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STUDY OF STEEL IMPORTS.

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THE POLITICAL ECONOMY OF STEEL:
A CASE STUDY OF STEEL IMPORTS

by

WILLIAM SCHEUERMAN

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TABLE OF CONTENTS

PART I	THE PROBLEM STATED	
Chapter I	Introduction	5
Chapter II	Steel Imports: Historical Background	57
Chapter III	Structural Characteristics of the United States Steel Industry: An Analysis	82
Chapter IV	Economic Policy and the Voluntary Restraint Agreement	127
PART II	THE POLITICAL POWER OF STEEL	
Chapter V	Steel and the Political Process: Congress	162
Chapter VI	Steel and the Executive: I	221
Chapter VII	Steel and the Executive: II	259
Chapter VIII	Countervailing Power: The Steel Workers Union	296
Chapter IX	Conclusion	338
Bibliography		357

CHAPTER I INTRODUCTION

This study examines the issue of steel imports to determine the extent to which the large steel corporations are able to convert their economic power, i.e., control over capital, into political power.* It is the hypothesis of this investigation that the economic power of the American steel industry is the pivotal factor in the shaping of public policy related to steel. If the present hypothesis is correct, it should be found that the steel industry's economic power places it in a position of primacy in defining the scope of governmental policy in those areas crucial to its well-being. One such area is the case of steel imports which, according to leading steel executives, threatens the industry's existence. This study shall focus on steel imports as a case study of the relationship of corporate power to political power.

*By political power is meant that social power which transforms or attempts to transform governmental policy. The criteria of political power are discussed below, along with further conceptual clarification of the ideas of economic and political power.

A basic assumption of the current work is the premise that the study of imported steel is important to the extent that it can help provide a better understanding of the role of economic power in the United States. The first section of this introductory chapter discusses the importance of steel imports. But as the justification for examining the imported steel question is to learn more about political power, it is essential to clarify the concepts upon which the study builds; the ideas of economic and political power. The second part of the first chapter attempts to clarify these ideas. This conceptual clarification is followed by a presentation and analysis of the methodology of the study. The third and last section provides an historical analysis of the American debate concerning economic and political power. It is hoped that discussion of this debate will illuminate the important issues of power which are being addressed by this work.

I

The production of steel is fundamental for modern industrial society.¹ Indeed, a preliminary step toward industrialization taken by any backward country is the establishment of a productive steel industry.² But steel is not only crucial in beginning the industrialization process, it is also of primary importance for the continued development of a highly industrialized society. In recent years there have been claims that the relative importance of steel in the American economy is on the decline. This position focuses upon the increasing proportion of the G.N.P. taken by the service industries and concludes that the importance of steel is on the wane in a "post-industrial" society.³ Yet, while steel's proportion of the G.N.P. has declined, the fact remains that the total tonnage of steel produced in the United States has been on the upswing.⁴

The importance of steel to the economy of any in-

¹For statistical data concerning the relationship between industrialization and steel production, see U.S. Congress, Senate, Committee on Finance, Steel Imports, Staff Study, (Washington: Government Printing Office, 1967) p. 14.

²Ibid., pp. 31-32.

³Daniel Bell, The Coming of the Post-Industrial Society, (N.Y.: Basic Books, 1974) pp. 121-164.

⁴"Despite Disappointment, Steelmakers Look Ahead," Iron Age, (April, 1973) p. 51.

ustrialized nation cannot be overstated. On the most immediate level, about 500 thousand workers are employed by the industry in the United States. The steel industry has mining, productive, and fabricating facilities in virtually every state in the union. Thirty-two states have steel productive plants providing employment essential to the economic health of dozens of communities throughout the country. Table I.1 presents a list of raw steel facilities in the continental United States.

<u>Table I.1⁵</u>	<u>Localities Where Raw Steel is Produced</u>
<u>State</u>	<u>Locality</u>
Alabama	Birmingham, Fairfield, Gadsden
Arizona	Tempe
California	Emeryville, Etiwanda, Fontana, Long Beach, Los Angeles, Torrance, Union City
Colorado	Pueblo
Connecticut	Bridgeport
Delaware	Claymont
Florida	Tampa
Georgia	Atlanta
Hawaii	Honolulu
Illinois	Alton, Chicago, Chicago Mts., Granite City, Kankakee, Lemont, Morton Grove, Peoria, South Chicago, Sterling
Indiana	East Chicago, Ft. Wayne, Gary, Kokomo, New Castle, West Chester
Kentucky	Ashland, Newport, Owensboro
Maryland	Baltimore, Sparrows Point
Michigan	Dearborn, Ecorse, Ferndale, Trenton, Warren
Minnesota	Duluth, St. Paul
Mississippi	Flowood
Missouri	Kansas City
New Jersey	Roebling
New York	Buffalo, Dunkirk, Lackawanna, Lockport, New Hartford, Syracuse, Watervliet

⁵The Steel Industry and Environmental Quality,
 Sub-Council Report, National Industrial Pollution Control
 Council, (Aug., 1972) p. 15.

N. Carolina	Croft, Monroe
Ohio	Campbell, Canton, Cincinnati, Cleveland, Lorain, Mansfield, Middletown, Portsmouth, Steubenville, Warren, Youngstown
Oklahoma	Sand Springs
Oregon	Portland
Pennsylvania	Aliquippa, Beaver Falls, Bethlehem, Bracken- ridge, Braddock, Braeburn, Bridgeville, Burn- ham, Butler, Carnegie, Coatesville, Duquesne, Erie, Fairless Hills, Farrell, Harrisburg, Houston, Irvine, Ivy Rock, Johnstown, Latrobe, McKeesport, Midland, Milton, Monaca, Monessen, Munhall, New Castle, Oakmont, Philadelphia, Phoenixville, Pittsburgh, Reading, Steelton, Titusville, Washington, West Homestead
Rhode Island	Phillipsdale
S. Carolina	Cayce, Georgetown
Tennessee	Harriman, Knoxville
Texas	Ft. Worth, Houston, Lone Star, Longview, Pampa, Sequin, Vinton
Utah	Geneva
Virginia	Chesapeake, Newport News, Roanoke
Washington	Seattle
W. Virginia	Huntington, Weirton

Steel production, however, is not solely a national phenomenon. The procurement of iron ore, coal and manganese, the three fundamental materials of the steel-making process, as well as the alloying elements used in the production of specialty steels, occurs on a global level. The extraction of these raw materials takes place in fifty-four countries on six different continents and provides employment for tens of thousands of foreign workers. The economic vicissitudes of the American steel industry are thus likely to be felt throughout the world.

No major sector of the American economy escapes dependence on steel. The transportation industry, for instance,

uses steel in large quantities in railroad cars, airplanes, ships and automobiles. These industries consume over one hundred different steel products and rely on support systems, e.g., rails, bridges, buoys, and radio towers, consisting primarily of steel. Structural steels are the basis for heavy construction in the United States. The home appliance industry also relies heavily on steel; so too does the agricultural sector from steel tractors and heavy equipment to barbed wire.⁶ The uses of steel in the American economy range from the office worker's paper clips to the electrical transmission tower that provides light, heat, and ties the globe together through a complex communications network grounded in steel."

Recent innovations provide for new uses of steel, thereby increasing its importance to the economy. Many of the new technological developments are designed to enable steel to compete with aluminum. Newly developed steel siding for homes has many of the same qualities as aluminum. A new shaping process for converting cylindrical can stock into specialty packaging promises to help the industry recapture some of the tonnage taken by aluminum.

⁶"The Story of Steel," U.S. Steel Corp., a public relations publication of U.S.S., n.d.

⁷Although plastics, aluminum and concrete have invaded the domain of steel since W.W.II, steel accounts for over 94% of all metals used in this country. The use of plastics, which is seen as a competitor to steel, has been mainly confined to those applications where steel had not and probably could not ever have been considered. Steel Imports, pp. 89-90.

The so-called "drawn-and-ironed" process which provides for the production of steel cans with the same quality as aluminum should help steel compete with aluminum in the market for soft drink and beer containers. Similar developments concerning aerosol cans provide additional uses for steel. In addition to the technological improvements, steel has the edge with environmentalists in that the recovery of discarded steel cans can be separated magnetically from garbage and requires less human resource input than is presently used in the retrieval of aluminum cans.

The many uses of steel might indicate that large amounts of steel imports constitute an immediate threat to the economic health of an industry which is essential to the continued functioning of the U.S. economy. This is, in fact, the position taken by leaders of the American steel industry who contend that without governmental protection against imported steel, the top domestic producers will be forced to dismantle a good proportion of their productive facilities. This, they contend, would result in high levels of unemployment and make the American economy too reliant on foreign steel producers. Careful analysis of the imported steel question, however, indicates that there are alternatives to the industry's call for protection. One alternative position is based on the premise

that the industry's structure and pricing policies have priced it off the foreign market. The position focuses on the high levels of concentration within the industry and the control of the domestic market by a few large producers. This control is associated with technological backwardness, price fixing and the investment of large amounts of capital on productive facilities overseas.* From this perspective protection against imported steel only serves to magnify those conditions which made imported steel attractive in the first place.

Yet despite the fact that the American steel industry has pursued economic policies which have increased the attractiveness of foreign imports, the industry is able to define the limits of governmental policy toward imported steel. Indeed, the economic power of the industry allows the steel corporations to play the primary role in defining steel imports as a significant social and political problem. This study reveals that even though steel's power is primary in regard to steel imports, it is not absolute. Organized consumer groups opposed the specific policy of import quotas as did some multi-national corporate interests who were reluctant to support protec-

*The U.S. Steel Corporation, for instance, recently announced the complete acquisition of a German steel firm which had been producing steel coming into the U.S. Wall St. Journal, (Aug. 9, 1975). The data on concentration, pricing and investment are discussed in detail in Chapters 3 and 4.

tionist programs. This prevented steel from getting all the protection it had requested. But while steel does not always get all it desires, it does play the leading rôle in shaping governmental policy regarding imported steel. The present work focuses on the mechanisms by which steel transforms its economic power, i.e., control over capital, into political power. Given the fact that the non-competitive price structure of the American industry is threatened by less expensive imports of similar quality, it is essential to examine the mechanisms by which the less costly imports are restricted by governmental tariff and import quotas so as to make imported steel "competitive" with domestic steel.

The steel import question has other very serious implications. First, it mirrors the problem of economic concentration within the United States steel industry. For the question of imports can only be understood in terms of the oligopolistic structure of the domestic industry with its inflated non-competitive price structure. Indeed, some scholars have suggested that administered pricing policies have driven the American industry out of foreign markets and thus increased the attractiveness of foreign steel. These same experts contend that the net effect of import quotas on steel is to reduce domestic competition even further by squeezing out the independent

fabricators and producers who must rely on foreign steel products. They then conclude that import quotas are likely to further the very tendencies of concentration, administered price policy, and inflated prices which led to foreign competition in the first place.⁷ The consequences of these tendencies are far-reaching. Economists have perceived a close relationship between steel price hikes and inflation.⁸ A six dollar increase in the price of a ton of steel, for instance, is passed along in the form of a seventy-five dollar increase in the price of a tractor.⁹

Second, it involves serious questions concerning the conservative nature of the labor movement in the United States. The identity of immediate interests between union and management on the question of imports notwithstanding, the reason why the steel union appears to be supportive of the corporations is related to the ability of the leading steel producers to attain and utilize their economic and political power. While much literature has attacked the conservativeness of the union leadership,¹⁰ union

⁷Testimony of Walter Adams, Import Quotas Legislation, Hearings before the Committee on Finance, U.S. Senate, 90th Congress, 1st session, pp. 846-58.

⁸In support of this position see statement, Kurt Urban, Foreign Trade and Tariff Proposals, 1958, pt. 5. Hearings before the House Committee on Ways and Means, 90th Congress, 2nd session, p. 2088. For opposing position see: U.S. Steel Corp., Steel and Inflation: Fact & Myth, 1958.

⁹Estes Kefauver, In A Few Hands, (Baltimore: Penguin Books, 1965) p. 106.

support of the free enterprise system is best understood in light of the corporate ability to use its economic resources, i.e., its wealth and control of the labor force, as well as its possession of "private" information, etc., to help define the alternatives open to the union. This is not to suggest that the unions are powerless. If that were the case salaries and working conditions of steel workers would be much worse. The point to be argued here is that the economic and political power of the steel corporations allows the industry to set the boundaries of the debate. Hence, it seems worthwhile to examine corporate cooperation with the United Steelworkers Union in response to the rank and file reaction against the current no-strike agreement. The threat of a strike has caused many steel consumers to turn to foreign imports. This has resulted in periodic layoffs of domestic steelworkers. To avoid this, the union has agreed not to strike. Rank and file steelworkers, however, have complained that the industry is taking advantage of the no-strike accord and have argued that the union has thrown away its main weapon against corporate abuses. Insight into the conservativeness of the American labor union is likely to be gained by examining the follow-

¹⁰ Sidney Lens, The Crisis of American Labor, (N.Y.: Sagamore Press, 1959). Stanley Aronowitz, False Promises, (N.Y.: McGraw Hill, 1973).

ing questions: To what extent and how is the industry taking advantage of the no-strike contract? To what extent do labor officials cooperate with corporate leaders in crushing rank and file resistance?

The imported steel question reveals much about the structure and exercise of power in the United States. Still, a caveat as to the overall significance of the issue is in order. As the current investigation focuses on a single problem of but one industry, conclusions must be limited. No claim is made here to have resolved once and for all the various problems concerning the relationship between economic and political power. Indeed, since the issue of steel imports does not represent a life and death struggle for the American corporation, it may not illustrate the whole range of relationships between economic and political power. The lines in the struggle for power are not always clearly drawn and on this issue the steel corporations sometimes are opposed by other corporate interests. In this sense study of the import issue is best understood as a contribution to the larger debate concerning the relationship between the two forms of power. To the extent, however, that steel is similar to other major industries, generalizations may be made concerning the structure of power in the United States. Such conclusions indicate

that on other issues the transcending interest to large corporations, the relationship between economic and political power in American society may be even closer than as suggested in this case study.

II

Because of its vagueness the idea of power is one of the most debated notions of political theory. Indeed, there are almost as many different conceptions of the idea as there are students of the subject. Most definitions of power view the concept in terms of control, but there are many divergent interpretations of "control" as well as disagreements about what is important to control. Some scholars have defined power as control over nature, i.e., "...man's understanding of the lawfulness of external nature for the ultimate purpose of subjecting external nature to man's needs."¹¹ This power is not relational in that it does not involve control over men. But power is also seen as control over men and in this sense must always be relational by virtue of its two-sided relationship.¹² The idea of control further complicates the problem. If power is the capacity to control,

¹¹ Franz Neumann, "Approaches to the Study of Political Power," in the Democratic and Authoritarian State, (N.Y.: Free Press, 1957) p. 3.

¹² Ibid.

questions are raised concerning the meanings of control. Influence, persuasion, legitimacy, coercion and force are but a few of the ideas used by political theorists in attempts to clarify the meaning of control. The element of capacity reveals even more complexities. What illustrates capacity becomes crucial. To behaviorists it is the overt behavior of individuals in the decision making process. Political sociology tends to understand capacity not by overt behavior but rather as a potentiality rooted in the structure and organization of a particular society. A related problem is the question of interests. By interest is meant the ends for which power is used. The group theorists view interest in terms of the individual's perceptions and activity. The sociologists go beyond this subjective definition and define interest in terms of some objective criterion which the individual may or may not be aware of.

By now it must be apparent that any efforts toward the conceptual clarification of the concept of power are bound to be complicated by the fact that the idea is not a single and isolated concept. However, since the purpose of definition is to focus analysis upon fact, the end result of good definition is to transform argument over terms into discussion about fact.¹³ For our purposes, the general

¹³ C. Wright Mills, The Sociological Imagination. (N.Y.: Oxford University Press, 1959) pp. 25-49.

notion of power is divided into two components: economic power and political power.

By economic power is meant the control of capital. This is not to suggest that capital itself is power; for that would ascribe human characteristics to capital and ignore the fact that the power of capital is based upon human relationships. What is being argued here is that the generating source of power in any society lies in the social structure of that society. In all societies production divides members into different groups distinguishable by their relationships to the tools of production, i.e., capital. In contemporary United States production is based on the principle of private ownership and the dominant economic institution is the corporation. Many Americans contribute their labor to the productive process, but capital is controlled by a small number of people who decide corporate policy. Control of capital embraces such economic resources as the control of labor, raw materials, finished products, wealth and information. Decisions concerning any of these factors of production effect the lives of most Americans. Economic power, therefore, is a social relationship. It is distinguishable from other varieties of power by the fact that its source is the private control of capital.

The definition of economic power as a social rela-

tionship involving the private ownership of capital does not simply imply that people do things because the steel corporations pay them to. The important fact is that people must make their living in an economy where capital is privately controlled by a small number of individuals. This indicates that economic power is something the steel corporations already have, not something they seek with their capital. It is the instrumental use of capital to shape governmental policy that gives the corporations primacy in gaining political power.

Political power involves the effort to develop and employ organized social power to shape governmental policy. The criteria for political power include status and legitimacy; campaign contributions; formal and informal lobbying; service in government, policymaking and advisory; and the use of technology. This definition indicates that political power has many sources. The point to be made, however, is that the various interests competing to realize their particular political goals do not meet on an equal basis. It is in this sense that the primacy of the steel corporations is best understood.

As the definitions suggest, there is no "pure" political activity and no "pure" economic power. The fact that the steel companies seek political power to further their economic objectives indicates that economics may be a tool of politics as much as politics may be an instrument of economics.

There are a number of methodological questions confronting the current study of steel imports. The most obvious problem is the legitimacy of drawing conclusions from the particulars of the case investigated to more general principles of universal applicability. Such conclusions must be approached with caution.

The fact that it is difficult to make generalizations based on the conclusions of a case study does not mean that the case study approach has no applicability. The major virtue of the case study method is its ability to disprove an existing theory. A fundamental tenet of pluralist theory is the assumption that power relationships are in flux. Essential to this denial of a political power structure is the premise that no single resource provides the basis for political control. Hence the pluralist argument contends that a numerically small interest possessing substantial economic resources may be checked politically by a large group of paupers possessing the vote. Polsby enunciates this position when he declares, "...there are a great many different kinds of resources which can be put to use in the process of community decision making."¹⁴

Among the political resources enumerated by Polsby are money and credit, control over jobs, control over information, social standing, knowledge and expertness, popularity, esteem, charisma, legality, ethnic solidarity, time and personal energy, and finally, the right to vote.¹⁵ From

¹⁴Nelson Polsby, Community Power and Political Theory, (New Haven: Yale University Press, 1967) p. 119.

¹⁵Ibid., pp. 119-120.

this Polsby concludes,"...resources can be employed with greater or less skill...a corporation may be worth millions, but its policies and liquidity position may be such that it cannot possibly bring these millions into play to influence the outcome of a community position - even one in which the corporation is vitally interested."¹⁶

Such tenets of the pluralist argument are contested by the present study. Our hypothesis postulates that political power lies mainly with those interests possessing economic power. Analysis of the steel import issue suggests that to a great extent resources are not dispersed but cumulative. Corporate possession of economic power includes many of the resources which Polsby views as being dispersed, e.g., control over information, jobs, knowledge, money and credit. Second, the study also suggests that power relationships exist over time. To the extent that the current work is able to verify this thesis, it serves as a refutation of the most rudimentary aspects of pluralist thought.

The basic problem, however, lies in demonstrating the validity of the contention that possession of economic power is the crucial factor in attaining political control. Indeed, a pluralist response to this position would contend that there is nothing surprising about the fact that the

¹⁶Polsby, p. 120.

steel corporations are able to protect their interests with regard to the import question. To the pluralist the jump from the particulars of the steel case to the general premise that power in society lies with those who control the means of production does not follow. As a matter of fact, the pluralist contends, the steel corporations are doing nothing more than welfare mothers, unions, or any other effective group. This raises questions concerning the differences in the structure and methods of research between the pluralist and the present study. The pluralist contention that power is in flux is predetermined by the method of approaching the problem. In attempting to be scientific and value-free, the pluralist researcher studies the overt behavior of groups in the political arena. Political reality is determined by the observable activities of groups and therefore an identity is established between group activity and interest. The critical dimension of manipulation is thus a priori ruled out and the contention that conflict takes place within a predefined framework of alternatives is dismissed.¹⁷ The fact that welfare mothers, etc., can organize and win demands ignores the possibility that conflict and demands can take

¹⁷ Bachrach and Baratz explicitly deal with this question, but ultimately their argument fails to the critique that if power is effectively utilized, opposition may never arise and therefore there is no way to empirically investigate the non-decisions as an exercise in power. Peter Bachrach and Morton Baratz, Power and Poverty, (N.Y.: Oxford University Press, 1970), esp. Part I.

place within a given range of alternatives. The real question must focus on those interests which define the alternatives.

The research of the present work is structured differently. The notion that any set of property relations provides material advantages for the owners suggests that power cannot be understood solely in individualistic terms of A participating in decisions affecting B. The concept of power used here is much broader than the operationalized notion of the behaviorists. In the current investigation, power "has to do with whatever decisions men make about the events which make up the history of their period."¹⁸ Given the notion that power deals with societal direction,* the idea becomes most comprehensible when viewed in terms of social structure. To stop at this point, however, is to assume, as the pluralists are quick to point out, that we are confusing potential power for its actual exercise. Once again, Polsby lucidly expresses this viewpoint in the following:

If a man's major life work is banking, the pluralist presumes he will spend his time at the bank, and not in manipulating

¹⁸ Mills, The Sociological Imagination, p. 40.

*Implicit in this idea of power is the notion that the concept is historical and abstract. To reify the idea as the behaviorists do is to lose sight of the critical dimensions implicit in Mills' notion.

community decisions. This presumption holds until the banker's activities and participation indicate otherwise.

19

In order to avoid this critique, it is necessary to examine concrete instances of the conversion of steel's economic power into political power. But, in so doing, the prior question concerning the source of the economic advantages cannot be ignored.

The argument of the current investigation shall be presented inductively. The first section of the work analyzes the growth of steel imports into the United States and the economic power and practices of the industry, including possible alternative policies to import restrictions. The second part focuses upon the means by which the steel corporations' economic power allows them to set the boundaries of governmental policy concerning imported steel. This analysis proceeds by studying steel's use of each of the criteria of the notion of political power, i.e., technology; campaign contributions; lobbying; governmental service; status and legitimacy. Interpretation of the data and its consequences are discussed in the concluding chapter.

¹⁹ Polsby, "How to Study Community Power: The Pluralist Alternative," Journal of Politics, XXII, (Aug., 1960), p. 480.

