (which in 1974 accounted for 95 % of total Austrian crude steel production) was only 2 % over the same period, with a drop in employment of 8 %. Admittedly, this general statement conceals differing trends during two periods in which the pattern of political reactions changed fundamentally.

During the first period, from 1974 to 1978, production of crude steel was almost 10 % down, though only 3 % of those employed lost their jobs. This outstanding balance sheet is generally regarded as evidence of instrumentalization of the nationalized industry with regard to employment policy.

And indeed, the enterprise strategy, in duty bound to the Government's full-employment target, was directed above all towards keeping capacity utilization as high as possible even if this meant accepting orders at prices not covering costs. The remaining surplus personnel were absorbed by state-financed training programmes and by transfer to the finishing sector. At the same time, an early start was made on liquidating production overlaps in the Austrian iron and steel enterprises concentrated in 1973 and 1975 in the VOEST-Alpine and the Vereinigte Edelstahlwerke, closing down unprofitable plant and rationalising the foundry sector "to the limit". This made it possible to extend the proportion of production in continuous-casting plant far above average. Within the framework of the restructuring, effected in close and trusting cooperation between board-room, works council and State, investments were intensified in the finishing goods industry and industrial plant construction; this created replacement jobs for those lost in the foundry sector through structural rationalization.

When crude steel production experienced a renewed slump in 1980 it became evident that the Austrian steel industry also was no longer able to cope with the crisis on its own and that employment policy considerations had to be abandoned.

To make up for the dwindling of its capital resources and to provide financial aid for an accelerated restructuring the State, as the owner, made cash inputs during 1981/82 amounting to Schilling 6 billion, of which VOEST-Alpine received 2 billion and VEW 4 billion. In VEW, in particular, whose reorganization was tackled

only hesitantly during the years up to 1981, "tough measures" have since been adopted on the well-tested consensus basis: through the closure of various plants, concentration of production and rationalization of locations the workforce was reduced by more than 3,500 (i. e. nearly 20 %).

Even the crisis-resistant VOEST, where by 1981 only 45 % of production was accounted for by the foundry sector, compared with two-thirds in 1974, still has a considerable restructuring deficit in respect of long products, whose manufacture is concentrated at the Donawitz location. By 1984 more than 1,000 jobs (approximately 15 %) are to be abolished there and crude steel capacity reduced.

In the face of a further exacerbation of the steel crisis since mid-1980, with its annual losses running into billions, the "Austrian road" – first replacement jobs, then internal restructuring – could no longer be maintained: the negative employment effects associated with increasingly far-reaching structural adjustments were not balanced out by the extension of the finishing sectors. Altogether the decline in employment over the past two years, amounting to 4,000 (or 3 %), was double that of the first period, even though the drop in production, at 5 %, was only half the earlier figure. Hence even in Austria's nationalized steel industry, which exports three-quarters of its products, the aim of contributing to a policy of full employment is overridden by that of ensuring competitiveness.

European Crisis Management

Since the ECSC Treaty of 1951 the coal, iron and steel industries represent the most closely regulated industrial sector in Europe. Whenever the High Authority, which was integrated into the EC Commission, believes regulatory intervention to be necessary for reasons of market imbalance or because of a clear crisis situation it can largely withdraw coal and steel policy from the competence of individual member countries and subject it to Europe-wide regulations.

Since the onset of the crisis in 1974 an increasingly close network of regulatory measures may be observed in the iron and steel industries. These activities of the Commission cover, to a varying degree, such areas as shielding the European steel market from foreign competition, mediation between conflicting domestic interests, market regulation, participation in the adjustment and restructuring of production capacities, and cooperation in the management of social welfare aspects associated with the reshaping of the iron and steel industry.

The function of shielding the industry against foreign competition was practised by the Commission during the first phase of the crisis in particular vis-à-vis Japan, which was successfully induced to practise a "voluntary" restriction of its exports to the EC countries. During the present phase of the conflict the Commission's activities are, if anything, aimed in the opposite direction, i. e. toward keeping the US market open for European producers. Mediation in conflicts of interest between European steel producers had always been practised by the Commission with the assistance of an investment report centre and the preparation of 10-year targets and forecasts. However, this instrument never played an outstanding part as during the years of an expanding steel market the need for regulation was not very important, while since the onset of stagnation, and even more so since the emergence of a manifest crisis situation, the instrument has been inadequate. During the crisis the commission found itself compelled progressively to activate the further instruments available to it under the ECSC Treaty; this began with the fixing of guideline prices, first for a few and subsequently for nearly all types of steel, leading on from there to minimum prices which steel enterprises were not allowed to undercut, so as to prevent ruinous price competition within the European market. This direct market regulation, which is unique in the EC outside the Common Agricultural Market, reached its climax, following the failure of voluntary arrangements among the producers, in Eurofer I, in which the situation was declared to represent a patent crisis in accordance with Article 58 of the ECSC Treaty, whereby the Commission was authorized to assign production quotas to enterprises within the EC, at least in respect of a number of products.