III

The question of the relationship between economic and political power has been debated throughout American history. The purpose of the present work is to gain more precise knowledge about this relationship. To argue that there is a connection between the two is not to say very much. Most scholars concede that in America economic power is somehow related to political control, but real differences emerge concerning the nature and extent of the relationship. This study is distinguishable from much of the previous American literature in that it perceives the primacy of economic power in the political process and raises fundamental questions concerning the possibility of popular control of government amidst great material inequalities. But the notion that government should be responsive to the popular will has not always been viewed as synonymous with the ideas of popular democracy and people's control. Indeed, some very influential literature on this subject starts from the premise that to varying degrees political power should be removed from the citizenry. The Founding Fathers, for instance, generally accepted and followed principles best enunciated in John Jay's terse maxim: "The people who own the country ought to govern²⁰ it." To the Fathers this

²⁰Quoted in Richard Hofstadter, The American Political Tradition, (N.Y.: Random House, 1948) pp. 15-16.

axiomatic statement guided their political thought and justified the use of the state to protect and develop their propertied interests.²¹ James Madison, in arguing for ratification of the Constitution, contended that the new national government would provide protection against mass movements threatening private property. According to Madison, the political institutions of the new government would obstruct the development of such factious issues as "(a)rage for paper money...an abolition of debts ...an equal division of property, or any other improper or wicked project."²² Alexander Hamilton went even further than Madison. To Hamilton, the function of government is not only to protect private property, but to enhance its development. Thus we find Hamilton calling for a strong national government to assist the development of nascent American industry and commerce.²³

The Fathers' broad consensus concerning the acceptance of property, both commercial and agrarian, was part and

²¹ Charles Beard, for example, views the creation of a strong national government as an instrument allowing the large propertied interests to consolidate their holdings. Under the Articles, agrarian controlled state governments posed a threat to creditors through the passing of cheap currency bills and stay laws. According to Beard, the creation of a national government was obviously favorable to the interests of large creditors. Charles Beard, An Economic Interpretation of the Constitution, (N.Y.: MacMillan, 1935). For further discussion see also Hofstadter, pp. 3-17. For a critique on Beard see Robert Brown, Charles Beard and the Constitution, (Princeton: Princeton University Press, 1956).

²² James Madison, "Federalist #10," Hamilton, Jay, Madison, The Federalist, (N.Y.: Modern Library, n.d.), p. 62.

²³ Alexander Hamilton, "Report on Manufactures, 1791," W. Letwin, ed., A Documentary History of American Economic Policy Since 1789, (Chicago: Aldine, 1961).

parcel of the liberalism that was to provide the necessary ideological framework for the development of a nascent capitalist order. The nineteenth century witnessed the ascendancy of Hamilton's notion of government actively promoting propertied interests. The law of contract, liability, and vested rights doctrine all encouraged the growth of American enterprise. During the latter part of the century the national government further enhanced development by encouraging capital imports and building lighthouses to encourage trade.²⁴ Growing alongside and buttressing primitive American capitalism there appeared theoretical arguments justifying the emerging new social and political arrangements. The dominant ideology of the new capitalism was based upon what some have called the "mythological construct of the competitive order."²⁵ Francis Wayland's, Elements of Political Economy, and Harriet Martineau's, Illustrations, presented the nineteenth century case for laissez-faire.²⁶ This statement of the competitive position is based upon the premise of classical eighteenth century political economy that the ends of a given society are achieved through its economic system. To the extent that decisions are reduced in the economic sphere and individuals are unable to pursue their choices in the

²⁴ James W. Hurst, Law and the Conditions of Freedom, (Milwaukee, Wisc.: University of Wisconsin Press, 1956) p. 34.

²⁵ Robert G. McCloskey, American Conservatism in the Age of Enterprise, 1865-1910, (N.Y.: Harper, 1964) p. 25.

²⁶ Ibid.

market, the loss of such choices constituted a diminution in human liberty. The free market is characterized by a competitive order of small actors of approximate economic equality. As numerous small producers control production, the activities of a single participant cannot exert direct influence on the actions of others. As a result, the law of supply and demand shapes the practices of the many firms involved. This provides the means by which the greatest range of individual choice is made. Any government interference with the market constitutes restrictions upon the realm of human will thereby infringing upon human freedom. Through this reasoning the justification for competitive capitalism is ultimately based upon its close nexus with individual liberty.²⁷ The idea of freedom became associated with one historical rationalization for American capitalism. The troublesome historical fact that government did not practice laissez-faire but often pursued policies supporting the capitalist order did not prevent the cry for competition from subordinating the role of public bodies to the self-regulating mechanisms of the so-called free market.²⁸

Even today many contemporary critics of the mature twentieth century corporation bemoan the "decline" of the market and call for the restoration of market structures.

²⁷For the classical statement of this position see, Adam Smith, The Wealth of Nations, (N.Y.: Random House, 1937).

²⁸For a discussion of the role of government and law in enhancing American capitalism, see Hurst, Law and the Conditions of Freedom.

To this school, the giant corporation is not associated with efficiency and progress. Walter Adams, John Blair, Milton Friedman, Fredrich Hayek and Estes Kefauver²⁹ are among those who reject any alleged necessity for bigness and argue that "(t)he disciplining force of competition is superior to industrial planning - by the private or public monopolist, the benevolent or authoritarian bureaucrat."³⁰ The contemporary version of the competitive model contends that the decline of the free market has led to many corporate abuses and suggests that government should pursue policies which promote market structures compelling corporate conduct in the public interest. To the advocates of this position, the function of government is to plan for competition, and thus a major role is ascribed to anti-trust and other related programs.³¹

The attitude of the competitive position toward power is the basis of its weaknesses. The free market argument starts from the assumption that power is an evil thing which should be treated negatively. Free market structures resolve the problem of power by dispersing economic power and

²⁹ Some of the relevant works are: Fredrich Hayek, The Road to Serfdom, (Chicago: University of Chicago Press, 1944); Kefauver, In A Few Hands; John Blair, Economic Concentration, (N.Y.: Harcourt, Brace, Jovanovich, 1972); Milton Friedman, Capitalism and Freedom, (Chicago: University of Chicago Press, 1962); Walter Adams, The Structure of American Industry, (N.Y.: MacMillan, 1950).

³⁰ Statement of Walter Adams before U.S. Senate, Subcommittee of the Select Senate Committee on Small Business, 90th Congress, 1st session.

³¹ For a cogent presentation of this argument, see Hayek, The Road to Serfdom.

ascribing a negative role to government, i.e., government makes sure market conditions are maintained. The premise that power is something evil and must therefore be dissolved overlooks the possibility that the structure of economic and political power in the United States is such that dissolution of economic power through the restoration of market structures is not possible. The present work examines the possibility that economic power is the crucial factor in attaining political control. To the extent that this is an accurate description of reality we may conclude that political power is not likely to be used to dissolve its economic basis. The failure of anti-trust legislation is comprehensible in this light.

The competitive model, however, first began to lose its force as American capitalism matured. After the Civil War industry in the United States began to take new forms. The small private enterprise of Adam Smith's paradigm was being replaced by a new entity: the trust. With the emergence of the corporation and the concomitant decline of entrepreneurial competitiveness in heavy industry, the old rhetoric of competition was no longer suitable. It too had to make adjustments. The succeeding ideology was messianic in form and scientific in substance. Social Darwinism, based upon Darwin's notion of the "survival of the fittest," defined fitness in terms of material success because nature was incapable of recognizing any other standard. The apostles

of the new faith were those who had proved their natural superiority by their economic success.³² Andrew Carnegie, for instance, who later was to be eulogized as St. Andrew,³³ introduced the idea of the corporation as a trust and, in so doing, integrated a justification for economic concentration with the Social Darwinism of Herbert Spencer.³⁴ To Carnegie the law of competition was best for the race because it insured the survival of the fittest in all areas. Therefore the concentration of business, commercial and industrial, is beneficial for society as a whole. It is beneficial because it puts wealth in the hands of the "able few" who then use it to elevate the race through spending for the public good, i.e., libraries, schools, hospitals, etc. Carnegie writes; "...the millionaire will be but a trustee for the poor, entrusted for a season with a great part of the increased wealth of the community, but administering it for the community far better than it could have or would have done for itself."³⁵

The new Gospel of Wealth questioned the pessimism of economists such as Thomas Malthus.³⁶ Poverty was no longer seen as a dismal necessity as formerly argued, but was now thought to be a disguised blessing which helped society progress by allowing wealth to accumulate in the capable and benevolent hands of the new corporate chieftains. Of equal importance is the fact that the new ideology shift-

³² McCloskey, p. 25.

³³ Ibid.

³⁴ For a discussion of the influence of Spencer on Carnegie, see Richard Hofstadter, Social Darwinism in American Thought, (Boston: Beacon Press, 1955) esp. pp. 31-50.

ed the emphasis on the debate over the problems of economic and political power. Previously most arguments assumed that power was best controlled by its dissolution. With the disappearance of market structures as restraint upon the exercise of power, the new gospel focused upon the ends for which power was exercised. Large amounts of economic power were now justifiable providing it was properly used. The possession of private power was now morally acceptable while no such moral doctrine justified the expansion of public power. The free market assumption against the use of state power remained which it was abandoned as a condition and limit on economic power.

As the nascent corporation developed and played out its role, the gospel of Sumner, Spencer and Carnegie became less palatable. On the one hand, the emerging economic leviathans unabashedly turned to government for direct subsidies and assistance in the forms of tariffs, loans, land grants, and massive giveaways of natural resources.³⁷ Yet, on the other, the new corporations pursued policies best expressed in Cornelius Vanderbilt's dictum of "The public be damned!"³⁸ The many flagrant corporate abuses of the late nineteenth and twentieth centuries were revealed in the exposés

³⁵ Andrew Carnegie, The Gospel of Wealth and Other Timely Essays, Edward Kirkland, ed., (Cambridge: Harvard University Press, 1962) p. 28.

³⁶ See Thomas Malthus, An Essay on the Principle of Population, A. Few, ed., (Baltimore: Penguin, 1970).

³⁷ Hurst, Law and the Conditions of Freedom.

³⁸ Vanderbilt's reply to a reporter, circa 1883, quoted in Gardiner C. Means, Pricing Power and the Public Interest, (N.Y.: Harper & Bros., 1962) p. 264.

of other writers whom Theodore Roosevelt dubbed, "Muckrakers." Lincoln Steffens, for example, writing for McClures, exposed a wide trail of political corruption between business and governments throughout the United States. David Graham Phillips described the close connection between lawmakers and industrialists in his work, The Treason of the Senate; and Ida Tarbell's, History of the Standard Oil Company, revealed the dubious practices by which that company gained its dominance in the refining business.³⁹

The "Muckraker" moralistic attacks on the corporations are best understood as attempts to galvanize the citizenry to wrest power away from political bosses and remedy the evils of industrialization. The critiques of the Muckrakers, however, were limited in a number of ways. Much of the journalistic literature was concerned primarily with exposure while systematic analysis of the structural basis of corruption was often neglected.⁴⁰ Many of the muckraking revelations were also based on the liberal fear of power that characterized the progressive tradition. Indeed, although a number of muckrakers regarded the institutions of capitalism as the cause of their contemporary problems, they exhibited a general tendency to base their attacks on the notion that the concentration of power had changed the nature of capitalist institutions thereby render-

³⁹ Samuel Hays, Response to Industrialism, (Chicago: University of Chicago Press, 1957) pp. 71-93.

⁴⁰ One of the several outstanding exceptions to this practice is the work of Lincoln Steffens. For a discussion see, Justin Kaplan, Lincoln Steffens, (N.Y.: Simon & Schuster, 1974) pp. 123-143.

ing them less capitalistic. Their critiques were not aimed at capitalism per se, but rather at the concentration of power of capitalist institutions and no systematic attempts were made to develop connections between the two.

The attack on the corporation has not died with the "Muckrakers." Many critiques of the contemporary corporation are rooted in the progressive tradition and some tend to avoid the pitfalls of the muckraking literature. Robert Engler, for example, examines the irresponsible policies pursued by the oil companies and the systematic means by which the oil industry gains political control.⁴¹ Engler's policy recommendations are not grounded upon the problem of corruption, but on the perceived systematic relationship between the economic power of the oil corporations and the industry's ability to infiltrate American political institutions. His policy proposals call for the use of government power to ~~control the~~ ^{control the} ~~corporation~~ on the assumption that strong public authorities can get at the economic core of the problem. As the author himself recognizes, however, questions remain as to the possibilities of increasing public power in light of the great ability of the oil industry to gain political control.

Robert Heilbroner's recent appraisal of American capitalism is also rooted in the progressive tradition. Heilbroner rejects the possibility of immediate and effective

⁴¹ Robert Engler, The Politics of Oil. (Chicago: University of Chicago Press, 1967).

governmental control and contends that the present power of capitalism renders it "impossible to redirect the main flow of economic effort away from the pull of market considerations to areas established by public policy considerations."⁴² This does not mean, however, that the power of the free enterprise system is monolithic. The growth of new elites, administrators, military men, and scientists is beginning to challenge the capitalist order. In Heilbroner's view, science and technology, the forces responsible for the success of capitalism, are operating in a direction antithetical to this order. By providing for the eventual obliteration of wage-poverty and scarcity, along with the tendency to create problems that a capitalist society cannot cope with - problems requiring greater centralized direction - science and technology will eventually destroy the institutions and control of the business community.

Heilbroner's analysis focuses upon the structures of the American economic system and concedes that economic power is still of primary importance in attaining political control. But ten years after the publication of The Limits of American Capitalism, there is much evidence suggesting that the importance of the new scientific elite is overstated. A new merger movement of the late 1960's has been the greatest movement of its type in American history. Higher levels of

⁴² Robert Heilbroner, The Limits of American Capitalism, (N.Y.: Harper and Row, 1965) p. 67.

economic concentration have been accompanied by reductions in spending on research and development. A narrow focus on the American steel industry uncovers evidence supporting these trends. Investigation of "Big Steel" reveals other data contradictory to Heilbroner's position. The technology of steel-making, for instance, does produce high levels of air pollution calling for public controls. But rather than introducing new and cleaner processes of steelmaking, the steel companies have closed some plants. The shutting down of steel mills has aggravated already high levels of unemployment and, as will be discussed below, government intervention in environmental matters has been less than rigorous.

Despite the tenacity of the progressive muckraking tradition, much recent literature has celebrated the transformation of the old institutions. Indeed, as the corporations became national entities during the first half of the twentieth century, Carnegie's notion of the trust was updated and used by the scholars who applauded the ability of political and corporate institutions to accommodate each other. These optimistic studies served to justify the new economic leviathans by arguing that the changing nature of corporate power need not be incongruent with policies of social responsibility. Adolf A. Berle, Jr. best represents this position. Berle contends that modern technology makes large-scale corporate institutions necessary. Moreover, the resultant large size of the corporation creates many junctures where govern-

ment and corporate power merge. The merging of government and the corporations render it increasingly difficult to distinguish between public and private power. This concentration of economic power, combined with the separation of management and ownership, has led to the decline of the market as a check on corporate power. The market, then, no longer serves to ensure that the public interest* will be followed. Yet, while the free market no longer regulates corporate power, it is Berle's contention that the concentration of economic power need not be accompanied by the bullying and other feckless acts characteristic of the corporation. For the mature institution has a social conscience, which combined with the pressures of public opinion and threat of government action, prevents extensive violations of its social responsibilities. To Berle it is public opinion which determines the substance of corporate responsibility. Government, which is responsive to public opinion, is to rectify any social abuses on the part of the corporation. The opinion itself stems from all groups, including the corporate interests, in society.

*For a discussion of the idea of public interest, see Grant McConnell, Private Power and American Democracy, (N.Y.: Random House, 1966), Pt. II; A.A. Berle, Jr., The 20th Century Capitalist Revolution, (N.Y.: Harcourt, Brace, World, 1954); Gardiner C. Means, Pricing Power and the Public Interest. For a critique of the idea from a pluralist perspective see Frank J. Sorauf, "The Public Interest Reconsidered," Journal of Politics, XXI, (Nov., 1957), pp. 616-39. C. Wright Mills criticizes such contemporary notions of the "Public." To Mills, "...the public consists of those remnants of the middle classes, old and new, whose interests are not explicitly defined, organized, and clamorous." The Power Elite, (N.Y.: Oxford University Press, 1956) pp. 305-6.

Some interests, however, such as responsible journalists, university professors, and respected politicians are a greater force in shaping opinion to ensure corporate responsibility. Berle's faith in the harmonious relationship between political and corporate institutions is revealed in the following statement: "So, it seems, the corporations have a conscience, or else accept direction from the conscience of the government. This conscience must be built into institutions so it can be invoked as a right by the individuals and interests subject to corporate power."⁴³ Government, however, plays a secondary role in fostering corporate responsibility. The conscience is institutionalized in government but developed and expanded by an enlightened management which is conscious of the liabilities of great unpopularity. This point is made in Berle's analogy between the powers of a prince and those of corporate management.

Even a prince who might be skeptical about damnation to hell could understand very well the practical and political dangers of being hated by any considerable section of the people, not to mention the possibility of his being deposed if an appreciable part of his civil and military organization went looking for a new leader. 44

Although other scholars would concur with Berle on the demise of the free market, important differences begin to emerge concerning alternative modes of controlling cor-

⁴³ Berle, pp. 114-115.

⁴⁴ Ibid., pp. 59-60.

porate power. Gardiner C. Means, for example, agrees with Berle at several junctures. He accepts both the technological imperative of bigness, as well as the separation of ownership and management. Means concurs further in rejecting these proposed solutions which also were not acceptable to Berle. He argues that it is impractical to break up large enterprises so that the forces of classical competition can control the profit drive in the public interest and also rejects governmental regulation as a workable method of regulating the power of management. Means parts company with Berle on the notion of corporate conscience. This solution, he contends, places too great a reliance on the public spirit of management and runs "counter to both the teachings of history and our knowledge of human nature."⁴⁵ Thus, he proposes a fourth alternative called the logic of collective enterprise. This logic would reject the principle of trusteeship and would not regard management as a trustee for either the stockholders or the public. Instead, it would function on the dual principles that management should run a collective enterprise in its own interest and that conditions can be established so that when management operates a collective enterprise, the public interest will be served also. This objective can be met by shifting from profits to "economic performance" as the fundamental criterion in the operation of the huge collective enterprises:

⁴⁵ Means, p. 277.

Such a shift would replace the drive for corporate profits with a drive for economic performance including adequate profits as the basis of management incentives. It would reward management in terms of performance closely related to the public interest. It would make economic performance the measure of success in doing the management job well and the basis for achieving prestige. It would give a basis for legitimate power. 46

The notion of the corporate conscience has provided justification for the growth of corporate power from parochial to national institutions. Since the mid-nineteen fifties, however, a new structural trend has appeared which distinguishes the contemporary stage of American capitalism from its predecessors. Today the American corporate is no longer merely national, but functions on a global level, controlling through wholly-owned subsidiaries or partial ownership numerous foreign production facilities. Twenty to fifty years ago, most firms operated within their national boundaries. They sold goods to foreigners, but in finished form; the products themselves were manufactured at home and traded. Today, however, many large corporations produce goods in many different countries and transport them to buyers from foreign factories and distribution centers.*

Concomitant with the new stage of corporate develop-

⁴⁶ Means, p. 295.

* Department of Commerce figures indicate that U.S. direct investment abroad increased from about 11.8 billion in 1950 to approximately 59.3 billion by 1967. R. Barber, The American Corporation, (N.Y.: Dutton, 1971) p. 255. By 1973 American foreign investment rose to 107.268 billion. Survey of Current Business, Part II, (Aug., 1974) p. 16.

ment is a further extension of the ideology of the trust. A distinguishing feature of these contemporary giants is their dependence upon wide-ranging public relations activities. The "public-be-damned" rhetoric of Vanderbilt' is seen as an anachronism when contrasted with the public relations activities of our present day corporations. Indeed, a more recent policy of corporate public relations is to obscure any public-be-damned activities with the smooth and silky rhetoric of corporate social responsibility. The late W.B. Boyer, a leading official of the Republic Steel Corporation, was in the mainstream of corporate "educational" activities when delivering such speeches as "Steel's Social Responsibilities."⁴⁷ The campaign to shift the emphasis from profits to corporate benevolence and technological achievement reaches its extreme form in the 1970 Annual Report of the United States Steel Corporation. Clearly emblazoned upon the cover is the theme, "We're Involved." The major part of the folder discusses U.S. Steel's involvement with job training programs, environmental controls, chemical research, and raw materials exploitation. If it were not for a relatively brief reminder, one might be tempted to overlook the fact that the purpose of U.S. Steel is still profit.⁴⁸

It goes without saying that the recent public relations emphasis on corporate responsibility is not a new

⁴⁷W.B. Boyer, "Steel's Social Responsibilities," Speech, Republic Steel Corp., (Feb., 1970).

⁴⁸U.S. Steel, Annual Report, 1970.

phenomenon. The "newness" stems not from the notion of responsibility but rather from the great stress on the role of the corporation in developing new technology to further "service" mankind. This public relations emphasis on technology has been supported by scholarly writings applauding the nature of a new capitalism. Such literature contends that the growing importance of theoretical knowledge has created a new class of scientists and technocrats which is now challenging the old prerogatives of the property-owning capitalists. According to this position the rise of the new technocrats is accompanied by a de-emphasis of the productive element of the Gross National Product. The decline of the proportion of the G.N.P. held by productivity leads to the observation that the service industries are becoming increasingly important. The rise of the service sector is viewed as evidence of the ability of contemporary capitalism to deliver the goods. From this it is often concluded that ours is the best of all possible worlds, and therefore, it follows that ideological questions are moot. Debate is said to take place within a framework of political and economic consensus. Questions of technique are crucial, and, we are told, the social relations of capitalism have been accepted by all.

The most recent works of Daniel Bell and John Kenneth Galbraith provide sterling examples of this trend. In The Coming of the Post Industrial Society, for instance, Bell

brings together many of the arguments which have been used to defend the American corporation over the past 100 years. He contends that economic concentration is essential for technological progress. Moreover, in a "post-industrial" society the separation of management and ownership further weakens property as a source of power. Property is becoming subordinate to political position, and, most importantly, theoretical knowledge. Indeed, it is theoretical knowledge around which "new technology, economic growth, and the stratification of society will be organized."⁴⁹ While the corporation is viewed as the predominant power in society, it is subordinate to the community at large. Today's problems, therefore, are focused on bureaucratic efficiency rather than ideological concerns. They cannot be traced to the capitalist mode of production, for capitalism and socialism, argues Bell, are "not contradictory systems but, form the imperatives of functional rationality, two variants of the same social type, bureaucracy."⁵⁰ Problems are rooted in a perceived dysfunction between culture and social structure, solutions to which are ultimately matters of technique and efficiency. For instance, it is the author's contention that problems emerge from the diversity between private and social costs, e.g., when a factory owner has no incentives to consider the cost of his pollution to others because these costs are not charged to him, his factory's output will be above the level that is socially optimal. Yet, Bell continues,

⁴⁹ Bell, p. 40.

⁵⁰ Ibid., p. 41.

the corporation works as a means to attain whatever goals are determined by society. The crucial question then is not the responsibility of the individual corporation, as Berle had suggested, but the rightness of the broader pattern of social organization and of the goals of society.⁵¹ But as social goods (e.g., clean air) are not sold to individual consumers, the nature and amounts of these goods must be determined by a single decision and not by the workings of the free market. The role ascribed to public policy by Bell is not unlike the position taken by Gardiner Means. While Means would have government provide positive incentives for corporate pursuance of the "public interest," Bell suggests that public policy provide tax penalties "to force corporations to bear the burdens of social costs generated by the firm, or to favor an alternative technology or supporting system so the social costs can be minimized."⁵²

Bell contends that government participation in corporate policy is unavoidable, yet ultimately he relies on a notion of trusteeship, thus ascribing a minimal role to government. According to this position, the activities of the modern corporation suggest that the value structure of society is shifting from an emphasis on economic growth to a concern for the public good. Bell sees the corporation as playing a significant role in the changing value structure of society and concludes that it no longer pays to view the corporations as a mirror for the changing values of society at large. This

⁵¹ Bell, p. 274.

⁵² Ibid., p. 286.

sophisticated version of the trusteeship position avoids the harsh fact that the multi-national corporation often has conflicting national loyalties. Bell writes:

To the extent that the traditional sources of social support...have crumbled in society, new kinds of organizations, particularly the corporation, have taken their place; and these inevitably become the arenas in which the demands for security, justice, and esteem are made. 53

Bell's cheerful analysis of the contemporary corporation is vulnerable at many points. First, he speaks of the subordination of the corporation without specifying to whom or to what the corporation is subordinate. If it is to society, as Bell seems to suggest, he overlooks the possibility that society's alternatives are shaped by patterns of power, or that the scope of operations of the corporation is beyond the regulatory power of "sovereign" states.⁵⁴ Ultimately, the credibility of Bell's argument rests upon the perceived ascendancy of the new technological class, but there are a number of problems questioning the rise of the new technocrats. Bell himself notes that the new scientific elites "are not bound by a sufficient common interest to make them a political class."⁵⁵ Yet somehow he contends that the new class has become central to the technical decisions of contemporary society. His analysis of the role of scientists in the development of the atomic bomb, however, indicates that military men and politicians, not scientists, made the key decisions.

⁵³ Ibid., p. 289.

⁵⁴ For elaboration on this point, see T. Tilton, "The Next Stage of History?" Sociological Research, XL, No. 4, (Winter, 1973), pp. 728-745.

⁵⁵ Bell, p. 362.

Moreover, if political power is unsettled and still "up for grabs," as Bell states, and if scientists are obviously less powerful than Bell contends, then serious questions must be raised concerning the significance of the so-called new class.

On a factual level the work is equally dubious. One important characteristic of "post-industrial" society, according to Bell, is the rising proportion the service sector takes of the G.N.P. The decline of productive activities is used as evidence of the changing nature of American capitalism. This contention, however, totally ignores the fact that American corporations are pursuing their productive activities outside the boundaries of the United States so as to exploit cheaper sources of labor and gain important tax advantages. To the extent that the multinational corporation is economically successful, it follows that the argument of The Coming of the Post-Industrial Society fails. For the amount of profit earned by American corporations overseas and returned to this country increases the total wealth of the United States and allows, in fact, encourages more people to participate in the unproductive service section of the economy while simultaneously ignoring the contribution the foreign worker now makes to the American G.N.P.

During the period between 1950 and 1963, for example,

American corporations increased their direct foreign assets by some \$28.8 billion to raise the aggregate value of direct assets to 40.6 billion dollars. During this period direct investment income flowing back into the United States was greater than \$29 billion.⁵⁶ The effect of all this is to have a measured G.N.P. which overstates the role played by the service sector. Analysis of the structure of the American steel industry supports this position. As will be discussed in detail below, in recent years the industry's largest producers have been investing large sums of capital overseas. The investment of capital overseas has been accompanied by absolute declines in the amount of capital invested in the U.S.*

Bell's justification of the American corporation is by no means unique. Galbraith's most recent work, Economics and the Public Purpose,⁵⁷ in spite of a call for socialism, also ultimately serves as a modern apology for contemporary capitalism. Professor Galbraith's latest book is some way from the russey hue of his American Capitalism⁵⁸ and the more

⁵⁶For a discussion of such problems, see Paul Sweezy, Harry Magdoff, eds. The Dynamics of U.S. Capitalism, (N.Y.: Monthly Review Press, 1972). Also, Survey of Current Business Dept. of Commerce, (Nov., 1954-).

*The American steel industry has been relatively slow to follow this trend. In recent years, however, especially since the rising threat of imports, the major producers have attempted to make up for lost time and are buying controlling interests in foreign productive facilities. During August of 1975, for instance, it was announced that U.S.S. had purchased a 100% interest in a German steel firm whose steel previously had been imported into the U.S. This tendency will be discussed in detail in Chapter 3 below. N.Y. Times, (Aug., 1975).

⁵⁷J.K. Galbraith, Economics and the Public Purpose, (Boston: Houghton, Mifflin, 1973).

⁵⁸Galbraith, American Capitalism, (Boston: Houghton, Mifflin, 1952).

pessimistic, The New Industrial State.⁵⁹ Briefly, Galbraith concurs with Bell in perceiving the rise of a new class whose source of power is knowledge. Unlike Bell, however, he contends that these new technocrats, who control the all important industrial sector, have gained political power. The ability to manipulate the consumer and to control both the prices of goods and the political apparatus of the state allow the new technocrats to attain their dual objectives of security and freedom from outside interference. As the new technostucture represents only its own immediate interests, it often rubs against the public interest. Yet, according to Prof. Galbraith, there is hope. For the new class derives its power from its ability to convince the populace that its goals are identical with the public purpose. Therefore control of the new technostucture could be broken if the public could see through this ideological veneer. Once the public recognizes the fact that they are being manipulated, the state could be freed from technocratic control and made responsive to the public interest, i.e., the creation of economic parity between the so-called industrial and market sectors of the economy.

Galbraith's reforms provide a rationale for monopoly and the new corporation. His notion of socialism is restricted to the nationalization of the "large, specialized weapons firms" and the numerous smaller firms who more or less are the pawns of their big brothers in the oligopolistic sector.

⁵⁹ Galbraith, The New Industrial State, (Boston: Houghton, Mifflin, 1967).

Socialism as defined in this case is tantamount to governmental assistance to struggling firms. Everything else would remain the same in the economic realm but all groups now would be encouraged and assisted to organize and pursue their economic interests. Thus, it seems we have returned to a kind of state-supported monopoly such as experienced under Franklin Roosevelt's National Recovery Administration.⁶⁰

Whatever the intention of Bell and Galbraith, their recent writings might best be understood as the culmination of ideological justifications for contemporary American capitalism. Yet, the notion that ideological questions have been replaced by technological problems is part of a more general tradition which ultimately serves to justify the American political system. The concept of functional rationality - the notion underlying Galbraith's and Bell's view of American capitalism - has its roots in the progressive tradition of the late nineteenth century. Underlying the concept of functional rationality is Benthamite utilitarianism which divorces means from ends. The critique of functional rationality, therefore, must ultimately focus on those modes of analysis which divorce means and ends. This was the problem of the progressive reforms of civil service, trust-busting, and bipartisan government. Such reforms all provided more efficient means without examining the ends for which they were to be used. The premise that political issues can be redefined in functional terms is expressed

⁶⁰ For further discussion see Paul Sweezy, "Galbraith's Utopia," New York Review of Books, XX, No. 18, (Nov. 15, 1973) p.3-6.

in the writings of many progressive scholars. Indeed, even the work of Thorstein Veblen, a radical critic of American society, might be subject to the problems of functional rationality. Veblen's idea that things would work better if engineers were to replace businessmen represents a genuine de-emphasis of the political and overlooks the fact that functional rationality could be substantively irrational.⁶¹ In other words, the rational apparatus might expropriate the rationality of those individuals who serve the rational institutions. Hence, Marcuse's notion of the irrationality of the rational.⁶²

Yet it is unfair to suggest that the flaw of functional rationality characterizes the entire spectrum of literature dealing with the relationship between economic and political power. The writings of Paul Sweezy, Harry Magdoff, and Paul Baran⁶³ represent the Marxist tradition which rejects the rationality of capitalist institutions. For this group the capitalist relations of production are said to impede human development, i.e., man's struggle against

*The idea of rationality as used here focuses upon the end of an action. The substantive idea of rationality is the value of freedom. If an act or action increases freedom it is rational. By freedom is meant the chance to formulate all the available historical choices, to argue over them and then to choose.

⁶¹Thorstein Veblen, The Theory of the Leisure Class, (N.Y.: Mentor Books, 1953).

⁶²This position is best expressed in the works of Herbert Marcuse, One-Dimensional Man, (Boston: Beacon Press, 1964); and C. Wright Mills, White Collar, (N.Y.: Oxford University Press, 1951).

⁶³Paul Sweezy, The Theory of Capitalist Development,

nature is restricted by the social relations of production. These relations are maintained and protected by the political apparatus - the state. Thus, the possibility of effective control of the corporation is rejected. Government cannot effectively regulate the corporation because political power lies with those who control the means of production. This is not to suggest that government lacks power, but rather that government uses its power to enhance the interests of the propertied class, i. e., the owners of the means of production.⁶⁴ Given this perspective, discussion of corporate control and responsibility is ruled out and real change must come from outside existing political channels in the form of "revolutionary war."⁶⁵

Critics of the Marxist tradition, however, contend that it has not been verified by extensive empirical work. Moreover, the premise that functional rationality might be substantively irrational is rejected by those who view democracy in procedural terms. Once democracy is seen as consisting of certain procedures, emphasis is placed upon those formal political channels allowing for citizen participation, and the vote becomes of primary importance. Questions concerning social obstacles to or shaping of such participation are largely ignored and subordinated to the fact of legal or formal participation. The possibility that the vote itself

(N.Y.: Monthly Review Press, 1942); Harry Magdoff, The Age of Imperialism, (N.Y.: Monthly Review Press, 1966); Paul Baran and Paul Sweezy, Monopoly Capital, (N.Y.: Monthly Review, 1966).

⁶⁴Sweezy, *esp.* pp. 239-253.

⁶⁵Baran and Sweezy, Monopoly Capital, p. 365.

might reflect the application or existence of power is excluded and any clear understanding of the relationship between economic and political power is avoided. Such is the position of Robert MacIver. MacIver, along with many others,⁶⁶ argues (1) that the vote has divorced economic from political power; and (2) that it is the process which allows all opinions to be voiced which is of crucial importance. The results of the process must, therefore, be secondary to the procedure itself. Thus, choice itself, not right choice, is crucial. The possibility that the choices made are the result of power relationships is ignored. One result of the emphasis on procedures is seen in the tendency of much political science literature to study the voting behavior of the American public without raising questions regarding the possible lack of real alternatives being expressed by either of the two major parties.⁶⁷

Hence, the classical discussion of the relationship between political and economic power continues. But the debate seems to have raised more questions than it has resolved. Arguments based upon the notion of corporate responsibility and self-control appear to be overly optimistic. This conclusion is supported by the findings of the present work. Berle, Means, and Bell applaud the ability of the corporate and political system to coexist in peaceful harmony but provide only minimal discussion concerning the terms of

⁶⁶Robert MacIver, The Modern State, (N.Y.: Oxford University Press, 1964).

⁶⁷For a representative example see, Angus Campbell, The Voter Decides, (Evanston, Ill: Row Peterson, 1954).

this coexistence. As will be demonstrated below, the material cost of import restrictions to the public runs into the billions of dollars. Studies calling for the restoration of competitive market structures assume, as do those opting for governmental control of the corporations, that government can be an independent force capable of asserting its power over the economic giants. The assumption of government as an independent force is based on the claim that government, with its monopoly over law, confers private rights. If the hypothesis of this study is verified by the data, this would indicate that the corporate power of steel is not created by legal recognition, but legal recognition is secured through the ability of the steel companies to convert their economic power into political control. Therefore, as Robert Lynd argues, to claim that government is independent because it passes laws "is surely to put the cart before the horse,"⁶⁸

Other questions are raised by those investigations which perceive the present or future role of a technological elite. The claim that technological priorities are primary in motivating corporate policy views contradictory data too lightly. The common practice of cutting production to attain high profits in key industries suggests that economic considerations remain the primary factor in the corporate hierarchy

⁶⁸Robert S. Lynd, "Power in American Society," in A. Kornhauser, ed., Problems of Power in American Democracy, (Indianapolis: Wayne State University Press, 1957).

of value.⁶⁹ Planned scarcity is still a major policy consideration of the large steel producers. This raises questions concerning Galbraith's idea of growth as the primary corporate goal; for according to Professor Galbraith, "(e)xpansion of output means expansion of the technostructure."⁷⁰ Arguments of corporate benevolence and technological priorities are also based upon the separation of management and ownership. The data of the present study, however, question the significance of this separation. The major American steel producers practice linking managerial rewards with corporate profits: the higher the profits the greater the salaries of the managers. But not only is managerial remuneration positively related to corporate profits, but it sometimes takes the form of stock options. As a result, the leading officers of the large steel companies have significant ownership interests in the firms they manage.

The present work is an attempt to shed light on the issues just discussed. The first part of the study focuses upon the structure and economic practices of the steel in-

⁶⁹ General Motors provides a good case in point. G.M. sets a target profit at 20% based on the assumption that its plants will operate only 36 weeks out of 52. See Estes Kefauver, In A Few Hands, p. 93. If profit were not the prime mover, G.M. might produce more automobiles and create a larger demand by selling at lower prices. Thus, profits could still be sufficient to maintain autonomy and at the same time the goal of expansion could be realized.

⁷⁰ Galbraith, The New Industrial State, p. 171.

dustry. The data of the first section reveal, among other things, new forms of concentration and the primacy of the profit motive. In addition, the economic study focuses upon alternatives to restrictions against steel imports and examines the costs of import quotas to the public. As stated earlier, the second section examines the means by which the steel industry is able to use its economic power to shape and influence governmental policy in issue areas perceived to be of great importance. The attainment of political power by steel is the focus of the second part of the work.

CHAPTER II STEEL IMPORTS: HISTORICAL BACKGROUND

American enterprise is international. It is international in at least three respects. First, the American industrial system is based upon the worldwide procurement of great quantities of natural resources.¹ The United States Steel Corporation with mineral holdings throughout North and South America, Africa, Australia and Asia exemplifies this global network of interdependence.² Second, the emergence of the multinational corporation has been accompanied by the investment of American capital throughout the world.³ In many areas

¹ Percentages of foreign dependencies on some of the metals considered crucial by the Dept. of Interior are as follows:

Beryllium	100%	Asbestos	95%	Copper	41%
Chromite	100%	Cobalt	92%	Tungsten	38%
Columbite	100%	Nickel	91%	Iron (ore)	34%
Tin	100%	Aluminum	89%		
Tantalum	99%	Silver	82%		
Manganese	99%	Fluorspar	74%		
Mica (sheet)	"	Cadmium	60%		
Platinum	99%	Zinc	60%		
Rutile	99%	Lead	55%		
Antimony	95	Mercury	50%		

Cited in Richard J. Barnett, Roots of War, (Baltimore: Penguin Books, 1972) pp. 218-219.

² U.S. Steel, Annual Report, pp. 5-9.

³ Magdoff provides a good analysis of problems of determining the size and extent of corporate investment overseas. Magdoff, The Age of Imperialism, esp. chapter 2 .

of production the proliferation of the multinational enterprise renders meaningless the notion of "national industry."* Indeed, the extent of American investment overseas, especially in western Europe, has led one observer to comment:

Fifteen years from now it is quite possible that the world's third greatest industrial power after the United States and Russia will not be Europe, but American industry in Europe. 4

The degree of foreign investment by the American corporation is significant with respect to discussions based upon the concept of corporate responsibility. For when the further question of responsibility to whom is raised, the international activities of the giant economic institutions often reveal the superficiality of corporate patriotism.⁵ Finally, as the real world is one in which a number of nations have relations with each other, national economic problems are likely to

*By American multinational corporation we are referring to those corporations chartered within the U.S. with productive facilities outside our national borders.

⁴S. Schreiber, The American Challenge, (N.Y.: Atheneum, 1968) p. 3.

⁵A good case in point is seen in the activities of two giant oil concerns, I.G. Farben of Germany and Standard Oil of N.J. These two enterprises changed technological secrets which proved to be fruitful to the Nazi war effort until 1940, or after the start of W.W.II. Indeed, until 1940, with I.G. Farben agents in the U.S. engaged in industrial espionage, Standard Oil was still turning over data containing information regarding its work on a method of producing synthetic rubber. See Robert Engler, The Politics of Oil, esp. pp. 105-110.

take form on an international level.⁶ This third aspect of the American economy mirrors the problems of the U.S. steel industry.

The present chapter shall provide a brief historical analysis of the changing role of the United States as a steel producing nation with a special focus on the consequences of such changes as manifested in the contemporary problem of foreign imports. The analysis of the development of the import question sheds light on two important and related tendencies. First, it is indicative of the changing role of America from a dominant industrial leader to a strong participant trying to maintain her position. Indeed, the first half of the twentieth century had been characterized by the great military and industrial superiority of the United States. The awesome industrial power of America played a crucial role in the Allied victories of the first and second world wars. And, while the rest of the world had been badly maimed by the second war, the United States emerged with an increased industrial capacity which was to provide new life for western Europe. Since the end of World War II and the beginning of the Cold War, America's industrial strength has been instrumental in rebuilding the "freeworld," i.e., the capitalist world.

⁶Sweezy, p. 287.

The question of steel imports is in many ways symptomatic of the success of America's role in rebuilding Western Europe and Japan and is indicative of America's changing position within the international capitalist order.⁷ The new mills of western Europe and Japan often have attained technological superiority over the stagnant and moribund American industry. Indeed, the rebuilt Japanese and western European mills began to utilize the basic oxygen furnace as early as 1952, some fourteen years before the leading American producers introduced the oxygen process. The technological superiority of the Japanese and European producers became more pronounced toward the end of the 1960's when greater efficiency was attained through the use of giant new blast furnaces, another innovation which the American industry was slow to adopt.⁸

The failure of American industry to maintain its position of technological superiority has made foreign steel more attractive in the eyes of American consumers. As a result foreign production is geared to the attainment

⁷ Between 1949 and 1966 the U.S. had been directly or indirectly responsible for assistance amounting to \$60.82 million dollars to the steel industries of Belgium, France, Italy, Japan, the Netherlands, the U.K. and W. Germany. An additional 100 million went directly to the European Coal and Steel Community. Steel Imports, pp. 299-301.

⁸ The U.S. industry has often been criticized for resting on its laurels and being overcautious in introducing new technology. The data reveal that the American industry during the 1960's spent only 60 cents for research and development for every 100 dollars of expenditures. Statement of Kurt Urban, Foreign Trade and Tariff Proposals, 1968, pt. 5. Hearings before the Committee on Ways and Means, 90th

of a large American market, while domestic producers seek protectionist policies to provide a respite for the modernization of plants and facilities. As a consequence, the import problem suggests that the domestic steel industry is but a part of a larger interdependent network within the capitalist world. As such, the unresolved problems of the domestic industry, such as concentration and technological sluggishness, are now likely to be revealed on the international level in the form of foreign competitors basing their production on an ever-increasing share of the U.S. market.⁹

Steel has played a primary role in the emergence of the United States as the world's leading industrial power.¹⁰ For the better part of the nineteenth century the United Kingdom ranked as the globe's greatest producer of steel, but the phenomenal growth rate of the nascent American industry soon put Great Britain in a secondary position. Toward the end of the first decade of the twentieth century the United States had attained its position as the world's foremost steel producer, putting out about four times the tonnage of the British empire. By 1910

Congress, 2nd session. The extent of the technological gap between U.S. and foreign producers as well as analysis of possible causes of the American industry's backwardness are discussed in detail in Chapters 3 and 4 below.

⁹For further analysis of America's changing position, see Ernst Mandel, Europe vs. America (N.Y.: Monthly Review Press, 1970).

¹⁰Peter Temin, Iron and Steel in Nineteenth Century America, (Cambridge: M.I.T. Press, 1964).

America's output constituted 44.2% of all steel produced for the year. Upon reaching such heights, the United States' position was to remain virtually unchallenged during the next four decades. In 1920 her proportion of international steel production reached 59%, but gradually dropped off, leveling at 41.6% just prior to the second World War.¹¹

Further analysis of global steel production data at the turn of the century indicates that production was confined mainly to three countries, with the United States in the lead. Data for the period indicate that between 1893 and 1913 steel production in the United States had increased by 715%, Germany by 522%, while production in the United Kingdom grew by only 136%. At this time, these three nations accounted for 77% of the world's steel with America's output being four times that of Great Britain and twice that of Germany's.

The only significant change in ranks between the war occurred as the Soviet Union outpaced the United Kingdom to take the third spot. With the destruction of European steel making facilities during the second world war, United States steel output attained a level of 61% of the world's steel production. Just prior to the war, however, Japan had been the fastest growing steel nation, having increased production from 2.6 million tons in 1930 to 8.2 million by

¹¹ Above data taken from Senate Staff Study, Steel Imports, esp. chapter 1.

1940. In 1947, in the aftermath of the war, Japanese production dropped to 1 million net tons.¹²

The rebuilding of destroyed steel making facilities took a number of years and was most prolonged in Japan and West Germany since the Allies had placed limits on steel output. Yet, after 1946 the emergence of some thirty-six new steel producing countries and the remarkable recovery of western Europe put foreign producers in a position to challenge America's dominance.¹³ For the increase of steel production during the 1950's was so great that by 1955, although U.S. production reached a new absolute high of 117 million tons, this amounted to only 40% of the world's steel. As Table II.1 indicates, between 1950 and 1966 United States growth rates lagged behind the rest of the world. The growth of Western Europe and Japan during this period was most impressive. Production in West Germany reached 27 million tons; the United Kingdom 22.3 million tons; France, 13.9 million tons; Belgium-Luxembourg, 10 million; and Japan some 10.4 million tons.

Table II.1¹⁴ Growth Rates of Raw Steel Production
Selected Periods, 1900-1966 (in percent)

	<u>United States</u>	<u>Rest of World</u>
1900-1918	7.4	4.4
1920-1945	3.2	3.7
1950-1966	1.4	8.3

¹²Ibid. Chapter 2.

¹³Ibid. See esp. pp. 8-9. Steel growth rates for rest of world were about six times that of the U.S.

¹⁴Ibid.

The expansion and diversification of global steel output continually has cut into America's proportion. By 1970 the United States still held rank, but its production had fallen to 20.1% of total world output. The data of Table II.2 indicate that the rise of Japanese steel is most closely related to America's declining position. During the twenty year period between 1950 and 1970, Japanese steel production increased by more than twice that of any other producing region, expanding by a multiple of 20.