The Commission sees these measures as forming part of a longer-term restructuring of the entire European steel industry, come to be known as the "Davignon-Plan", which envisages a substantial reduction of production capacities. Investments for modernization and rationalization which lead to a reduction of capacities consistent with these plans are promoted by the Commission by means of investment subsidies. Admittedly, the national interests of the member countries preclude this modernization strategy being tested by the yardstick of absolute business management rationality; instead, all the industries of the member countries must make a contribution towards a reduction of capacity. As a complement to this *de facto* de-industrialization strategy, the Commission has established a social fund out of which accompanying welfare measures (transition aid, retraining, mobility

promotion, etc.) are financed for workers made redundant in the steel industry.

Needless to say, the often far-reaching powers of the Commission, in particular the application of Article 58, were not put into effect without conflict. To begin with, "non-interventionists" (above all the Federal Republic of Germany) and "interventionists" (France, Britain) were clearly opposed to each other. Their arguments reflected the different situations in their national steel industries: while in France and Britain an often considerable need for reorganisation in the steel industry had accumulated, a need whose consequences for employment could not be tackled without massive state aid, the German steel industry, holding the leading position in Europe, was hoping for a purely "market-economy" solution of the crisis which would weaken the competitive position of the other countries. The fact that such a solution could not be pushed through was due very largely to the common interests of the trades unions affected and their refusal to accept any solution of the European steel crisis that did not include massive social welfare cover.

Conclusions

According to widespread belief, the crisis of the steel industry is the result of a "distorted" relationship between market and State, a typical case of the political production of "lame ducks". In the Federal Republic, in particular, this has led to a widely supported demand that the decline in the market of the domestic steel industry should be mitigated by the abolition of state intervention on other countries. This demand is supported by the preliminary result of the American-European steel conflict: France, Britain, Belgium and Italy – the main competitors of the German steel producers – are the ones who had high punitive tariffs imposed upon them.

This picture, however, is an oversimplification, as can be demonstrated by a comparison within Europe:

□ The intertwining of politics and economics (especially but not exclusively) in the steel industry has reached a point where the demand for an (as far as

possible) "pure" market economy has become pointless, or indeed has itself become a *political* demand aiming at improving the national position. "Rational" competition between enterprises and industries for greater *market* shares – as emerges with particular clarity in the case of steel – is indissolubly integrated with the "irrational" struggle among national states for greater *power* shares: measured by such indicators as current account, gross national product, level of employment, political stability. The EC's all-European steel policy represents an attempt to keep both "arenas" under control in order to prevent competition from assuming ruinous forms.

□ It follows therefore, first: *no* national steel policy is guided exclusively by economic (in the market-economy sense) criteria. Political subsidies for the steel industry are not a specifically social-democratic, let alone socialist, phenomenon based on "excessive" welfare considerations – even Liberal and Conservative governments make use of them. Not even they can afford, politically or economically, to allow internationally incompetent industries simply to die.

□ It also follows, secondly: *no* national steel policy pursues exclusively political (i.e. non-market) aims. Wherever the State intervenes this is invariably (also) done with the intention of providing aid for self-aid. The ultimate aim even of "socialist" intervention is the restoration of the international competitiveness of domestic (steel) capital; even such an intervention does not dispense with "shrinkage" requirements in the hope of finding, after a certain transitional period, the "healthy core" which can stand up to world market competition on its own.

□ Evidently there exists, for every country and every steel industry, a national politics-economics "mix" determined by their specific economic and social circumstances. There is no such thing as *the* best solution to the crisis; the much-vaunted "German model" with its strong market-economy component is optimal only *ceteris paribus*. Other nations with an ineffective state apparatus cannot simply copy the German road to modernization; the "rational" road may be totally irrational for them.

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