Table II.2¹⁵

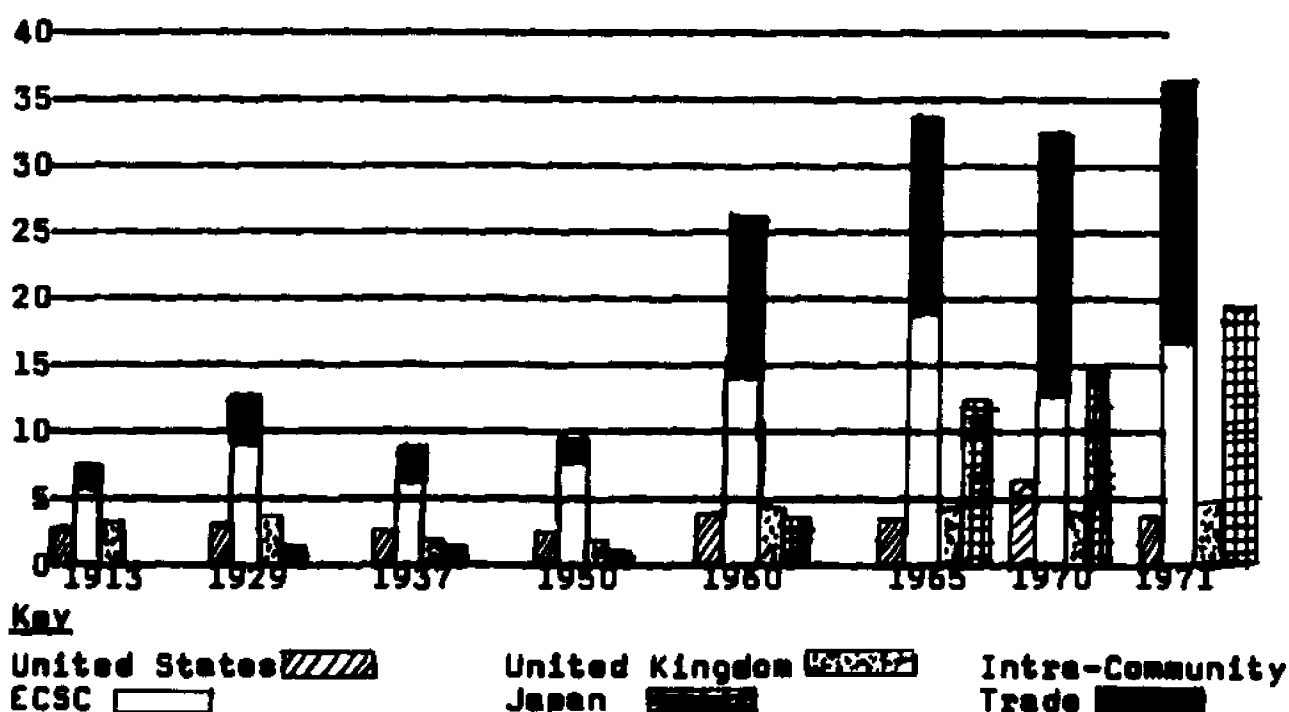
World Raw Steel Production
1950 vs 1970

	1950		1970		Average
	Thousands	% of	Thousands	%	Annual
	of N.T.	Total	of N.T.	%	% Increases
<u>Traditional Producers</u>					
U.S.	96,836	46.7	131,514	20.1	1.5
EEC	34,936	16.9	120,346	18.4	6.4
U.K.	18,240	8.8	30,720	4.7	2.7
Japan	5,332	2.6	102,869	15.7	16.0
Canada	3,384	1.6	12,346	1.9	6.6
Austria/Sweden	2,631	1.3	10,544	1.6	7.2
Total	161,391	77.9	408,339	62.4	4.8
Total, excl.US	64,555	31.2	276,825	42.3	7.6
<u>Red Bloc</u>					
USSR	29,800	14.4	127,739	19.5	7.5
Other E Europe	7,656	3.7	43,814	6.7	9.0
China/N Korea	1,050	.5	21,388	3.3	16.0
Total	38,506	18.6	192,941	29.5	8.3
<u>Countries with Developing Steel Industries</u>					
Other W Europe	1,825	.9	16,391	2.5	11.1
Rep. South Africa	830	.4	5,225	.8	9.5
Other Africa and Middle East	-	-	737	.1	***
Australia	1,596	.8	7,516	1.2	8.1
India	1,610	.8	6,918	1.1	7.6
Other Asia/Far East	-	-	1,609	.2	***
Latin America	1,376	.6	14,508	2.2	12.4
Total	7,237	3.5	52,904	8.1	10.3
Grand Total	207,134	100.0	654,184	100.0	5.9

¹⁵ Statistical Report on Steel Imports, AISI, p. 11.
** Excluding Japan; *** Infinite.

By the 1960's the tremendous growth of steel production reached a point where "free world" countries, which, as Table II.2 reveals, by 1970 were putting out two-thirds of the world's steel, once again had steel available for export.¹⁶ As Table II.3 reveals, the bulk of the rise in exports has occurred since 1950 mainly as a result of increased trade between members of the European Coal and Steel community. Yet, even excluding all interbloc trade, world exports have tripled since 1950.

Table II.3¹⁷ Steel Exports from Major Exporting Countries (million net tons)



¹⁶ Senate Staff Report, Steel Imports, esp. chapter 1.

¹⁷ Data taken from Senate Staff Study, Steel Imports and The Iron and Steel Industry, Organization for Economic Development.

The most important exporting regions since 1950 have been Western Europe and Japan. The effect of the increased exports of steel by these regions has reduced the market for American steel, thereby severely diminishing America's position as a net exporter of steel. For not only has the industrialization of areas formerly dependent upon American steel abolished former markets, but the new steel producing areas are now competing with American enterprises in international trade. Table II.4 provides a breakdown of steel exports among members of the free world.*

Table II.4¹⁸ Free World Steel Exports -thousands of tons

	55	60	65	70
United States	4,079	2,988	2,508	5,747
Canada	436	842	919	1,320
Latin America	-	-	-	-
European Coal & Steel Community	15,383	25,442	33,036	31,478
Rest of W Europe	3,768	5,679	7,459	6,531
Africa & Middle East	-	164	107	-
Japan	1,953	2,471	10,743	14,285
India	-	-	-	-
Australia	110	454	366	-
Total	25,729	38,040	55,138	59,721

The data for the European Coal and Steel Community are overstated since a good portion of the tonnage exported consisted of trade among the members of the organization. (Intrabloc trade in thousands of net tons for 1955 was 5,670; for 1960, some 10,611; for 1965, it reached 14,252; and for 1970, 20,100.) Nevertheless as both

* We are focusing upon trade among capitalist countries mainly because "iron" and "bamboo" curtain countries do not participate in any great degree in steel trade with the outside world.

¹⁸ Statistical Report on Steel Imports, American Iron and Steel Institute.

Tables II.3 and II.4 indicate, the region now has significant amounts of steel to export. Table II.4 also reveals that the Japanese industry is now the western world's single largest exporter of steel. The consequences of these trends for the American industry are revealed by the fact that shipments from the United States have been reduced by approximately 61% during the decade ending in 1965, thus significantly cutting into America's position on the international market.

The excess steel available for export in Europe and Japan soon found its way into the most lucrative market in the world: the United States. Nineteen fifty-nine must be viewed as the turning point in the American steel export-import experience. For it was during this year that a lengthy domestic steel strike occurred, driving steel consumers to imported products. The extent to which consumers turned to foreign steel is revealed in the fact that 1959 marks the year that the United States became a net importer of steel. Since then, America's balance of trade in steel has been on the wane. Indeed, while imports into other areas of the world increased four times between 1950 and 1965, imports into the United States multiplied ninefold. During the same period exports from the United States were being reduced by over 60%. Table II.5 reveals the extent of the upward trend of imports into the United States since 1957.

Table II.5¹⁹Imports of Steel Mill Products

	Net Shipments by U.S.A. Steel Pro- ducers	Imports	Exports	Apparent Consumption	Imports as a % of Appar. Consump- tion	Exports as a % of Net Shipments
1971	87,038	18,304	2,827	102,515	17.9	3.2
1970	90,798	13,364	7,053	97,109	13.8	7.8
1969	93,877	14,034	5,229	102,682	13.7	5.6
1968	91,856	17,960	2,170	107,646	16.7	2.4
1967	83,897	11,455	1,865	93,667	12.2	2.0
1966	89,995	10,753	1,724	99,024	10.9	1.9
1965	92,666	10,383	2,496	100,553	10.3	2.7
1964	84,945	6,440	3,442	87,943	7.3	4.1
1963	75,555	5,446	2,224	78,777	6.9	2.9
1962	70,552	4,100	2,013	72,639	5.6	2.9
1961	66,126	3,163	1,990	67,299	4.7	3.0
1960	71,149	3,359	2,977	71,531	4.7	4.2
1959	69,377	7,396	1,677	72,006	6.1	2.4
1958	59,913	1,707	2,823	58,798	2.9	4.7
1957	79,895	1,155	5,348	75,702	1.5	6.7

Table II.5 reveals the changing role of the United States from a net exporter of steel to a net importer. In 1957, for instance, imports were 1,155 thousand tons or 1.5% of apparent consumption while exports were 5,348 thousand tons or 6.7% of net shipments. By 1971, in spite of the voluntary restraint agreement restricting imports, steel imports made up 17.9% or 18,304 thousand tons, whereas exports had declined to approximately half the level of 1957.

Just as the decline of American exports seems to be related to the increased capacity of the new steel producing regions, so imports can be traced to those areas of rapid growth. Table II.6 provides data on imports according to country of origin.

¹⁹ Statistical Report on Steel Imports, p. 5.

Table II.6²⁰ Imports of Steel Mill Products by Countries of Origin
(Thousands of Net Tons and Percentages of Total)

Thousands of Net Tons	Belgium- Luxembourg	West Germany	France	Italy	Nether- lands	Total	Japan	U.K.	Canada	Other	Total
1971	1,983	2,509	1,564	505	575	7,156	6,908	1,357	1,273	1,609	18,304
1970	1,241	1,752	934	143	502	4,573	5,935	824	1,105	927	13,364
1969	1,674	1,933	1,019	144	431	5,200	6,253	894	805	882	14,034
1968	2,124	3,069	1,203	271	431	7,097	7,294	1,302	1,243	1,024	17,960
1967	1,769	1,956	808	93	216	4,842	4,468	818	630	697	11,455
1966	1,612	1,220	765	170	74	3,841	4,851	748	692	621	10,753
1965	1,751	1,178	858	271	133	4,191	4,418	720	644	410	10,383
1964	1,384	677	440	35	49	2,585	2,446	285	692	432	6,440
1963	1,279	539	359	20	48	2,245	1,803	349	583	466	5,446
1962	1,247	460	299	20	51	2,086	1,871	250	367	326	4,100
1961	1,050	499	321	35	46	1,951	596	166	304	146	3,163
1960	996	589	347	73	92	2,097	601	212	211	238	3,359
1959	1,438	726	586	62	86	2,898	626	215	377	280	4,396
1958	780	212	160	11	50	1,203	250	86	48	120	1,707
1957	488	189	178	16	28	891	31	58	52	123	1,155
Percentages of Total-											
1971	10.8	13.7	8.5	2.8	3.3	39.1	27.7	7.4	7.0	8.8	100.0
1970	9.3	13.1	7.0	1.1	3.7	34.2	44.4	6.2	8.3	6.9	"
1969	11.9	18.8	7.3	1.0	3.1	37.1	44.5	6.4	5.8	6.3	"
1968	11.8	17.1	6.7	1.5	2.4	39.5	40.6	7.2	6.9	5.8	"
1967	15.4	17.1	7.1	.8	1.9	42.3	39.0	7.1	5.5	6.1	"
1966	15.0	11.3	7.1	1.6	.7	35.7	45.1	7.0	6.4	5.8	"
1965	16.9	11.3	8.3	2.6	1.3	40.4	42.6	6.9	6.2	3.9	"
1964	21.5	10.5	6.8	.5	.8	40.1	38.0	4.4	10.8	6.7	"
1963	23.5	9.9	6.6	.4	.8	41.2	33.8	6.4	10.7	8.6	"
1962	30.4	11.2	7.3	.7	1.3	50.9	26.1	6.1	9.0	7.9	"
1961	33.2	15.8	10.2	1.1	1.4	61.7	18.9	5.2	9.6	4.6	"
1960	29.7	17.5	10.3	2.2	2.7	62.4	17.9	6.3	6.3	7.1	"
1959	32.7	16.5	13.3	1.4	2.0	65.9	14.2	4.9	8.6	6.4	"
1958	45.8	11.8	9.3	.7	2.9	70.5	16.6	5.0	2.8	7.1	"
1957	41.5	16.4	15.5	1.4	2.4	77.2	2.7	5.0	4.5	10.6	"

Source: U.S. Department of Commerce

²⁰ Statistical Report on Steel Imports, p. 7.

The data indicate that in 1970, Japan, the nation with the fastest growing industry since World War II, was responsible for 44.5% of all steel shipped into the United States. The salient role played by Japan is most clearly understood when the 1970 figures are contrasted with those for 1957. In 1957 the United States was still a net exporter of steel, importing but 1,555 thousand tons. Of this amount only 31 thousand tons could be traced to Japan. Two years later, however, Japanese imports into America reached 626 thousand tons and have been climbing ever since.

The flow of imports into America must raise questions concerning the sufficiency of its steel capacity to meet her demands. For, if demand should be greater than capacity, imports must be considered essential and could not be viewed as being symptomatic of the basic problems of American industry. The data, however, suggest that this has not been the case, for the American steel industry usually operates considerably below capacity. Indeed, Estes Kefauver has noted that "for the steel industry as a whole and particularly for the largest producer, U.S. Steel, when the average production rate of all plants, regardless of condition, approaches 33% of capacity, operations are profitable."²¹ This profitability level varies from mill to mill, but generally the most efficient plants, which also tend to be the most utilized, have the lowest break-even points.

²¹Kefauver, In A Few Hands, p. 110.

Such facts have not been denied by the industry. In September of 1962, for instance, the president of the Republic Steel Corporation testified before the Senate Judiciary Committee that the steel industry was operating at only 50% of usable capacity.²² Examination of the relationship between actual production and estimated capacity indicates that the American industry operates far below productive capacity. In 1965, for example, when capacity was estimated as being between 156.5 and 168 million net tons, actual production was only 119.26 million tons, or between 76% and 71% of capacity.²³ The data for 1970 reveal much of the same. Despite a world wide increase in the demand for steel beginning in 1969, American production of 119.3 million tons falls far below her estimated capacity of 178.2 million tons.²⁴

²²Hearings before the Committee on the Judiciary, Steel Companies (Subpoenas), p. 30. 87th Congress, 2nd session.

²³The data concerning world crude steel production are taken from the Statistical Yearbook of the United States, (N.Y.: U.N. 1972) p. 305. As the industry since 1969 has not released estimates of its productive potentiality, there have been disagreements as to America's steel capacity. The low of 153.8 million tons for 1965 is the estimate offered by the U.N. Economic Committee for Europe and the high of 196.8 million tons has been made by the Wall St. Journal.

²⁴The estimate of productive capacity used here is that of the E.C.S.C. Production, however, is also significantly below the 1969 estimates of Iron Age (155 million tons) and the Wall St. Journal (184 million tons). Recently, in spite of the under-utilization of facilities, steel executives have been discussing the possibility of world-wide shortages. Indeed, by 1973 American mills working at near capacity, set a new productive record with an actual output of 150.8 million tons. Interestingly, the same year also witnessed a decline in imported steel. More than likely, however, this high demand for steel is a temporary trend.

Although a major characteristic of the American industry is the fact that it operates under capacity, such is not the case with her foreign competitors. High fixed overhead costs have led foreign producers to cut export prices at times below costs rather than restrict operations.²⁵ Table II.7 lists the percentages of capacities for exports during 1965.

Table II.7 ²⁶ <u>Steel Exports as % of Raw Steel Production</u>	
<u>Country</u>	<u>Percent</u>
Belgium-Luxembourg	90.0
France	47.0
West Germany	36.1
Japan	32.4
United Kingdom	18.0
United States	2.8

U.S. production for the first seven months of 1974 has fallen off and experts see a world-wide cooling down in the demand for steel. Moreover, the drop in imports during 1973 cannot be attributed to the ability of the domestic industry to meet demand. Of greater significance in discouraging imports has been the devaluation of the dollar as well as U.S. government price controls. During 1973 these devices gave American producers a 10-15% advantage over foreign competitors. With the removal of price controls and the subsequent price increases of the American industry, foreign steel once again is becoming attractive to U.S. consumers. See "Hard Pressed U.S. Steel Users May Get More Foreign Supplies later this Year," Wall St. Journal, (Aug. 19, 1974); "Steel Shipments Dip Seen in Third Period," Ibid. (Aug. 5, 1974). Also, Economic and Foreign Policy Effects of Voluntary Restraint Agreements on Textiles and Steel, U.S. Government, G.A.O. (March, 1974). Also, "Steelmakers Fret over Imports Again," Business Week, (Dec. 14, 1974) pp. 27-28.

²⁵In the steel industry the problem of excess capacity, constant demand, and big overhead have been traditionally met by the formation of cartel agreements. Under such agreements exports are allocated to various countries who maintain the price level of domestic steel while selling exports much cheaper. Senate Staff Report, Steel Imports, p. 58.

²⁶Ibid., p. 25.

The extent of the utilization of foreign steel producing facilities is best understood when we calculate figures for excess capacity. This calculation is obtained by deducting total domestic production plus imports in the region of interest from capacity plus exports; the difference being the net surplus. When this calculation is made it is noted that by 1965 western Europe and Japan possessed about ninety percent of the world's surplus. This excess capacity consists of steel neither consumed at home or expanded, and thus constitutes a threat to the world market steel prices.

Table II.6²⁷ Excess Capacity

Year	World Capacity available for exports (thou- sand net tons)	World Imports (thousand net tons)	Ratio	Surplus (thousand net tons)
1960	62.7	45.1	1.4:1	17.6
1961	67.9	44.8	1.5:1	23.1
1962	79.1	46.3	1.7:1	32.8
1963	84.9	49.2	1.7:1	35.7
1964	90.2	58.2	1.6:1	32.0
1965	110.6	61.6	1.8:1	49.0

There is much evidence to suggest that surplus capacity is likely to worsen within the very near future. The European Coal and Steel Community is expected to increase its capacity from 137,300 thousand tons in 1971 to 164,010 tons by 1975.²⁸ The United Kingdom is currently undertaking an investment program which would increase steel production from just over 20 million tons

²⁷ Ibid., p. 28.

²⁸ Data taken from pamphlet, The Iron and Steel Industry in 1971 and Trends in 1972, (Paris Organization for Economic Co-operation and Development, 1973).

in 1967 to over 35 million tons toward the end of the 1970's.²⁹ During this same period Japanese capacity is expected to almost double, increasing from 98 to 175 million tons.

The fact that western Europe and Japan have significant quantities of steel to export tells us something about the internal problems of foreign industries, but does not explain why the steel should find its way into the United States. Indeed, much evidence suggests that the decision to produce for export purposes has brought western European and Japanese producers to the brink of financial disaster. For, a high debt structure combined with superfluous production has weakened the price structure first in the export market and subsequently at home. This, in turn, has brought low profits which has the spiraling effect of preventing further equity financing and thereby increasing the already high debt. This cycle has led to debt structures greater than equity and in many cases foreign producers are becoming the tools of their respective governments.³⁰

Any analysis as to why foreign contributors have pursued the dubious policy of excess production cannot

²⁹ "An Advocate of Nationalization," Business Week, (Nov. 24, 1973) p. 65.

³⁰ For further information see Senate Staff Report, esp. Chapter 2, and Report on the Interagency Working Group on the Steel Industry, esp. pp. 22-23.

ignore two fundamental factors. First, the high foreign debt structure has its origins in the immediate need for capital to rebuild the war-devastated industries. By turning to government, and financial institutions to finance the rebuilding process, a high debt structure virtually was forced upon foreign producers. Second, throughout, the free world, and especially within western Europe, initial production was less concentrated than in the United States. Trade among the producers of western Europe has led to attempts to gain a competitive edge by introducing new technological devices before the old productive equipment became obsolete, thus aggravating the high debt structure and further increasing capacity. In recent years, to combat the consequences of the high debt structure there has been an increased concentration of steel producers within the separate states of Europe and Japan. Moreover, the many mergers and joint ventures have been accompanied by cartel agreements. The need for such arrangements is made explicit in a report on the steel industry by the Organization for Economic Cooperation and Development. The report states/

The continuous increase in production capacity...is tied up with the increase in size of individual production units which is dictated by both economic and technical considerations. This may give rise to a number of structural and policy problems, particularly as regards the location of new works. Precisely because of the large amount

of capital necessary for any expansion beyond a certain size, decisions of the location of steel industry investments are influenced by a number of factors. It is most important that those responsible for these decisions should make them in light of all projects planned at national and international levels in order to avoid creating over-capacity which...may spread, causing difficulties in the market and jeopardizing the international equilibrium of the industry as a whole. 31

That the financial problems confronting foreign producers have led to an abundance of steel still does not explain why or how this steel ultimately should come to the United States. However, there have been several interesting, if not adequate, explanations. The United States Senate Staff Study of Steel Imports, for instance, attributes the influx of foreign steel to the policies of foreign producers which led to surplus production and uncompetitively low prices. In viewing the question as being primarily a foreign phenomenon, the investigation exonerates and thereby justifies the policies of the American industry. Thus, aside from a passing statement that "...the domestic industry has succeeded so far in preserving a sound financial status,"³² no questions are raised concerning the role of the United States indus-

³¹The Iron and Steel Industry in 1970 and Trends in 1972, p. 26.

³²Steel Imports, p. 142.

try's pricing policies with regard to the issue of imports.

The Reverend William T. Hogan offers a second and contrasting position. Father Hogan views America's decreasing proportion of world production as evidence that she has become but part of a larger global industry.³³ He goes on to argue that the reason for the decline must be attributed to the failure of the American industry. The failure perceived by him, however, stems from his conception of the decline of economic concentration within the industry. The argument contends that the steel companies in Japan and Europe, with governmental assistance, grew in size through mergers and expansions so as to take advantage of economies of scale with unprecedented fashion. In France, for instance, following a series of mergers, the two largest firms now put out approximately 70% of that nation's steel.³⁴ This is a far greater proportion than the 36% produced by America's two largest concerns, U.S. Steel and Bethlehem Steel Corporations, for 1972. Thus, American production is becoming less concentrated.³⁵ Finally, the position contends that the industry's failure to make large scale technological advances, a shortcoming most critics seem to agree on, results from the high capital outlays needed for such improvements. The difficulties in

³³William T. Hogan, The 1970's: Critical Years for Steel, (Lexington, Mass.: D.C. Heath, 1973) p. 113.

³⁴Report of the Intra-agency Working Group on the Steel Industry, p. 22.

³⁵Hogan, pp. 119-120.

financing and duplicating these technological innovations could be overcome, it is suggested, by joint ventures and mergers. Therefore, Prof. Hogan concludes that the future success of the American industry hinges upon the willingness of the Justice Department to cooperate in mergers and joint ventures within the industry.

The attitude of government, particularly the Department of Justice, will also have a strong influence on the ability of the steel industry to expand to meet the needs of the economy. If an atmosphere can be created in which it would be possible for joint ventures and mergers to take place when they are economically desirable and do not diminish competition, the industry will have an opportunity to restructure itself along sound economic lines. This will help give it the needed strength to serve the American economic and compete in the world market. 36

The second explanation fails on several levels. First, it assumes that size constitutes efficiency and thus circumvents any questions of scale.³⁷ Second, even granting the validity of this assumption, it does not explain the lack of extensive technological innovation during the 1950's - the golden age of concentration. The important question concerning the relationship between the problems of the seventies and the failure of the industry to undertake extensive technological innovations is not even raised. Nor is there any analysis of

³⁶ Ibid., p. 120.

³⁷ Blair, Economic Concentration.

the pricing policies of the industry and the relationship between such practices and the attractiveness of foreign imports. The failure to pursue these matters, however, stems from the erroneous notion that the American industry lacks the size and capital to pursue innovative and profitable projects. Data for 1967 reveal that of the five largest steel firms in the world, in terms of sales, three are American corporations. United States Steel and Bethlehem both greatly outdistance the third largest, Thyssen of Germany, whereas Republic, in fifth place, is almost the equal of fourth ranked Yawata of Japan.³⁸ Since 1967 expansion and mergers in the American industry have witnessed the ascension of Armco and National Steel with sales greater than Republic.³⁹ Further contradictory data are revealed by the fact that in 1968 U.S. Steel's profits were seven times those of Thyssen-Hutte of Germany.⁴⁰ Indeed, the great size of American steel firms relative to their European and Japanese counterparts has led one observer to comment that Europeans are now looking to America as an example of the oligopolization of their steel industries.⁴¹

³⁸ Barber, p. 262.

³⁹ Data released by the American Iron and Steel Institute for 1972. The Intra-agency Report on Steel indicates that by 1971 the production of Nippon Steel of Japan was second only to U.S. Steel.

⁴⁰ Barber, p. 260.

⁴¹ Ibid., p. 262.

The cries of excess concentration are superfluous to Hogan, but form the crux of the problem to critics such as Walter Adams, John Blair, and Estes Kefauver. For this group the appeal and success of foreign imports is a function of the economic concentration of the domestic industry. This third position contends that the oligopolistic structure of the industry has led to a system of "follow the leader" pricing and a resultant decline in real competition. Competition today has lost its meaning in the classical sense, for producers are no longer required to meet the lower prices of competitors or lose sales, but tend to follow each other in raising prices. This argument views the problem of imports as a new form of competition which the American corporations are unwilling to meet. Proponents of the competitive position dispute Hogan's notion of the necessity of bigness to attain technological innovations and argue that the lack of competition has brought a decline in technological improvements. This failure to develop technology has brought higher wages for workers without concomitant increases in productivity which forces prices still higher.

Unlike the first two evaluations of the origins of the import problem, the third is both critical and comprehensive. It develops the link between imports and

productive problems in both the foreign and domestic industries and thus goes a long way in explaining why surplus steel is being shipped into the United States. It also provides insight concerning the lack of innovation. Yet, while the competitive critique seems to be the most comprehensive of the three analyses, it too raises further questions. On the immediate level, it raises factual questions concerning the actual extent of concentration within the American industry. The facts of concentration must be analyzed to determine their nexus with steel imports. On a more subtle level, the competitive position ignores the possibility that concentration might be inherent in the nature of capitalism; and its policy solutions, based on the restoration of competition, raise questions regarding the relationship between the corporation and the state. This last problem, however, must wait until later. First, it is necessary to examine the structure of the industry and determine the relationship, if any, between the structural characteristics of the domestic industry and the problem of steel imports.

CHAPTER III STRUCTURAL CHARACTERISTICS OF THE UNITED STATES STEEL INDUSTRY: AN ANALYSIS

Prior to the formation of the United States Steel Corporation, the steel industry in America was only moderately concentrated. In 1892, some eight years before the creation of U.S. Steel, the four largest producers held but 28.2% of the industry's capacity.¹ The creation of U.S. Steel in 1901 brought together some 170 subsidiary concerns consisting of more than 80 mining companies, 40 manufacturing firms, 30 transportation companies and several gas and other businesses² and changed the basic structure of the industry. By 1908 the four largest concerns possessed almost 63% of all steel capacity, as well as similar percentages in both actual production and shipments. Since the so-called "golden age" of steel, however, there has been a noticeable decline in these figures. At first glance, data for raw steel production, shipments, and sales suggest

¹Administered Prices Steel, Report of the Committee on the Judiciary made by the Subcommittee on Anti-trust and Monopoly, 1958, p. 65.

²Ibid. See also Lewis Haney, Business Organization and Combinations, (N.Y.: McMillan & Co., 1971) esp. pp. 223-227.

greater decentralization in the contemporary industry than at any time since the formation of U.S. Steel. Table III.1 reveals the present state of concentration as measured by raw steel production, shipments, and sales within the industry.

<u>Table III.1³ Total Steel Production, Shipments & Sales*</u>							
Company	Year	Raw Steel Production net tons	%	Steel Ship- ments net tons	%	Net Sales & Operating Revenues	%
U.S. Steel	1972	30,743,055	23	20,768,976	23	5,428,940,533.	24
	1971	27,216,202	23	19,282,097	22	4,963,175,479	24
Bethlehem	1972	18,334,000	13	12,494,000	14	3,138,177,000	15
	1971	17,439,000	14	12,577,000	14	2,999,358,000	15
Armco	1972	8,507,000	6	5,722,000	6	1,926,593,000	8
	1971	7,863,000	7	5,353,000	6	1,713,709,000	8
National	1972	9,843,700	7	7,496,400	8	1,660,224,000	7
	1971	8,681,300	7	7,223,000	8	1,522,074,000	7
Republic	1972	10,399,584	8	7,096,201	7	1,595,736,917	7
	1971	8,728,780	7	6,672,808	7	1,384,799,522	6
Inland	1972	7,771,000	6	5,186,000	5	1,469,799,000	7
	1971	6,496,000	5	4,700,000	5	1,253,610,000	6
Jones &	1972	7,344,000	6	5,070,000	6	1,189,377,000	5
Laughlin	1971	6,645,000	5	4,912,000	5	1,074,038,000	5
Youngstown	1972	5,547,200	4	3,780,100	5	869,789,000	4
	1971	4,922,600	4	3,531,700	4	782,647,000	4
Wheeling-	1972	4,099,000	3	2,873,000	4	609,707,000	3
Pittsburgh	1971	3,451,000	3	2,582,000	3	530,057,000	3
Allegheny	1972	903,485	-2	443,495	-2	574,579,080	3
Ludlum	1971	680,063	-2	365,954	-2	487,307,513	3
Kaiser	1972	2,430,000	-2	1,647,000	-2	449,736,844	2
	1971	2,485,000	-2	1,668,000	-2	473,449,965	2
Cyclops	1972	1,595,141	-2	1,282,054	-2	413,954,000	-2
	1971	1,326,901	-2	1,251,483	-2	338,826,000	-2
Interlake	1972	1,249,944	-2	958,940	-2	387,748,883	-2
	1971	1,116,308	-2	894,530	-2	352,084,935	-2
Sharon	1972	1,343,698	-2	1,468,579	-2	301,989,000	-2
	1971	1,387,517	-2	1,395,158	-2	265,108,000	-2

³ Source, "1972 Steel Industry Financial Analysis," Iron Age (April 19, 1973).

*The data here are for total steel shipments and sales mainly because the steel firms, for a number of reasons, many of which should become apparent, no longer releast data concerning ingot capacity. This practice was terminated

McLouth	1972	1,387,517	-2	1,564,000	-2	292,108,000	-2
	1971	1,994,000	-2	1,487,000	-2	259,095,000	-2
CF & I	1972	1,786,000	-2	1,290,000	-2	282,039,000	-2
	1971	1,651,000	-2	1,286,000	-2	261,719,000	-2
Keystone	1972	603,000	-2	NA	-2	230,466,000	-2
	1971	510,000	-2	NA	-2	199,034,000	-2
Copper-	1972	NA		NA		184,447,315	-2
weld	1971	NA		NA		147,337,487	-2
Northwest-	1972	1,183,083	-2	915,255	-2	167,913,394	-2
ern	1971	1,213,823	-2	989,387	-2	168,646,340	-2
Carpenter	1972	NA		NA		158,736,125	-2
	1971	NA		NA		149,907,215	-2
Lukens	1972	742,000	-2	NA		152,790,000	-2
	1971	858,000	-2	NA		156,127,000	-2
Laclede	1972	749,137	-2	623,153	-2	119,310,000	-2
	1971	800,277	-2	616,395	-2	114,265,000	-2
Alan Wood	1972	897,463	-2	593,335	-2	119,140,465	-2
	1971	928,193	-2	634,341	-2	118,017,357	-2
Continen-	1972	507,212	-2	440,058	-2	92,949,107	-2
tal	1971	426,746	-2	401,122	-2	81,868,441	-2
Florida	1972	378,496	-2	334,239	-2	82,809,064	-2
	1971	321,046	-2	286,910	-2	66,234,781	-2
Phoenix	1972	544,015	-2	384,257	-2	79,247,999	-2
	1971	491,043	-2	338,972	-2	71,662,415	-2
Atlantic	1972	434,271	-2	371,867	-2	74,074,150	-2
	1971	384,908	-2	322,468	-2	62,675,054	-2
Latrobe	1972	34,653	-2	21,399	-2	52,865,000	-2
	1971	28,325	-2	16,700	-2	41,578,000	-2
Washington	1972	58,965	-2	41,211	-2	51,844,952	-2
	1971	55,155	-2	36,101	-2	44,223,503	-2
Totals	1972	133,102,000		91,805,000		22,157,064,828.	
	1971	120,443,000		87,038,000		20,082,629,007.	

Analysis of Table III.1 supports the contention that size need not be related to market power. The apparent decline of U.S. Steel provides a case in point. United States Steel, with assets of approximately seven billion dollars, ranking it 13th among all U. S. corporations in total assets,⁴ produces 23% of all American steel; is

during the early 1960's and coincided with the emergence of imports as constituting a genuine threat to the American industry. This, however, shall be discussed in detail below.

⁴"The Fortune Directory of the 500 Largest Industrial Corporations," Fortune, (May, 1974).

responsible for an equal proportion of steel shipments; and accounts for 24% of total steel sales. These amounts represent a substantial shrinking of U.S. Steel's proportion since it achieved close to 60% in each of these categories during earlier years.⁵

The decline of U.S. Steel, however, in spite of superficial appearances to the contrary,⁶ should not be taken as a final indication that the industry is becoming, as Daniel Bell suggests, not more concentrated but less. First, there is a great deal of evidence to suggest that the decline of "Big Steel" was part of the policy of its first president, Elbert H. Gary. In her authorized biography of Mr. Gary, Ida M. Tarbell writes:

... for Judge Gary had intentionally curtailed the production. His conclusion was not to allow in any branch over 50% of the business, and oddly enough, it was William Jennings Bryan who set this percent for him! Along in 1906 Bryan was advocating 50% as a legal limit for the size of a business and Judge Gary had seized the figure. 'If we can confine ourselves voluntarily to a size approved by the most popular and trusted radicals, we surely cannot be attacked for monopoly,' he had told his associates. They had acquiesced and had succeeded fairly well in keeping the percentage down, even in the leading products. 7

⁵Tarbell, p. 257.

⁶J. Boyle and J. McKenna, for instance, are among those who see a significant shift in the structure of the steel industry toward greater decentralization. See, "Size Mobility of U.S. Manufacturing Corporations," Anti-Trust Bulletin, XV, (Fall, 1970) esp. pp. 516-517.

⁷Tarbell, pp. 257-258.

Second there is evidence to suggest that the declension of U.S. Steel has been accompanied by the growth of the next three producers. Indeed, while in 1908 the next three firms after U.S.S. put out less than 15% of shipments, sales and production,⁸ by 1972 they accounted for approximately 30% in each of these categories. The top four firms, then, are still responsible for over 50% in the categories measured. This would seem to suggest that the waning position of U.S. Steel mainly has been accompanied by the gain of the other companies in steel's "Big Four." Mainly, but not entirely. The declining position of U.S.S. has been accompanied by the rise of several other producers. The rise of those outside of the so-called "Big Four," however, has been limited to a small handful of firms. In 1972, for instance, of the 29 steel corporations responsible for about 90% of the industry's production, shipments, and sales, the top nine companies were responsible for some 7% of production; 79% of sales; and 81% of all steel shipments. The declension of U.S. Steel has not brought with it the classical model of competitive capitalism.*

⁸ Administered Prices, Steel, pp. 65-67.

* In fact, to continually talk about the "decline" in the relative position of U.S.S. is to ~~ob~~scure the hard fact that it remains the industry's foremost enterprise with production, shipments, and sales amounting to nearly twice those of its closest competitor and approximately three times the amount of the third-ranking producer.

This is not to suggest that the rise of the eight firms after U.S. Steel is based entirely on the decline of that one corporation. Mergers and corporate takeovers within the industry in recent years also have played a leading role. Moreover, the figures for concentration within the top four firms provide data for overall levels of concentration within the industry but ignore the factor of specialization. Analysis of merger activity and the specialization factor indicate higher degrees of concentration than revealed in Table III.1.

From an economic perspective, the most important aspect of concentration is its degree in the particular markets in which the product is sold. For the steel industry concentration in specific markets tends to be greater than in the industry as a whole. This is the result of specialization by different companies on different products. The Federal Trade Commission cogently describes how specialization leads to greater concentration in the following terms:

Because of this factor of specialization, it may be taken as a general proposition that in multiproduct industries, the greater is the specialization by each of the large companies on different products, the higher will be the degree of product concentration, as contrasted to the level of industry concentration re-

flected by assets and similar measures.⁹

Table III.2 shows the concentration ratios for major steel products in terms of the percentage made by the four largest producers for the year ending Dec. 31, 1967.

Table III.2¹⁰ Distribution of Steel Products by Concentration Ratios, 1967*

SIC	Products	Percent Accounted for by			
		4 largest companies	8 largest companies	20 largest companies	50 largest companies
33122	Ingots & semi-finished shapes	67	83	96	100
33123	Hot rolled sheet & strip including tin mill products	56	75	99	100
33124	Hot rolled bars, shapes, plates & piling	62	74	88	99
33125	Steel wire made in steel mills	46	70	98	100
33155	Steel wire not made in steel mills	38	53	81	99
33126	Steel pipes & tubes made in steel mills	55	82	94	100
33176	Steel pipe & tube not made in mills	24	36	67	89
33127	Cold rolled sheet and strip made in steel mills	42	69	99	100
33167	Cold rolled sheet and strip not made in steel mills	41	57	85	100
33128	Cold finished bars & shapes made in mills	61	81	100	-
33168	Cold finished bars & shapes not made in steel mills	64	78	97	100

⁹ Report of the Federal Trade Commission, The Concentration of Productive Facilities, 149, p. 12, Quoted in Administered Prices, Steel, p. 68.

¹⁰ Cabinet Committee on Economic Policy, Task Force on Steel, Report to the President on the Economic Position on the Steel Industry, (July 6, 1971) p. 36.

* The data for 1967 represent the most recent avail-

The data of Table III.2 suggest that concentration is greater in many major products than in the industry as a whole. For instance, while the four largest companies in 1967 produced about 54%¹¹ of the total steel output, in six of the 11 major product areas the concentration ratios were higher. This is significant because it is the concentration of the product, not of the industry as a whole, which confronts the consumer when he is in the market for steel. For the buyer is seeking a particular product with certain specifications and, therefore, does not purchase that ineffable product called steel.¹²

The concentration ratios increase when steel production is divided into its more specialized component parts. Table III.3, "Net Shipments of Carbon Steel Products by the Four Largest Producers of Each Product, 1957," makes the additional distinction.

Table III.3¹³ Net Shipments of Carbon Steel Products
by the Four Largest Producers of Each Product, 1957

Percent	Number of Products	Percent of Production	Cumulative Percent
100%	11	28.9	--
90.0 to 99.9	1	2.6	30.7
80.0 to 89.9	3	7.7	38.4
70.0 to 79.9	9	23.1	61.5
60.0 to 69.9	9	23.1	84.6
50.0 to 59.9	6	15.4	100.0
Under 50	-	--	---
Total	39	100.0	100.0

able information concerned concentration by major product mix in the U.S. steel industry.

¹¹Ibid.

¹²For a discussion, see Administered Prices, Steel.

¹³From data taken from Administered Prices, Steel,
p. 69.

The data of Table III.3 indicate that in 11 different product areas production is controlled by a single company. In thirteen others, the top four companies produce 70% or greater. Table III.3 also reveals that 85% of all individual steel products have concentration ratios greater than 60%. This tends to suggest that in terms of concentration by product mix the contemporary industry is not too far removed from the great degree of industry-wide concentration during the first two decades of the twentieth century.

While the data on concentration by product mix indicate a greater degree of concentration than in the industry as a whole; in recent years the trend toward centralization has been increased through a series of corporate mergers.¹⁴ Indeed, the success of the firms after U.S. Steel has not only been the result of the decline of the industry's leader. During the past decade, for instance, there have been four intra-industry mergers involving eight major steel companies, and five inter-industry mergers involving five firms.

¹⁴The tendency toward mergers has not been a phenomenon restricted solely to the U.S. steel industry. Indeed, the merger movement has permeated the entire economy and has led Fortune magazine to state: "There have been merger movements in the U.S. before. One began in the 1890's and another in the 1920's; each lasted about a decade. But the current merger movement is lasting longer and is immensely bigger." fortune (Fe., 1969) p. 80. For a discussion of the merger movement from a Marxist viewpoint see, "The Merger Movement: A Study in Power," in Paul Sweezy, Harry Magdoff, eds. The Dynamics of U.S. Capitalism, (N.Y.: Monthly Review Press, 1972) pp. 68-87.

The first major post-war steel merger was consummated in 1964 between Acme Steel and the Interlake Iron Company, some eight years after Acme swallowed the smaller (600,000 tons of ingots yearly) Newport Steel Company. The new Interlake Corporation became the twelfth largest producer and ranked thirteenth in shipments and sales. The Interlake-Acme merger was followed by the joining together of the Wheeling Steel Corporation and Pittsburgh Steel Company in 1968. The newly created Wheeling-Pittsburgh Corporation became the industry's ninth leading company. The 1970 merger of Cyclops and Detroit Steel resulted in the creation of Cyclops Corporation, which moved into the eleventh spot. The really big mergers, however, involved National and Granite City Steel in 1971 and a union between Bethlehem and Youngstown Sheet and Tube which was never completed.

The merger of National, which in 1970 had sales of \$1.2 billion, raw steel production of 8,353,000 net tons, and shipments of 6,238,000 net tons, and Granite City Steel moved National ahead of Republic into the third spot. This merger seems most significant not only because it brought important structural changes to the industry, but also because it is the first case in which the Justice Department permitted a merger between a major steel com-

pany and a middle-sized firm. During the 1960's the Justice Department was not so lenient regarding a proposed merger between Bethlehem, the nation's second largest steel company, and Youngstown Sheet and Tube, the eighth largest firm. The joining of Bethlehem and Youngstown would have brought Bethlehem within striking distance of United States Steel.¹⁵

Although the intra-industry mergers have helped restructure the industry, the trend has been toward conglomeration, a device which allows the high profits earned in one industry to be reinvested in another. This is significant in that in a highly concentrated industry characterized by a few producers and relatively high and stable prices, the handful of producers could reinvest their earnings outside their primary field, thus gaining new income with minimal capital investment and innovation while maintaining control over the basic industry. Since 1968 ten steel companies have merged with conglomerates.¹⁶ The most important mergers involved the nation's seventh and

¹⁵ The above information concerning the merger movement has been taken from a variety of sources including Moody's Industrial Index, (1960-1974); and Hogan, The 1970's: Critical Years for Steel.

¹⁶ The move toward conglomeration allows a conglomerate which, almost by definition, has a high profit/earnings ratio, to secure immediate improvement in its earnings per share by acquiring a firm with a lower P/E ratios. The steel industry, which has been characterized by slow growth and falling stock prices, also has low P/E ratios, thus making steel firms most attractive in the eyes of the conglomerates. For an analysis of the conglomeration movement and the role of P/E ratios see John Blair, Economic Concentration, esp. pp. 295-300. Also, W. J. Mead, "Instantaneous Merger Profit as a Conglomerate Merger Motive," Western Economic Journal, (Dec., 1969).

eighth largest producers, Jones and Laughlin Steel and Youngstown Sheet and Tube. Table III.4 reveals the extent to which conglomerates have swallowed up steel corporations during the past six years. Indeed, it has been estimated that conglomerates now own 20.8% of all manufacturing assets in the primary metals group.¹⁷

Table III.4¹⁸ Steel Take-Overs by Conglomerates

<u>Target</u>	<u>Company Making Offer</u>	<u>Year</u>
Jones & Laughlin	Ling-Temco-Vought	1968
Youngstown	Lykes	1968
Crucible	Colt Industries	1968
C.F. & I	Crane	1968
Sharon	N.V.F.	1968
Lone Star Steel	Northwest Industries	1965
Jessop Steel	Athlone	1968
Firth Sterling	Teledyne	1968
Columbia Steel	Teledyne	1968
Continental Steel	Penn-Dixie Cement	1968

II

To this point the investigation of concentration within the steel industry has been based upon the premise that each of the steel corporations is an independent entity. A more probing analysis, however, indicates that this is not an accurate assumption. On the contrary, in studying data on joint subsidiaries, interlocking directorates, and the industry's relationships with leading

¹⁷Blair, p. 296.

¹⁸Hogan, p. 18.

financial institutions, clear patterns of interaction emerge which suggest that concentration and centralization within the industry are much greater than hitherto perceived.

The corporate device of joint subsidiaries has been used in recent years by enterprises requiring large amounts of capital, and new and unfamiliar technology. Yet, the practice of joint subsidiaries has never been subjected to intensive scrutiny. Outside of a 1958 study by Daniel R. Fusfield, no studies of joint subsidiaries in the steel industry have been published.¹⁹ One reason for the lack of such undertakings is the difficulty in obtaining accurate information about the controlled companies. The financial reports made to the Securities and Exchange Commission (form 10K) are required to contain information only on those subsidiaries in which an interest of 50% or greater is owned. In those cases where joint subsidiaries are owned by three or more companies, it is quite likely that none of the parent firms will be required to report their interests; and in financial statements, joint subsidiaries are included under investments and not listed separately. Moreover, there seems to be a general reluctance for the firms to make public their interests in joint subsidiaries; this is

¹⁹Daniel R. Fusfield, "Joint Subsidiaries in the Iron and Steel Industry," American Economic Review, (May, 1958) pp. 578-587.

especially the case with the larger steel companies.²⁰

In spite of the many difficulties, it is still possible to identify a large number of joint subsidiaries in the iron and steel industry.²¹ A list of those identifiable is in Table III.5 as follows.

Table III.5 Joint Subsidiaries in the Iron & Steel Industry

Bethlehem Group

I. Only Bethlehem Group

1. Cuyna Ore Co.- Bethlehem, Interlake, Youngstown
2. Erie Mining - Bethlehem, Youngstown, Interlake, Stelco.
3. Hoyt Mining - Bethlehem, Youngstown, Stelco, Interlake, Pickands-Mather.
4. Mauthe Mining - Youngstown, Interlake, Stelco
5. Odanah Iron - Bethlehem, Interlake
6. Utica Mining - Interlake, Youngstown, Stelco
7. Verona Mining - Bethlehem, Interlake
8. Western Mining - Interlake, Stelco
9. Hibbing, Minn. Taconite & Pellet Plant - Bethlehem, Pickands-Mather, Stelco.
10. Hilton Mines - Stelco, Pickands-Mather
11. Olga Coal - Youngstown, Interlake, Stelco.

Cleveland Group

II. Cleveland Group only

1. Bundy Corp.- Wheeling-Pittsburgh, Armco
2. Butler Bros - Hanna, Wheeling-Pittsburgh, Inland
3. Carol Pellet Project - Hanna, Iron Ore Co. of Canada, M.A. Hanna
4. Concast Ltd. - National, McLouth
5. Douglas Mining Co. - Hanna, Wheeling-Pittsburgh
6. Gateway Coal - Jones & Laughlin, Wheeling-Pittsburgh
7. Hanna Ore Mining - M.A. Hanna, National
8. Hollinger Mines - M.A. Hanna, Iron Ore Co. of Canada
9. Itasia Pellet Co.- Wheeling-Pittsburgh, Inland, Hanna.

²⁰For a discussion of this problem, see Fusfield study.

²¹The information of Table III.5 has not been compiled from any one source. The chief sources of information were the following: Annual Reports of the steel companies, 1967-73; reports by steel companies filed with SEC, (Form 10-K); Moody's Industrial Report (1963-1973); Iron Ore, 1968-1972. These sources were supplemented by trade

10. Mesaba Cliffs Mining - Cleveland Cliffs, Republic, National, Jones & Laughlin, Wheeling-Pittsburgh
11. Marquett Iron Co.- Jones & Laughlin, Cleveland Cliffs.
12. National Steel Pellet Project - Hanna, National
13. Pilot Knob Pellet Co.- National, Hanna.
14. Pioneer Pellet Plant - Republic, McLouth
15. Reserve Mining Co.- Armco, Republic
16. A.O Smith - Inland, Armco.
17. Wabash Iron Co.- Wheeling-Pittsburgh, Inland
18. Donner-Hanna Coke Co.- Republic, National
19. Empire Iron Mining Co.- McLouth, Hanna, Cleveland Cliffs, Inland.
20. Philbin Mining Co.- Inland, Butler Bros., Wheeling-Pittsburgh
21. South Agnew Mining Co.- Inland, Butler Bros.
22. Virginia Pocahontas - Republic, Jones & Laughlin
23. Marquette Iron Mining Co.- Wheeling-Pittsburgh, Cleveland Cliffs, International Harvester, Jones & Laughlin

III. Combinations of I and II

1. Balkan Mining Co.- Wheeling-Pittsburgh, Stelco
2. Beckly Coal Mining Co.- Jones & Laughlin, Pickands Mather.
3. Gulf Power Project - Hanna, Armco, Wheeling-Pittsburgh, Republic, Youngstown.
4. Negaunee Mine Co.- McLouth, Republic, Sharon, Cleveland Cliffs, Bethlehem
5. St. James Mining - Bethlehem, Armco
6. Tilden Mining Co.- Bethlehem, Armco
7. Presque Isle Corp.- Republic, Jones & Laughlin, National, Youngstown, Bethlehem
8. Marquette Venture - Stelco, Cleveland Cliffs, Algoma, Wheeling-Pittsburgh, Sharon, Jones & Laughlin, Interlake
9. Mahoning Ore & Steel - National, Bethlehem, U.S.S., Lykes-Youngstown, Republic, Chenango.
10. Pioneer Pellet Plant - Bethlehem, Cleveland Cliffs, Sharon, Republic, McLouth.

IV. Others

1. Pellet Project & Mill - Armco, Kaiser, Thyssen-Hutte
2. Griffith Mines - Pickands-Mather, Griffith Steel of Canada.
3. Inland Project - Inland, A.O. Smith
4. McConco Corp.- McLouth, National, A.G. Zurich

journals including Iron Age, Steel Engineering and Mining Journal, and the United Mineworkers Journal. The research departments of both the United Mine Workers and United Steel Workers were especially helpful. Only active subsidiaries are included in this study.

5. Pittsburgh Liege - Wheeling-Pittsburgh, Bundy
6. Titanium Metals - Allegheny-Ludlum, N.L. Industries
7. Armco Molly Group - Armco, Techent & Landini
8. Australian Iron Ore Project - Hanna, Western Mining
9. Belgium Aluminum Project - Alcoa, Hanna
10. Aircraft Leasing enterprise - U.S.S., Burlington
11. Colombian Nickle Project - Hanna, Standard Oil of N.J., Empresa Colombia de Miquel.
12. Colombia Transportation Project - Armco, Ugleby Norton
13. Economy Fuel & Supply - National
14. Flexipipe Co. - Youngstown (50%)
15. Guatemalan Nickle Project - International Nickle of Canada, Hanna
16. Harman Coal Co. - Wheeling-Pittsburgh, Pittsburgh Consolidated Coal.
17. Inland Project - Hurlbut Calcium & Chemical, Illinois Leadshot, Bishop Coal, A.O. Smith, Inland
18. Labrador Mining and Exploration - Hanna, Hollinger Mines
19. Mallory-Sharon Titanium Corp.- U.S.S. , National Distilleries
20. Nippon Conemisco Co. - Youngstown, Nippon Electric
21. Aciercies de Paris et d'Outreau - U.S.S.
22. Compagnie Miniere de L'Ugooue - U.S.S.
23. Prieska Copper Mines - U.S.S.
24. Africa Triangle Mining Co.- U.S.S.
25. Amazonia Mineracao SA - U.S.S.
26. P.T. Pacific Nikkel - U.S.S.
27. Cogas Development Co.- Republic, Consolidated Natural Gas, Union Pacific, FMC Corp., Tenneco.
28. Bishop Coal Co.- Inland, Consolidated Coal
29. Societe Industria Profilate Somaglia, Italia - Inland, Italian interests
30. Dominican Ferronickel Venture - Armco, Falconbridge Nickel.
31. Tankore Corp.- Republic, U.S Marine Corp.
32. Compania de Niquel Colombiano - Hanna, Standard Oil of California
33. Pacific Isle Mining Co.-AJ Industries, Inland
34. Steel productive facility in Phillipines- Armco, Marsteel of Canada
35. Steel productive facility in Phillipines - Armco, Marsteel of Manila
36. Manufacturing precision investments castings in Japan- TRW, Nitsubishi Steel.
37. Terninox (Italy); Manufacturer of stainless steel- U.S.S.
38. Integrated steel producer-U.S.S., Altos Hornos de Vizcaya (Spain)

39. Integrated Steel mill - U.S.S., Altos Hornos de Mediterraneo, AHV, (Spain)
40. Automotive parts - U.S.S., Brazco-Mapre (Brazil)
41. Automotive parts - U.S.S., FHS Stahlverformung GmbH.
42. Automobile floors- U.S.S., Triangel Daemstoffwerk GmbH.
43. Fertilizer plant; U.S.S., Zqai Agro Chemicals, Ltd, India.
44. Tubing & Pipe producer : Interpersa, U.S.S.
45. Steel processing--U.S.S. Metesa (Nicaragua)
46. Guatemalan Nickle - Hanna, International Nickle of Canada
47. Labrador Mining & Exploration- Hanna, Hollinger Mines
48. Aciercies de Paris et d'Outreau - U.S.S.
49. R.P Iron Co.- Texas Gulf, Hanna, Standard Oil of Calif., Clevelandd Cliffs, Japanese interests.
50. Atok Platinum Mines - U.S.S.(South Africa)
51. Ferralloys Ltd.- U.S.S. (South Africa)
52. Zecrust Chrome Mines - U.S.S. (South Africa)
53. Computer Technology-TRW, T. Eaton, Stelco, Canada Systems group.
54. Huron Land- Bethlehem, Youngstown, Interlake, Stelco
55. Fertilizer plant- U.S.S, Zuari Agro Chemicals
56. Wiredrawing plant in Mo.- Armco, Leggett & Platt
57. Gulf Power Project- Hanna, Hollinger, Armco, Wheeling-Pittsburgh, Republica, Youngstown.
58. Inland Project- Hurlbut Calcium & Chemical, Illinois Leadshot, A.U. Smith, Bishop Coal.
59. Joint Aluminum Venture- National, Southwire Co.
60. Illinois Leadshot- Inland, Division Lead
61. A.U. Smith Inc- Inland, A.U.Smith Corp.
62. Uranium Exploration- Cleveland Cliffs, Getty, Skelly Oil
63. Thunderbird Venture- Cleveland Cliffs, Pioneer Nuclear Inc., Getty, Skelley Oil, Texas Eastern Oil, Thunderbird Petroleum
64. Paraho Project- Arco, Cleveland Cliffs, Exxon, Gulf, Kerr McGee Co., Arthur McGee and Co.
65. Colony Development Corp.- Armco, Sohio, Oil Shale,
66. Mountain City Mines- Cleveland Cliffs, duPont de Nemourse and Co.
67. Forest Products- U.S.S., U.S.Plywood-Champion Papers.

The Fusfield study of 1958 revealed the joint subsidiaries in the iron and steel industry fell mainly into two groups: some 53 intra-industry subsidiaries controlled by firms within the industry itself, and 17 inter-industry enterprises controlled jointly by firms in the

iron and steel industry and companies in other industries. All told, the 1958 study identified some 70 joint subsidiaries in which firms in the iron and steel industry had an interest. An additional 5 companies about which adequate information was lacking, also were believed to have fallen into the category of joint subsidiary, bringing the total to 75.

The present investigation has discovered the existence of 112 joint subsidiaries plus 6 additional companies in which complete information is lacking but which seem to be joint subsidiaries. By including the last six the total rises to 118 joint subsidiaries within the iron and steel industry as of Dec. 31, 1973. Of great significance is the fact that of the 118 present ventures only 22 remain from the Fusfield study, while 96 are of more recent vintage. Therefore, in the interim between the current work and the earlier study, 55 of the joint subsidiaries were terminated, but 96 new ones were initiated. This suggests that the members of the industry are constantly seeking each other out in order to join together in new undertakings. The continual process of forming new subsidiaries does reveal the existence of change within the industry, but careful scrutiny of the data indicates that the change takes place within a continuum of power. For instance, Fusfield found

two groupings of large producers bound together by an interlocking network of ownership. Today, these basic categories still remain but are most closely linked to each other than in the past.

The first group is comprised of the Bethlehem Steel Corporation, Lykes-Youngstown, Interlake, the Steel Company of Canada, and Pickands-Mather. Together and in joint subsidiaries this group has complete control of eleven joint undertakings. In addition, two or more members participate together in three subsidiaries along with other important steel interests. The eleven fully controlled ventures all represent examples of backward vertical integration: ten are mining companies and one is a coal company. The two partially owned firms are also involved in iron mining.

The Bethlehem group is more closely held together through patterns of ownership of the parent companies' stock. Pickands-Mather plays the primary role here, owning substantial interests in the Interlake Corporation and a lesser interest in Lykes-Youngstown. The fact that Pickands-Mather is now a subsidiary of Diamond Shamrock, a corporation with extensive chemical and petroleum holdings, helps to integrate the Bethlehem group with major oil interests. The number of interlocking joint interests that distinguish the Bethlehem group are revealed in Table III.6, which illustrates the number of companies in which

each firm has a part interest with each of the other firms in this group.

Table III.6 Joint Subsidiaries: Bethlehem Group

	Bethlehem	Youngst.	Interlake	Stelco	P-M	# of Subs.
Bethlehem	-	5	5	3	2	9
Youngstown	5	-	6	6	1	9
Interlake	5	6	-	6	1	10
Stelco	3	6	6	-	1	12
Pickands-Mather	2	1	1	1	-	4

The second significant group affiliated through jointly owned subsidiaries is the Cleveland interests. This bloc consists of the Cleveland-Cliffs Iron Company, the M.A. Hanna Company, National Steel Corporation, Wheeling-Pittsburgh Steel Corporation, Inland Steel, Republic Steel, Jones and Laughlin Steel, and Armco Steel Corporation. It also includes, to a lesser extent, the McLouth and Sharon Steel Corporations. In addition, there are important connections between the Cleveland and Bethlehem interests, especially through joint subsidiaries with Lykes-Youngstown and Bethlehem.

The data reveal the existence of 24 joint subsidiaries wholly controlled by the Cleveland group. Of the 24, 21 represent examples of backward vertical integration, consisting of iron and coal mining firms; two are management and consulting companies; and one is a fabricator of steel pipe. Table III.7 shows the complex web of ownership relations of the Cleveland group.

Table III.7 Joint Subsidiaries: Cleveland Group

	Natl	Wheel-	Arm-	In-	Rep	CC	Shar-	J&L	Han-	MA	McL	#
		ing	co	land			on		na	Hanna		
Natl	-	2	-	-	5	1	1	2	3	1	1	16
Wheel-	2	-	2	4	3	3	1	4	5	-	-	24
ing												
Armco	-	2	-	1	2	-	-	-	1	-	-	6
Inland	-	4	1	-	-	1	-	-	3	-	1	10
Repub	5	3	2	-	-	3	2	3	2	-	1	21
CC	1	3	-	1	3	-	3	4	1	-	3	19
Sharon	1	1	-	-	2	3	-	1	-	-	2	10
J&L	2	4	-	-	3	4	1	-	-	-	-	14
Hanna	3	5	1	3	2	1	-	-	-	1	2	16
MA Hannal	-	-	-	-	-	-	-	-	1	-	-	2
McLouth	1	-	-	1	1	3	2	-	2	-	-	10

As a result of a proposed merger by Cyrus Eaton in the late 1920's and early 1930's, a merger which failed to materialize, the Cleveland Cliffs Iron Company holds minority interests in four of the steel corporations in the Cleveland group. The stock ownership by Cleveland Cliffs which further ties the interests of the group together consists of a total of approximately 4.5 million shares in the Inland Steel Corporation, Jones and Laughlin, Republic, and Wheeling-Pittsburgh Corporations. Control of an additional 169,000 shares of Lykes-Youngstown serves to strengthen the nexus between the Cleveland and Bethlehem groups, a bond already cemented by some 10 subsidiaries jointly owned by combinations of the two groups. The influence of the Cleveland Cliffs Iron Company does not end here. In fact, the influence of the entire Cleveland group was extended during the 1960's when, as a result

of an agreement with the Cyclops Corporation, a successful tender offer allowed Cliffs to gain control of over three million shares of Detroit Steel while Cyclops acquired the physical assets of Detroit.*

The fact that two major groups can still be identified confirms the previous findings of Fusfield and is indicative of the general stability of corporate ownership patterns within the American steel industry, patterns suggesting a higher degree of centralization and concentration than is generally recognized. Indeed, in 1972 the Cleveland group, including Cyclops-Detroit in which Cleveland Cliffs owns significant stock, produced over 53 million net tons of steel, almost twice as much as U.S. Steel and about 40% of all steel produced for that year. The Bethlehem group was responsible for about 25 million tons or about 19% of production. The two groups combined with U.S. Steel put out approximately 108 million net tons or roughly 83% of the steel produced in 1972.

It is not entirely accurate to view the groupings as single entities and thus analyze the steel industry as if there were three major producers: U.S. Steel, the Bethlehem interests, and the Cleveland group. To do

*The Cleveland group is knit even closer together through the 27% ownership of M.A. Hanna and the National Steel Corporation. M.A. Hanna also has interests in the Iron Ore Company of Canada through the Hollinger North Shore Exploration Company. As noted in Table III.4, several members of the Cleveland group participate in Iron Ore of Canada.

so is to oversimplify the problem and ignore the hard fact that in most cases each firm is financially independent and therefore primarily concerned with its own success in terms of its annual profit and loss statement. Still, the viewing of the blocs as single entities does not distort the reality of the industry. For joint ventures combined with a network of stock ownership of member firms, as in the case of the Bethlehem and Cleveland groups, allow for extensive planning and coordination of the activities of the members of the group. The collaboration inherent in the practice of joint subsidiaries can not only prevent price disruptions by spreading the risk, but raises fundamental questions concerning pricing and other policies, such as, for instance, the degree of utilization of productive facilities of the major steel producers. This problem has been stated in the following terms:

A joint venture between large competitors, regardless of its purpose and regardless of how small it may be in relation to their total business will inevitably result in close association and collaboration between the parties.

22

This is significant, for members of both groups participate with each other in 12 joint subsidiaries,

²²Frederick M. Eaton, "Joint Ventures," Anti-trust Law Symposium, proceedings of the fourth Annual Meeting, section on Anti-trust Law, N.Y. Bar Assn. (N.Y.: Commerce Clearing House, 1952) p. 137. Quoted in Fusfield.

which represent 9 additional ventures or 3 times the number of joint subsidiaries than identified in the 1958 study. Moreover, 1 of the 12 joint group subsidiaries - the Mahoning Iron and Steel Company - involves the participation of U.S. Steel. The two groups are thus bound together through participation in joint subsidiaries with U.S. Steel, thereby helping to mold the major steel producers into a more cohesive unit. Table III.8 reveals the industry-wide pattern of ownership by showing the number of joint subsidiaries in which the major firms participate.

Although the basic groups still exist and appear to be bound closer than ever before, the major structural differences between the contemporary industry and its predecessors of two decades are seen in the extraordinary growth of international and inter-industry joint subsidiaries. Indeed, as of 1956, of the 66 joint subsidiaries in which complete information was available, only 26 were inter-industry ventures and there were no international subsidiaries. In fact, the overwhelming majority (43 firms representing 65%), represented instances of backward vertical integration involving iron and coal mining firms. Today's industry, however, is active in 40 international joint subsidiaries, many of

Table III.8

Industry wide Participation in Joint Subsidiaries

[illegible]

which are also inter-industry ventures, and in some 26 domestic inter-industry subsidiaries.* Of the total number of inter-industry and international ventures, 24 or 52% are currently involved in either production (forward vertical integration) or diversification (horizontal integration). Table III.9 lists the international and inter-industry joint subsidiaries.

Table III.9 International and Inter-Industry Joint Subsidiaries

- I. International and Productive (steel)
 1. Armco, Kaiser, Thyssen-Hutts: Pellet Project & Mill
 2. Armco, Marsteel of Canada: Steel producing in Philippines
 3. Armco, Tenhent and Landini: Armco Molly Corp.
 4. Armco, Hanna: Belgium Aluminum Project
 5. Armco, Thyssen-Hutts, Kaiser: \$284 million mill in Australia
 6. Marsteel Co. of Manila, Armco: Steel producing in Philippines
 7. TRW, Nitsubishi Steel: Manufacturing precision investments castings in Japan
 8. U.S.S.: Terninoss (Italy) Manufacturing stainless steel
 9. U.S.S., Altos Hornos de Vizcaya (Spain): Integrated steel producer
 10. U.S.S., AHV, Altos Hornos de Mediterraneo (Spain): integrated steel mill
 11. U.S.S., Brazco-Mapre (Brazil): automotive parts
 12. U.S.S., FHS. Stahlverformung Gmbh (Germany): Automotive parts
 13. U.S.S., Triangel Daemmstoffwek Gmbh, : Auto floors
 14. U.S.S., ZqaiAgro Chemicals, Ltd.(India): Fertilizer
 15. Intupersa (Brazil): Tubing and pipe producer
 16. Metesa (Nicaragua) : Steel processing
- II. International and Mining
 1. Pickands-Mather, Griffith Steel of Canada: Griffith Mines
 2. Hanna, Western Mining Ltd.: Australian Iron Ore
 3. Hanna, Standard Oil of J.J., Empresa Colombia de Miquel: Colombian Nickle Project

*In tabulating the final figures there has been no duplication. If a firm was international and inter-industry, it was included in the international group and counted once.

4. Guatemalan Nickle; International Nickle of Canada, Hanna.
 5. Pickands-Mather, Armstead Ind.; Griffith Mines
 6. Hanna, Hollinger Mining; Labrador Mining & Exploration
 7. U.S.S.; Aciercies de Paris et d'Outreau
 8. U.S.S.; Compagnie Miniere de L'Ogooue
 9. U.S.S.; Prieske Copper Mines (South Africa)
 10. U.S.S.; Africa Triangle Mining Co. (South Africa)
 11. U.S.S.; Amazonian Mineracao (Brazil)
 12. U.S.S.; P.T. Pacific Nickle (Indonesia)
 13. Armco, Falconbridge Nickle Mines; Dominican Ferro-nickle Venture
 14. Texas Gulf, Hanna, Standard Oil of Calif., Cleveland Cliffs, Japanese interests; R.P. Iron Ore.
 15. U.S.S.; Atok Platinum Mines (South Africa)
 16. U.S.S.; Feralloys Ltd. (South Africa)
 17. U.S.S.; Zecrust Chrome Mines (South Africa)
- III. International and Involved in something else
1. McLouth, National, A.G. Zurich; McConco Corp.
 2. Youngstown, Nippon Electric; Nippon Conemisco
 3. Inland, Italian interests; Societe Industria Pro-filate Somaglia, Italia
 4. TRW, T. Eaton, Stelco, Canada System Corp.; Computer Technology
 5. Tankore Corp.; Republic, U.S. Marine Corp.
 6. Bethlehem, Youngstown, Interlake, Stelco; Huron Land
 7. U.S. Zuari Agro Chemical Ltd.; Fertilizer plant
- IV. Domestic Inter-Industry Ventures
1. Inland, A.O. Smith; Inland Project
 2. Wheeling-Pittsburgh, Bundy Corp.; Pittsburgh Liege
 3. Allegheny-Ludlum, N.L. Industries; Titanium Metals
 4. Armco, Leggett & Platt; Wiredrawing plant in Mo.
 5. Burlington, U.S.S.; Aircraft leasing enterprise
 6. Armco, Ogleby Norton; Colombia Transportation Project
 7. National Steel; owns shares in Economy Fuel & Supply
 8. Youngstown; 50% of Flexipipe
 9. Hanna, Hollinger, Armco, Wheeling-Pittsburgh, Republic, Youngstown; Gulf Power Project
 10. Wheeling-Pittsburgh, Pittsburgh Consolidated Coal, Harmar Coal Co.
 11. Hurlbut Calcium & Chemical, Illinois Leadshot; Bishop Coal Co.
 12. National, Southwire Co; Joint aluminum venture
 13. U.S.S., National Distilleries; Mallory Sharon Titanium
 14. Republic, Consolidated Natural Gas, Union Pacific, FMC, Tenneco; Cogas Development Co.
 15. Inland, Hurlbut; Hurlbut Calcium & Chemical Co.
 16. Inland, Division Lead; Illinois Leadshot

17. Inland, Consolidated Coal; Bishop Oil Co.
18. Inland, A.O. Smith; A.O. Smith Inc.
19. AJ Industries, Inland; Pacific Isle Mining Co.
20. Bethlehem, Youngstown, U.S.S., National, Republic, Shananco Furnace Co; Mahoning Ore & Steel Co.
21. Cleveland Cliffs, Getty, Skelley Oil; Uranium Exploration.
22. Cleveland Cliffs, Pioneer Nuclear Inc., Getty, Skelley Oil, Texas Eastern Oil, Thunderbird Petroleum; Thunderbird Venture.
23. Arco, Cleveland Cliffs, Exxon, Gulf, Kerr McGee Co., Arthur McGee Co; Paraho Project
24. Armco, Sohio Petroleum, the Oil Shale Corp., Cleveland Cliffs; Colony Development Operation
25. Cleveland Cliffs, EI, DuPont de Nemourse & Co.; Mountain City Mines
26. U.S.S., U.S. Plywood-Champion Papers, Inc.; Forest Products, Inc.

The data on joint subsidiaries in the American steel industry are of great import. On the one hand, the tendency toward greater centralization through the joint participation of all major interests opens the possibility for policies resulting from industry-wide planning and collaboration. Such policies are liable to take many forms including, of course, the probability of price fixing and planned scarcity. Of equal significance are the more recent tendencies toward inter-industry and international joint subsidiaries. The internationalization of productive facilities and the movement toward diversification are two means of maintaining stability within the industry by spending profits elsewhere. By investing overseas the American steel corporations not only

gain tax and labor saving advantages,²³ but also avoid the pitfall of excess production at home while gaining access to foreign markets.²⁴ The same advantages are attained through diversification. In this case the profits from steel can be invested in areas which need not disrupt pricing and market conditions in the steel industry, thereby avoiding the spectre of overproduction. An additional factor to be considered is that diversification is sometime directed toward products which compete with steel, and in so doing, threaten the market conditions of the industry.

Although as noted above plastics, aluminum, and concrete began to invade former steel markets, three factors tend to mitigate competition from competing materials. First, the basic fact remains that steel still accounts for about 90% of all metals used in the United States.²⁵ Second, while claims have been made that plastics might someday replace steel as the basic structural material, the overwhelming growth of plastics has been

²³For a discussion see Senate Staff Report, Steel Imports, also, Richard S. Thorn, "Steel Imports, Labor Productivity, and Cost Competitiveness," Western Economic Journal, VI, (12/1968), pp. 375-384. G. McMannus, The Inside Story of Steel Wages and Prices, 1959-1967, (Philadelphia: Chilton, 1967); U.S. Congress, Joint Economic Committee, Steel Prices, Unit Costs, Profits and Foreign Competition, Hearing, 1963.

²⁴This was an extremely pressing problem after WWII when the steel industry was reluctant to expand productive capacity in spite of the contention by many economists that steel shortages were likely. See H.W. Broude, Steel Decisions and the National Economy, (New Haven: Yale University Press, 1963). For a discussion of possible consequences of overproduction see W. Pollert, "Profiles of the Future: The Steel Industry," Business Horizons, (June, 1969) pp. 5-15.

²⁵Steel Imports, p. 89.

exaggerated in terms of its competition with steel. Most uses of plastics are in areas where steel had never been considered.²⁶ Finally, in spite of a basic need for steel, the major steel firms have taken important steps in "buying the competition." Most of the integrated producers are in the cement, plastics and specialty metals business. In 1970, for instance, U.S. Steel sold 27.5 million barrels of cement and revealed plans for expanding its cement producing facilities in Chicago. Bethlehem's output in cement was not too far behind. Inland Steel is a leading producer of plastic pipes and U.S.S. Chemicals, a division of United States Steel Corporation and one of the world's largest plastics producers, expanded its share of the plastics market by putting six large new chemical plants into operation between 1969 and 1970.²⁷ This is not surprising, however, in light of the response of its newly appointed president, Edgar Speer, to the question of how U.S. Steel planned to meet competition from the plastics industry. Mr. Speer's reply was simply, "go into the plastics business."²⁸

The same applies for specialty metals. Most of the major producers have specialty divisions including

²⁶ Ibid., p. 90.

²⁷ Annual Reports, Bethlehem, Republic, U.S., National, Jones and Laughlin and Inland Steel Corporations.

²⁸ Hogan, p. 13.

the production of aluminum. National Steel, for instance, entered into the aluminum business in 1969 and attained record levels of production and profit in 1971 despite a depressed market.²⁹

Not only are the large steel plants individually diversifying into products which might compete with steel, but a tendency toward joint subsidiaries and ventures in this direction is now appearing. Table III.10 lists the joint activities by the leading steel firms in control of competing materials.

Table III.10³⁰ Steel Corporations and Competing Materials

1. Belgium Aluminum Project - Armco, Hanna
 2. Colombian Nickel Project - Hanna, Standard Oil of N.J.
 3. Guatemalan Nickel - International Nickel of Canada, Hanna Mining Co.
 4. P.T. Pacific Nickel - U.S. Steel (43%)
 5. Dominican Ferronickel Venture - Armco, Falconbridge Nickel Mines
 6. Concast Ltd. - National, McLouth
 7. Titanium Metals - Allegheny-Ludlum
 8. Flexipipe - Youngstown
 9. Malloy-Sharon Titanium Corp. - U.S.S., National Distilleries
 10. Forest Products, Inc. - U.S.S., U.S. Plywood-Champion Paper, Inc.
-

III

The evidence concerning joint subsidiaries in the iron and steel industry reveals the existence of three

²⁹ National Steel Corp. 1971 Annual Report.

³⁰ See footnote 21.

blocs or "interest groups" within the industry. And, as has been shown, the three groups are not independent but at many junctures participate together through the ownership of subsidiaries, thus creating a single bloc consisting of all the major producers. Joint subsidiaries, however, represent just one means of control and collaboration; there are others.³¹ Another important method by which group alliances can be formed is through the practice of interlocking directorates. This is not to suggest, however, that any two firms whose directorates interlock should be characterized as members of a cohesive group or bloc. If this were the case, it would be quite simple to connect most of the 500 largest non-financial enterprises into a single group. While this fact is significant, the present work requires sharper tools of analysis to distinguish a cohesive group from a general interlocking directorate, thereby giving analytical meaning to the notion of group or bloc. Obviously, some general guidelines must be established which allow for such a crucial distinction. That is, a distinction should be made between primary and secondary interlocks. A primary interlock exists between companies A and B if a director of A sits on B. If that director also sits on C, a primary

³¹ See A.A. Berle, Jr. and Gardiner C. Means, The Modern Corporation and Private Property, (N.Y.: McMillan and Co., 1933).

interlock also exists between A and C. The second set of relations between A and C also involves an interlock, through A, between B and C. This is a secondary interlock.³²

The distinction between primary and secondary interlocks has helped narrow the meaning of the conception of "bloc" as identified through interlocking directorates. But it does not provide for the identification of interaction of members of the steel industry through interlocks. In other words, the primary concern of this section of the study is not with the relationships of individual steel firms with other companies, but the relationships between the individual steel companies through other companies. Therefore, to determine the extent to which steel companies do interact through interlocks, the focus shall be on what is called "dual primary interlocks." A dual primary interlock exists in the steel industry when the directors of two or more steel firms sit together as directors of a third company. The fact that members of "competing" steel corporations sit on the board of a third company need not imply control of the third firm by the steel interests. But it does provide an opportunity for key members of opposing steel companies to iron out their differences by coordinating their efforts through a third party.

³² This distinction is owed to Paul Sweezy, The Present as History, (N.Y.: Monthly Review Press, 1962).

The leading steel corporations are involved in a total of 54 dual primary interlocks. Only 3 of them involve companies that have been identified as joint subsidiaries. Hence, 51 additional corporations have been identified through the practice of dual interlocking directorates. The pattern of interlocks seems both to reinforce and question trends discovered in the ownership of joint subsidiaries. On the one hand, the Bethlehem group appears dissipated; members of this group exclusively participate in just one dual primary interlock. The Cleveland group, however, is held together through a series of some 28 interlocks. Further evidence distinguishing the Cleveland group as a cohesive bloc is seen in the fact that one of the 3 interlocks which is also a joint subsidiary of the Cleveland group has directors from member firms of the Cleveland group which do not participate in the ownership of the subsidiary. The Marquette Iron Mining Company is jointly owned by Jones and Laughlin and the Cleveland Cliffs Iron Company, but its directors from the steel industry are from the Republic and Wheeling-Pittsburgh Steel Corporations. The Cleveland interests are tied even closer together through the practice of dual interlocks among its members. Cleveland Cliffs, for instance, has one director on the board of Republic and still another on the Jones

and Laughlin board of directors. Table III.11 lists and categorizes the dual primary interlocks according to the patterns in which they appear.

Table III.11* Primary Dual Interlocks

Cleveland Group-

1. Cleveland Trust; Cleveland, Republic
2. Can Del Oil; Cleveland, Republic
3. Marathon Oil; Armco, Republic
4. P & G; Armco, Republic
5. Iron Ore Co. of Canada; National, Wheeling-Pittsburgh, Hanna
6. Marquette Iron Mining Co.; Republic, Wheeling-Pittsburgh
7. Mesaba Cliffs Mining Co.; Republic, Wheeling-Pittsburgh
8. Pittsburgh National Bank; Jones & Laughlin, National, Hanna, Wheeling-Pittsburgh
9. Standard Oil of Ohio; Cleveland, Republic
10. Gulf Oil; Cleveland, Republic
11. American Magnesium; National, Hanna
12. Bankers Trust of N.Y.; National, Hanna
13. Hollinger North Shore Exploration Co.; National, Hanna
14. Labrador Mining & Exploration; National, Hanna
15. Massey Ferguson Ltd.; National, Hanna
16. National Bank of Detroit; Hanna, National
17. National City Bank of Cleveland; National, Hanna, Republic, Cleveland
18. Pittsburgh National Bank; National, Hanna, Jones & Laughlin
19. Quebec North Shore & Labrador; National, Hanna
20. St. John d'el Rey Mining Co.; National, Hanna
21. Southwire Co.; National, Hanna
22. Sun Life Assurance of Canada; National, Hanna
23. Consolidated Coal; Wheeling-Pittsburgh, Hanna
24. I.B.M.; Hanna, Republic
25. Medusa Corp.; Cleveland, Republic
26. Sprayon Products; Cleveland, Republic
27. Rubberset Co.; Cleveland, Republic
28. Liberia Mining; Cleveland, Republic

Combinations-Bethlehem Group and Cleveland Group

1. Sherwin Williams ; Republic, Cleveland, Interlake
2. Northern Illinois Gas Co.; Interlake, Inland

*Data for Table III.11 have been obtained from Moody's Industrial Index and Standard & Poor's List of Corporate Executives. Also, Commercial Banks and their Trust Activities: Emerging Influence in the American Economy, Staff report for the Subcommittee on Domestic Finance, Committee on Banking and Currency, House of Representatives, 90th Congress, 2nd session.

3. Midland Ross Co.: Interlake, Republic
4. Rockwell Manufacturing: Interlake, Wheeling-Pittsburgh
5. Continental Illinois Corp.: Inland, Bethlehem
6. Continental Illinois Corp. National Bank and Trust: Bethlehem, Inland
7. General Electric: Bethlehem, Wheeling-Pittsburgh, Hanna
8. Ohio Bell Tel.: Youngstown, Republic, Interlake
9. Texaco: National, Hanna, Youngstown
10. Eaton Corp.: National, Hanna, Republic
11. Society National Bank of Cleveland: Interlake, Cleveland, Republic
12. Society Corp.: Cleveland, Interlake, Republic

Bethlehem Group Only-

1. Youngstown Steel Door: Youngstown, Interlake

U.S. Steel Group (with one group)

1. A.T. & T.: U.S.S., Republic
2. Burlington Northern: U.S.S., Inland
3. Chemical New York Corp.: U.S.S., Cleveland
4. Cities Service: U.S.S., Bethlehem
5. General Motors: U.S.S., Hanna
6. Morgan and Co.: U.S.S., Bethlehem
7. Mutual Life: U.S.S., Youngstown
8. Metropolitan Life Insurance Co.: U.S.S., Bethlehem
9. N.Y. Life Insurance Co.: U.S.S., Cleveland

U.S. Steel (with both groups)

1. Chemical Bank: U.S.S., Republic, National, Bethlehem, Youngstown, Cleveland
2. Morgan Guaranty and Trust: Hanna, U.S.S., Bethlehem

As the data of Table III.11 indicate, the decline of the Bethlehem group as a bloc identifiable through dual primary interlocks has led to a greater unity throughout the industry, thus reinforcing the findings on joint subsidiaries and suggesting the gradual merger of the blocs into a larger single interest group. Indeed, the data reveal 12 instances tying the Cleveland and Bethlehem groups together through mutual participation in dual primary in-

terlocks. The role played by United States Steel is also edifying in this respect. The country's single largest producer of steel is a participant in 11 dual primary interlocks. Of the 11, 6 are with members of the Cleveland group and 4 with Bethlehem and Youngstown. Two additional companies, the Morgan Guaranty and Trust Company and the Chemical Bank of N.Y., have directors from all three groups: U.S. Steel, Bethlehem, and Cleveland.

The dual primary interlocking directorates between the steel companies and the banks are of special interest in that there is evidence to suggest that the banks often serve to centralize power in the industry. The cases of the Morgan Guaranty and Trust Company and the Chemical Bank of N.Y. are representative. Not only do these financial institutions have directors from each of the three major interests, but Chemical Bank binds the industry closer together through its holdings of 6.0% of the preferred and 8.0% of the common stock of the Wheeling-Pittsburgh Steel Corporation. A look at the other banks involved in dual primary interlocks provides more of the same. Table III.12 shows the banking dual directorates and their steel or steel-related holdings.

<u>Table III.12 Steel and Major Banking Interests</u>		
<u>Bank</u>	<u>Interlocks</u>	<u>Outstanding Stock Held</u>
Pittsburgh Natl Bank	Jones & Laughlin	8.3% C National Steel
	Hanna Mining	7.0% C Washington
	National Steel	6.4% Union Electric
Bankers Trust	National Steel	11.0% C Bundy Corp.
	Hanna Mining	
National Bank, Detroit	National Steel	6.9% C McLouth
	Hanna	
National Bank, Cleveland	National Steel	
	Hanna	
Cleveland Trust	Cleveland Cliffs	5.9% C Ohio FerroAlloy
	Republic	

Chemical Bank	U.S.S.	6.0% P Wheeling-Pitts-
N.Y.		burgh
	Republic Steel	8.0% C
	National Steel	
	Bethlehem Steel	
	Youngstown	
	Cleveland Cliffs	
Morgan Guaranty	Hanna Mining	
and Trust	Bethlehem	
	U.S.S.	

Before analyzing the data of Table III.12, a further word of caution is warranted. The interlocks between banks and steel companies need not imply the financial control of one over the other.³³ Indeed, with the present available information it might just as well be argued that the steel companies control the banks as much as it might be contended that the banks run the steel corporations. For while the steel firms often do turn to the banks for loans, the banks are also likely to need the steel companies, which by the way, tend to have low debt structures, so as to issue revenue producing loans. In any case, the dual interlocking directorates between steel and the banks do provide additional junctures allowing for possible collaboration and coordination among the various steel companies. The data of Table III.12 support this contention. The evidence suggests that the banks are instrumental in further cementing the Cleveland group together. Bankers Trust of N.Y., Cleveland Trust, the National Bank of Cleveland, the National Bank of Detroit, and Pittsburgh National Bank all have directors from two or more steel firms associated with the Cleveland bloc. Moreover, three of the banks, the

³³For a discussion see Paul Sweezy and Harry Magdoff,

National Bank of Detroit, Bankers Trust of New York, and Pittsburgh National Bank have stockholdings further uniting the Cleveland group. The National Bank of Detroit, with directors from National Steel and the Hanna Mining Company, also owns 6.9% of the outstanding common stock of McLouth Steel. Bankers Trust of New York, with directors from the same two firms, controls 11.0% of the outstanding common stock of the Bundy Corporation. This is significant in that Bundy participates with Wheeling-Pittsburgh in the ownership of Pittsburgh Liege, a joint subsidiary. Bundy also manages the European plants of Armco Steel in return for a percentage of Armco's profits. Finally, Pittsburgh National Bank not only has directors from National, Jones and Laughlin, and Hanna Mining, but holds 8.3% of outstanding common stock of National and 7.0% of Washington Steel. In addition, Pittsburgh National Bank is controlled by Mr. Henry Hillman who owns the controlling interests of the Wheeling-Pittsburgh Steel Corporation. Hillman also serves on the Board of the Chemical Bank of New York which has interlocks and stockholdings in the U.S., Bethlehem, Republic, Youngstown, and the Wheeling-Pittsburgh Steel Corporations, as well as the Cleveland Cliffs Iron Company.

As noted above, the Chemical Bank of New York and Morgan Guaranty Trust serve to connect the Cleveland

"Resurgence of Financial Control: Fact or Fancy," in Sweezy & Magdoff, The Dynamics of U.S. Capitalism, pp. 113-144.

interests with Bethlehem and United States Steel. This nexus is strengthened through a single primary interlock between U.S. Steel and the Chase Manhattan Bank of New York. For Chase Manhattan also owns 6.2% of the outstanding common shares of National Steel and 5.2% of Allegheny-Ludlum.³⁴

IV

There is overwhelming evidence indicating higher degrees of concentration and centralization in the American steel industry than many apologists and spokesmen of the celebration of American society would like to admit. Analysis of steel production by product mix, the question of joint subsidiaries, and the degree of dual primary interlocking directorates reveal a network of interdependence among the relative handful of steel corporations

³⁴The centralization of the industry through banks might be pushed even further by focusing on Mr. Hillman's role as director of the Rockefeller-dominated Chemical Bank, for the Chase Manhattan Bank of New York is also dominated by what some identify as the Rockefeller interests. From this it might be concluded that the two banks plan together and pool their resources to control the steel industry through ownership and interlocks. The assumption of this position, however, is that banks do control corporations through their financial practices. As noted in the text above, there is evidence to suggest the opposite and such assumptions may not be accurate. For a study of this question see J.C. Knowles, The Rockefeller Financial Group, (N.Y. M.S.S., 1973). Also, a further means by which centralization might be increased is the intermovement of personnel within the industry, a rare but occasional occurrence.

responsible for almost 90% of all steel produced in the United States. The ownership pattern of joint subsidiaries reveals the existence of two basic blocs consisting of the Bethlehem-Youngstown group and the Cleveland group. At many points, however, the two blocs participate with each other and with U.S. Steel in the ownership of subsidiaries. This provides many opportunities to collaborate and plan on an industry-wide basis. The data concerning dual primary interlocks supports the notion that power in the steel industry is centralized in a few companies. The significance of this centralization lies in the fact that it reduces the number of points in which the economic policies of the industry's giants are likely to be challenged by some countervailing force. A fundamental question, then, must focus on the ends of the economic power of "Big Steel," as well as the overall function of these goals in American society.

In spite of the concantenations of Berle, Means, Galbraith, and Bell of the changing nature of the corporation, there is a great deal of evidence, in the steel industry at least, suggesting that the corporate conscience

remains the corporate pocketbook.³⁵ Indeed, the separation of management and ownership has not divorced management from the profit motive.³⁶ A system of bonuses, stock options and other financial rewards are tied to the annual profit and loss statements with the intended purpose of providing management with incentives to roll up high profits. In many instances executive compensation is directly tied to the corporations' financial performance. This is especially the case with Bethlehem Steel today. Indeed, as early as 1956, 84.5% of officer-director compensation for that company was in the form of bonuses; a mere 15.5% represented direct salaries. During the mid and late 1950's, eleven Bethlehem executives ranked among the eighteen highest paid industrialists in the United States. Eugene C. Grace, Bethlehem's Chairman at that time led the list with earnings of over \$800,000. Today, Bethlehem's top men earn approximately \$300,000. annually.³⁷ The Inland Steel Corporation also follows the direct bonus plan. Inland's incentive compensation plan allows for officer-director bonuses of 4% on the first \$20 million consolidated earnings;

³⁵ For a critique of the alleged separation between management and ownership see Gabriel Kolko, Wealth and Power in America, (N.Y.: Praeger, 1962).

³⁶ In the U.S. steel industry it might be argued that the separation between management and ownership has been overstated. For of the 123 officers of the top 9 firms, 36 or 29% also sit on the boards of directors, thus linking management with ownership.

³⁷ The Brookings Institute's 1952 census of stockholders has found that top echelon managers of large corporations own more stock than any other group in society. Kolko, Wealth and Power in America, p. 67.

3% on earnings in excess of \$20 million, and an additional 2% on anything above 35 million. In 1972 the fund was charged with \$2,376,000. Table III.13 summarizes published compensation for top level steel executives. The amounts are understated in that they do not include funds from expense accounts and earnings in stock, but do reveal the rise in corporate salaries for the profitable year of 1974.

Table III.13³⁸ Salaries of Top-Level Steel Executives

<u>Armco Steel Corp.</u>	(Thousands of \$)
C. William Verity Jr.	\$358.
Harry Holiday Jr.	263.
D.C. Boone	233.
<u>Bethlehem Steel Corp.</u>	
Lewis W. Foy	364.
Stewart S. Cort	355.
Frederic W. West Jr.	230.
<u>Inland Steel Corp.</u>	
Frederick G. Jaicks	325.
George A. Ranney	246.
Michael Tennenbaum	240.
<u>National Steel Corp.</u>	
George A. Stinson	371.
William S. Schwoebel	178.
<u>Republic Steel Corp.</u>	
W. J. Delancey	242.
R. E. Waldo	131.
<u>United States Steel Corp.</u>	
Edgar B. Speer	385.
R. Heath Larry	380.
Wilbert A. Walker	325.

While firms such as Bethlehem and Inland provide direct bonuses for its officers, other steel corporations are rewarded more indirectly through stock options.³⁹ The use of stock options, however, is significant in two ways. First, incentive is provided so as to increase the

³⁸Data taken from "Executive Compensation: The Ups and Downs are Sharper," Business Week, (May 12, 1975), pp. 99-101.

³⁹Ibid.

size of the option as well as the stock market price. Second, when the options are exercised it gives management a direct ownership interest in the corporation.⁴⁰ The United States Steel Corporation was one of the first steel concerns to provide stock options for management and as of December 31, 1971, key employees held options on 521,300 shares, having a market value exceeding \$25 million. The dividends paid by the shares should amount to over \$1½ million for 1974.⁴¹

The cases of the Inland, U.S., and Bethlehem Steel Corporations all provide examples of the nexus between profit and performance in the United States steel industry. The above cited examples are by no means unique, all of the leading firms have similar programs. The consequences of such practices, however, are of great importance for, as the recent history of the oil industry has demonstrated, profit and social responsibility are often in conflict. In a centralized and concentrated industry, such as the contemporary steel industry, it is likely that, in the absence of countervailing power, the actual practices and policies of the major corporations

⁴⁰ Ibid.

⁴¹ The directors of the U.S. Steel Corp. have decided that U.S. Steel's executive compensation program is too conservative and in need of reform. The following statement, quoted from a proposed executive compensation plan submitted to the stockholders provides a good example of the relationship between bonuses and corporate profit. "This plan is designed to promote the success of the corporation by making possible the payment of incentive compensation to those key executives determined by the Directors to be eligible to receive incentive compensation under the plan. U.S. Steel Corp. Notice of Annual Stockholders Meeting and Proxy Statements. May 6, 1974.

usually lead to ~~higher~~ prices ~~and~~ technological stagnation. Indeed, arguments based on the premise that economic power is on the wane are confronted with increasing levels of economic consolidation which, in turn, serve to indicate that the priorities of the corporation remain economic, not social. All of this raises further questions, for if corporate power is on the ascension, the role of knowledge as a source of power is rendered dubious, especially in view of the likelihood that administrators and technocrats serve the all-encompassing corporate entities. The possibility of technological stagnation in the domestic steel industry as a function of economic concentration must pose hard empirical questions to those scholars, such as Daniel Bell and John Kenneth Galbraith, who contend that power is shifting to a new technological elite, an elite concerned more with technological expansion than profit. During recent decades, technological expansion has not been the practice in the American steel industry and attempts, such as the Voluntary Restraint Agreement, to restrict steel imports into the United States might best be understood as an effort on the part of the industry to reduce competition thereby allowing for maximum profit with minimum levels of new capitalization and technological innovation. This shall be examined in the proceeding chapter.

CHAPTER IV ECONOMIC POLICY AND THE VOLUNTARY RESTRAINT AGREEMENT

The classical notion of competitive capitalism is rooted in the premise that production is carried out by numerous small enterprises. As myriad small units control production, economic power is in flux and the activities of a single producer cannot influence the market. On the contrary, the free market, i.e., the law of supply and demand, shapes and molds the policies and practices of the many small firms. But, as supply and demand eventually reach equilibrium, profits drop so as to approach zero. To prevent a significant decline in profits while remaining competitive, the productive unit must strive for greater efficiency in order to survive. This leads to technological innovation. The entire process, then, becomes one of progressive change catalyzed by the tendency of the selling price and productive costs to approach each other, and the struggle centers on the problem of reducing costs in light of declining prices. The cru-

cial factor which ultimately justifies the competitive system is that it allows individuals to pursue their private interest while simultaneously promoting the public interest through the efficient allocation of communal goods and services.¹

The great degree of concentration and centralization indicates that the United States steel industry apparently does not fit the classical model.² This opens the door to many important and familiar questions. For if members of the domestic steel industry are not sensitive to the institutional controls of the market, to whom are they responsive? Do the giants of the industry collaborate to use their economic power in pursuit of the creed of profit, or do they follow some notion, however vague, of the public interest? Analysis of the import question and steel's activities since the first Voluntary Restraint Agreement of 1969 limiting steel imports,* re-

¹ Adam Smith states the relationship between private self-interest and the public interest in the following terms: "As every individual...endeavors as much as he can both to employ his capital in support of domestic industry, as so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest nor knows how much he is promoting it...by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention...By pursuing his own interest he frequently promotes that of society more effectively than when he really intends to promote it." Adam Smith, The Wealth of Nations, (N.Y.:Modern Library, n.d.)

² See Chapter 2 above.

* Under the Voluntary Restraint Agreement the steel

veals that for various reasons the domestic industry is losing its competitive advantage to foreign producers. But rather than meet the new competition head on, the American producers have turned to government to ensure their continued control over the domestic market while artificially maintaining high profits through dubious pricing policies and investment programs. Indeed, the economic arguments justifying import quotas are exceptionally weak; so weak that the industry has all but abandoned the defense on economic grounds and instead has substituted a blanket appeal to the ever-amorphous idea of national security.

I

There is much evidence in support of the contention that the import problem mirrors the non-competitive practices of the industry. Indeed, the primary attractiveness of imports is rooted in their price advantage; imported steel on the average sells for approximately 20 dollars per ton below domestic steel.³ It is the position of the domestic producers that the lower prices of foreign steel

industries of Japan and the European Economic Community agreed to limit their export of certain steel products to the U.S. The agreement has been sanctioned by the Justice Dept., but the government has no authority to enforce the steel arrangements. Study by the Comptroller General of the U.S. Economic and Foreign Policy Effects of Voluntary Restraint Agreements on Textiles and Steel, (March 21, 1974).

³ Foreign Trade and Tariff Proposals, 1968, Pt. 5. Hearings before the Committee on Ways and Means, House of Representatives, 90th Congress, 2nd session, p. 2094.

represent unfair competition and constitute dumping. A major consequence of this alleged dumping, according to United States producers, is that it eliminates thousands of jobs within the industry and is at least partially responsible for economic recession. Therefore, import quotas are said to be necessary in order to maintain employment and keep the economy healthy.⁴ Careful analysis of the pricing and investment policies of the American industry, however, reveals that while American steel is cost competitive with imports, it is not price competitive.⁵ In fact, in the few instances where the large steel producers lowered or maintained levels in some product lines, the effect was to undersell independent producers and fabricators thereby driving the independents out of business and strengthening the control of the large steel corporations over the domestic market. Import quotas, it was assumed, would end foreign competition while cutting off a primary source of steel for the non-integrated independents.⁶

Since 1947 steel prices have moved in one constant

⁴Leslie S. Northington, Chairman of the A.I.S.I., for instance, 1967 claimed that the elimination of 11 million tons of imported steel would result in employment for an additional 70,000 steelworkers. See Foreign Trade and Tariff Proposals, p. 2090.

⁵For an analysis of production costs in the U.S. steel industry, see Richard S. Thorn, "Steel Imports, Labor, Productivity, and Cost Competitiveness," Western Economic Journal, VI, No. 5, (Dec., 1968) pp. 375-84.

⁶For a comprehensive study see Walter Adams and Joel B. Oslam, "Steel Imports and Vertical Monopoly Power," American Economic Review, LIV, (Sept., 1964) pp. 626-55.

direction: upward. The rise in prices has been the dominant trend even in the face of the loss of markets and increased foreign competition.⁷ The upward trend of steel prices has led the Council of Economic Advisors in 1965 to state:

Between 1947 and 1951, the average increase in the price of basic steel products was 9% per year, twice the average increase of all wholesale prices. The unique behavior of steel prices was most pronounced in the mid-1950's. While the wholesale price index was falling an average of 0.9% annually from 1951 to 1955, the price index for steel was rising an average of 4.8% per year. From 1955 to 1958, steel prices were increasing 7.7% annually, or almost three times as fast as wholesale prices generally. No other major sector shows a similar record. 8

Major domestic steel producers have cited the high labor costs in the United States as the single most important factor behind the high prices of United States steel. The data of Table IV.1 lend credence to the notion that American labor is priced above that of foreign producers even in relation to productivity.

⁷ Report to the President on the Economic Position of the Steel Industry, Cabinet Committee on Economic Policy, p. 14.

⁸ Council of Economic Advisors Report to the President on Steel Prices, (Washington, 1965) pp. 8-9.

<u>Table IV.1⁹ Estimated Labor Costs for Producing Steel and Imports by Country of Origin for 1966</u>					
Country	Unit Labor Costs	Man Hrs. per ton of steel	Hourly Wage Cost	Origin of Steel Imports%	% Increase in Hourly Wages, 1964-66.
Japan	\$14.92	13.81	1.08	39.7	21.0
Luxembourg	17.88	8.68	2.06	13.1	12.1
Netherlands	14.79	6.88	2.15	-	-
Belgium	21.93	11.02	1.99	-	-
France	20.19	12.94	1.56	6.5	5.5
Germany	19.42	10.17	1.91	10.7	14.8
Italy	14.03	8.30	1.69	-	-
U.S.	32.65	7.05	4.63	-	3.1

Table IV.1 reveals that although the United States is second behind the Netherlands in labor productivity (the reciprocal of man hours per ton) of steel, high wage rates give the United States the highest unit labor costs.* Conversely, Japan ranks at the bottom in labor productivity but has the second lowest unit labor costs per ton. The role of labor costs as a leading factor in the import problem is seen in the strong inverse correlation between labor costs and imports. Those countries with the lowest labor costs tend to be responsible for

⁹ Data from the A.I.S.I. for 1966, Annual Statistical Report. The year 1966 was chosen for examination because it represents a mid-point in the history of imports and allows for analysis of steel's activities in light of our findings. Also, the data have several shortcomings: (1) It takes no account of the product mix. (2) Fringe benefits paid out of taxes to foreign workers are not included. (3) Only the cost of production workers is considered. For a more complete discussion of these deficiencies, see Thorn, "Steel Imports, Labor Productivity and Cost Competitiveness."

* Unit Labor Costs are obtained by multiplying the average man hours per metric ton of steel by the hourly gross annual wages. Hourly wages include average direct wages, overtime, bonuses, and social insurance contributions, e.g., paid vacation and holidays, made by the employer.

imports. The position of Belgium, Germany and France, however, which have almost identical average unit labor costs but differ greatly with regard to imports, suggests that factors other than wage costs enter into the market considerations of foreign steel producers.

That considerations other than wage costs are significant is revealed in the fact that wage rates have risen faster in foreign countries than in the United States during 1964-66 and, with the single exception of the United Kingdom, have increased most rapidly in those countries with the lowest wages. In spite of this tendency, foreign steel producers still have a high labor costs advantage. Indeed, based upon the data of Table IV.1, economist Richard Thorn estimates that, assuming an average price of steel as 118 dollars per ton, foreign steel producers "have an average absolute labor cost advantage at the mill ranging between 6-15% of the unit price of steel."¹⁰

Labor, however, is not the sole determining factor of production costs. In fact, labor costs usually comprise much less than 50% of total production expenses in the United States, with materials accounting for approximately 50% and the remainder going to capital expenditures. Significantly, materials and capital layouts represent a higher proportion of the aggregate costs of foreign producers, both of which are absolutely higher than in the American industry.

¹⁰ Data taken from Thorn, "Steel Imports, Labor Productivity, and Cost Competitiveness."

The three basic materials for steel production - iron ore, coal, and manganese ore - account for about 46% of the cost of steel-making materials in the United States. As the domestic industry imports the bulk of its iron and manganese ores, and as both foreign and American producers find imported ores to be competitive with domestic ones, there are no significant differentials between the United States and foreign producers. Differences arise in the use of coal. It is known that coke made from European coal is more expensive and of inferior quality. Since the rebuilding of their destroyed steel mills in the mid-1950's, both the European and Japanese steel producers import the greater part of their coal from the United States.¹¹ Therefore, if it is assumed that European and Japanese production is based upon imported coal from America, the coke costs of the most efficient plants are approximated, and the disparity in the cost of coke between American and foreign producers is a function of the differences in ocean freight rates. Freight rates vary according to port of destination and the size of the freighter. According to a major exporter of coal, freight rates per gross ton of coal were as follows.

¹¹ U.S. Exports of Bituminous Coal to Japan and Europe, 1955-1974. Also, Correspondence with National Coal Assn.

Destination	40,000 ton	80,000 ton ¹²
	Vessels	Vessels
Norfolk to Japan	\$5.50	\$4.40
Norfolk to W. Europe	3.50	2.80

Just as freight rates are a cost factor in the shipping of raw materials, so are they a major factor in transporting finished products to foreign markets. To bring the finished steel to the United States involves further expense. The price for shipping steel from Japan to west coast ports of the United States during 1966 ranged from \$18.65 and \$22.33 per net ton; from Western Europe to Atlantic ports the shipping costs were between \$13.97 and \$21.00, depending on the product.¹³

Capital costs are another factor to be considered. Between 1956 and 1966 the American industry invested 14.9 billion dollars and charged off 9.6 billion in depreciation, amortization, and depletion. During this period steel capacity was increased by some 36 million tons at an average cost of \$149 of net investment per ton. With depreciation differential calculated, the Japanese producers have a capital advantage of \$10 per ton and the European have a \$.5 per ton advantage.*

¹² Ibid., p. 378. See also, Hearings, Committee on Finance, U.S. Senate, 89th Congress, 2nd session on Senate Resolution 149. A resolution requesting the President to cause a study of imports of steel mill products to be undertaken by the Dept. of Commerce, Senate Staff Study, Steel Imports.

¹³ Thorn, p. 378.

*The American industry has claimed that the cost of new capital is about 350 per ton. This figure, however, is based upon a financial depreciation which is considerably in excess of actual deterioration, thus arbitrarily

By adding the various components of cost differential an approximate assessment of the total cost differentials of foreign steel producers is obtainable. Table IV.2 makes separate calculations for Japan and the major European producers.

Table IV.2 ¹⁴ Average Cost Differentials per Metric Ton Between U.S., Japan, and E.E.C.		
	Japan	ECC
Estimated unit wage cost differential	\$-17.63	\$-18.62 to -10.72
Coke, ocean freight to foreign producer, 1967	3.60-4.65	2.37 to 2.96
Steel, ocean freight 1966 rates	18.65-22.33	13.97-21.00
Total differential, excluding capital	4.64-9.25	2.28-13.24
Estimate of capital cost differential	-10.00	-5.00
Average tariffs	7.00	7.00
Total Cost Advantage	1.64 - 6.25	-0.28 - 15.24

The data of Table IV.2 reveal that lower transportation costs, capital costs, material costs, and tariffs more than offset the cost disadvantage the U.S. industry incurs through higher unit wage labor costs. The surprising fact that foreign producers suffer slightly higher costs is given further support in light of data on profit rates. For the United States industry is by far the most profitable. Table IV.3 lists net profits after taxes as a percent of total assets.

increasing the cost of new net investment. Also, in discussing capital costs it has been assumed that there are no significant differences in the cost of capital. This assumption is based on the premise that while interest rates in the U.S. are much lower, foreign industries have attained lower costs of capital through governmental low cost loans and tax advantages. For a discussion see, Thorn, p. 379; Report to the President, esp. pp. 43-52.

¹⁴Thorn, p. 380.

<u>Table IV.3¹⁵ Profits After Taxes as % of Total Assets</u>	
<u>Country</u>	<u>1965</u>
Belgium	0.5
Luxembourg	4.9
Netherlands	4.7
Germany	1.5
France	.3
Italy	1.0
Japan	2.0
U.S.	3.7

Although the data of Table IV.3 reveal that the profits of the United States steel industry for 1965 were proportionally greater than its foreign competitors, there is also reason to believe that American profits are understated. In measuring profits as the proportion of after tax earnings of total assets, an accurate standard of comparison can be attained only if operating levels and definition of assets are held equal. During the 1960's, for instance, the above foreign producers were operating at full, or close to full, capacity. Their notion of assets, therefore, included all economically usable capital. This was not the case of the American industry. During the 1960's American producers operated at about 65% of capacity. Included in its capacity level, however, were mills which were not economically efficient. Indeed, Senate hearings calculated that the pricing structure of the United States Steel Corporation enabled it to operate in the black while utilizing only about one-third of its

¹⁵ Data taken from Senate Staff Study, Steel Imports, p. 429.

capacity. The net effect of keeping unusable capacity on the books as capital was to inflate the amount of assets, thereby statistically diminishing the figures on profit.* Interesting enough, in the 1970's when the industry was confronted with expensive environmental standards during a period of peak demand, rather than investing capital in pollution control devices, steelmakers closed down a number of facilities on the premise that they were not economically feasible to operate. This served further to aggravate temporary steel shortages and provided the industry with another justification for increased prices, its turning to government for further tax relief and protection against imported steel.

Based on the aforesaid analysis it follows that a large difference in the prices of steel cannot be attributed mainly to costs but must, to a certain degree, be ascribed to disparities in the pricing policies of the foreign and domestic steel industries. This has led many economists to concur with Richard Thorn's following statement:

It is well within the realm of the competitive ability of the U.S. industry to meet through further improvement in labor productivity, managerial efficiency and reduction in prices. 16

*The notion of profit as the percentage of earnings of net assets indicates that the idea is an accounting procedure aimed at minimizing earnings and maximizing assets so as to reduce taxes and increase cash flow. In this sense the tax laws are indicative of the generic relationship between economic and political power.

¹⁶Thorn, p. 381; also Walter Adams and Joel Dulam, "Steel Imports and Vertical Monopoly Power."

While the American industry has not cut into profits to meet foreign competition, there have been numerous instances whereby the large U.S. steel firms have maintained or raised prices of basic steel, i.e., the primary steel parts from which steel products are made, while selectively lowering the prices of finished steel products. For instance, during the late 1950's as part of industry-wide price increases, the large steel companies raised wire rod prices while maintaining the price level of wire and wire products, all of which are dependent upon wire rod as a raw material.¹⁷ That this was done during a period of rising costs is of interest. For the non-integrated firms and independent fabricators who must depend upon the large producers for basic steel were faced with a squeeze in that they had to pay top dollar for the raw steel while simultaneously being forced to sell the finished product at the identical levels of the integrated firms in order to remain competitive. Indeed, one independent fabricator has testified that the United States Steel Corporation has charged his firm \$6.00 more per ton for the basic material than the price at which he was forced to sell the finished product in direct competition with the large supplier-competitor.¹⁸

¹⁷ See Adams & Dulam. Also R.E. Slesinger, "Steel Imports and Vertical Oligopoly Power: Comment," American Economic Review, (March, 1966).

¹⁸ Hearings before the Committee on Finance, U.S. Senate, 90th Congress, 1st session, 1967. Proposals to

It appears that the major producers do follow competitive pricing but only when the long-term effect is to reduce competition and maintain a system of high administered prices.¹⁹ This squeeze on the independents is effective only so long as the independents have no alternative sources of steel. In this light imported steel must be seen as a threat to the market structure and pricing policies of the domestic producers. Yet, as indicated in the analysis above, imports would not be a threat if the domestic producers were willing to meet foreign competition.* Most economists agree that given the advantages in shipment and scheduling of domestic steel, a \$10.00 per ton price differential would be competitive.²⁰ The across-the-board price decreases necessary to restore the competitive position of domestic steel would require minimal cuts into the profit rates of the large United States producers. During the early 1960's, for instance, some economists estimated that a Impose Import Quotas on Oil, Steel, Textiles, Meat, Dairy Products and Other Commodities.

¹⁹For a discussion of administered prices in the steel industry see Gardiner C. Means, Pricing Power and the Public Interest; also, U.S. Congress, Senate, Administered Prices Steel, 1958; Economic Report, Senate Subcommittee on Anti-trust and Monopoly, 1958.

*This is not entirely accurate, for labor disputes and strikes often threaten to disrupt supply and cause steel consumers to turn to imports as a hedge against a strike. This problem, however, has been overcome since the "no-strike" agreement between the industry and the U.S.W. This will be discussed in detail later on.

²⁰See, for instance, The U.S.W. of America, The Foreign Competition Hoax, (Pittsburgh: USW, n.d.).

.10.00 industry-wide price cut would have obliterated the threat of imports while still attaining near record profit levels.²¹ In spite of such possibilities, the data seem to suggest that competition is the very thing that the industry is trying to avoid. For the domestic producers have claimed that import quotas would provide the much needed time to revamp and modernize productive facilities, thus reducing the costs of production and allowing the industry to be competitive while maintaining acceptable profit levels.²² Yet, analysis of capital expenditures both before and subsequent to the Voluntary Restraint Agreement of 1969 reveals that capital investment has been on the wane since the V.R.A.

II

The strong grip of the top steel corporations on the American market has been associated with declining capital expenditures and the technological stagnation of the American steel industry. The technological and innovative quiescence of American steel is revealed in numerous

²¹ Ibid., p. 4.

²² A 1965 study of the Republic Steel Corporation, for instance, found that a savings of \$23 per ton could be attained if the latest technology were introduced in all phases of production. Senate Staff Study, Steel Import, p.135.

instances. Although industry spokesmen claim that "the basic oxygen process represents the only major technological breakthrough at the ingot level since before the turn of the century,"²³ "Big Steel" has been slow in adapting the process. The oxygen process is based on the idea of passing air through molten pig iron and has its basis in the principle of pneumatic conversion of the Bessemer Process patented in 1855. The problem with the first pneumatic conversion furnaces was that the air used in the process presented real problems. Air is composed of about 80% nitrogen and 20% oxygen. Nitrogen, however, renders steel brittle and of poor quality for construction. Two major problems thus confronted steel technology; first, pure oxygen was not readily available and was prohibitively expensive; second, an increase in the oxygen content would reduce the proportion of nitrogen but also would cause severe damage to the converter's liner.

In view of these obstacles, the open hearth furnace was utilized as a worthwhile alternative, even though slower and more expensive than pneumatic methods of steel-making. Indeed, the open hearth method required eight hours to produce the amount of steel made in one hour by the pneumatic process. The advantages of the former process,

²³ Statement made in 1959 by Avery C. Adams, Chairman of the Board and President of Jones & Laughlin Steel Company. Quoted in Adams & Dulam, "Big Steel, Invention and Innovation," Quarterly Journal of Economics, LXXX, No.2, (May, 1966) pp. 167-189.

however, was that it put out steel of high malleability. Yet, by 1929 the Gesellschaft für Linde's Eismaschinen AG in Germany developed a method (the Linde-Frankl process) of producing 99% pure oxygen at very low cost. The problem of damage to the converter was solved in 1939, when three German scientists introduced a means by which the chemical process between iron and oxygen would take place in the center of the converter, thus sparing the furnace's liner.

Given the aforesaid scientific breakthroughs, large savings could be attained through the now feasible oxygen process and, beginning in 1952, the world's steel producers began to shift to the new Basic Oxygen process. In 1952 an Austrian steel plant became the world's first large-scale oxygen steelmaking venture. The first U.S. company to obtain a license to use the method was Kaiser Steel in 1953 - a company with less than 1% of the United States ingot capacity. The first American producer actually to install the process was McLouth Steel in 1954. McLouth also possessed less than 1% of the country's ingot capacity. In 1957 the first major steel corporation to adopt the process was Jones and Laughlin. It was not until 1964 that U.S.S. and Bethlehem began to use the oxygen method. They were followed by Republic Steel in 1965 - some 13 years after the process was first successfully used by a small Austrian

producer.²⁴

Indeed, while the rest of the world was busy adopting the oxygen method, American producers invested in 40 million tons of open hearth capacity. According to Fortune magazine, this capacity was obsolete when it was built, and the industry, by building it, prepared itself for dying.

Today American producers lag far behind the world's steelmakers in utilizing the B.O.F. Table IV.4 lists raw steel production by process for the U.S., Japan, Germany, France and the United Kingdom for 1966.

Table IV.4²⁵ Raw Steel Production by Process Used, 1966
(in percent of total output)

Country	Open Hearth	Bessemer	Electric	B.O.F.
U.S.	63.4	-	11.1	25.3
Japan	18.0	52.4	19.3	62.7
France	22.9	27.8	8.5	14.4
Germany	39.2	5.3	8.7	24.3
U.K.	59.7	-	13.8	21.9

The data of Table IV.4 indicate that Japan and West Germany, the two major sources of imported steel, are also the world's largest users of the oxygen method.

A second level of technological development in the steel industry is the size of the furnaces used. Japan, for instance, in 1971 had one steel mill producing more steel

²⁴The above is a summation taken from Adams & Dulam, "Big Steel, Invention and Innovation."

²⁵Data taken from Senate Staff Report, Steel Imports, p. 20.

than U.S.S.'s Gary Works with less than half the number of workers (12,000). Another Japanese mill makes the same amount of coke as the Gary Works with just 248 coke ovens, compared to Gary's 829. The Japanese in 1971 were constructing blast furnaces with a hearth diameter of 46 feet compared to America's largest hearth - the No. 8 at U.S.S.'s South Chicago Works with a diameter of 32 feet.²⁶ The failure of the American industry to match the productivity of the larger ovens used by foreign producers is indicated in Table IV.5.

Table IV.5²⁷ World Basic Oxygen Furnace Installations of over Three Million net tons Annual Capacity

Company	Plant Location	Rated Annual Capacity (net tons)		
		Operating	Announced	Total
Koninklijke Nederlandsche Hoogovens en Staalfabrieken	IJmuiden	2,480,000	-	-
		-	2,760,000	5,240,000
Yawata Iron & Steel Co. Ltd	Tobata(1)	2,100,000	-	-
	Tobata(2)	2,380,000	-	4,480,000
	Sakai	2,050,000	-	-
		-	2,360,000	4,410,000
Bethlehem Steel	Lackawanna	4,700,000	-	4,700,000
Fuji Iron & Steel Co. Ltd.	Hirohata(1)	2,650,000	-	-
	Hirohata(2)	-	1,490,000	4,140,000
Jones & Laughlin	Aliquippa	1,000,000	-	-
		-	3,000,000	4,000,000
Met Zavod Kriv- orizhtal	Krivirog	1,800,000	-	-
		2,200,000	-	4,000,000
Kawasaki Steel	Chiba	3,970,000	-	3,970,000
Sumitomo Metal Industries	Wakayama	3,860,000	-	3,860,000
Fuji Iron & Steel Co.	Muroran(1)	1,650,000	-	-
		-	1,430,000	-
	Muroran(2)	330,000	-	-
		-	170,000	3,580,000

²⁶ Based on data of U.S.S. management report, reprinted by the USWA, The Joint Advisory Committee on Productivity.

²⁷ Senate Staff Report, Steel Imports, p. 274.

Algoma Steel Corp.	Senlle Ste.	1,760,000	-	-
	Marin	-	2,000,000	3,580,000
National Steel	Ecorse	3,300,000	-	3,300,000
Italsider SpA	Taranto	3,200,000	-	3,200,000
Fuji Iron &	Nagoya	1,570,000	-	-
		-	1,630,000	3,200,000
U.S.S.	Duquesne	2,000,000	-	-
		-	1,500,000	3,500,000
	Gary	3,500,000	-	3,500,000
	S. Chicago	-	3,000,000	3,000,000

The data of Table IV.5 indicates that of the 19 oxygen furnaces with over three million net tons of annual capacity, only four are located in the United States with the largest ovens belonging to the Japanese steel industry. This reluctance on the part of the major steel firms to develop new technology is revealed in a 1966 National Foundation study. The 1966 survey reported that, despite competition from foreign imports, the United States steel industry spent only 60 cents for every \$100. This was considerably below the \$1.90 average for all manufacturing industries.²⁸

A third major innovation to which the large American steel companies remained apathetic is the process called continuing casting. In the conventional production of steel, the steel ingot is fed into large blooming mills which break it down into semifinished forms. The new forms are then shipped through the rolling and finishing mills for further refinement. The continuing casting process by-passes the blooming mill in transforming the molten metal into semi-finished forms. In so doing, it greatly

²⁸ Hearing before the Committee on Finance, U.S. Senate, 90th Congress, 1st session, p. 255.

reduces the capital equipment needed to obtain semi-finished steel by eliminating the giant blooming mills, the huge molds through which the ingots are shaped, the deep soaking pits utilized in the reheating of ingots, the titanic-like cranes needed to move the ingots, and other heavy capital equipment used in the convention process.

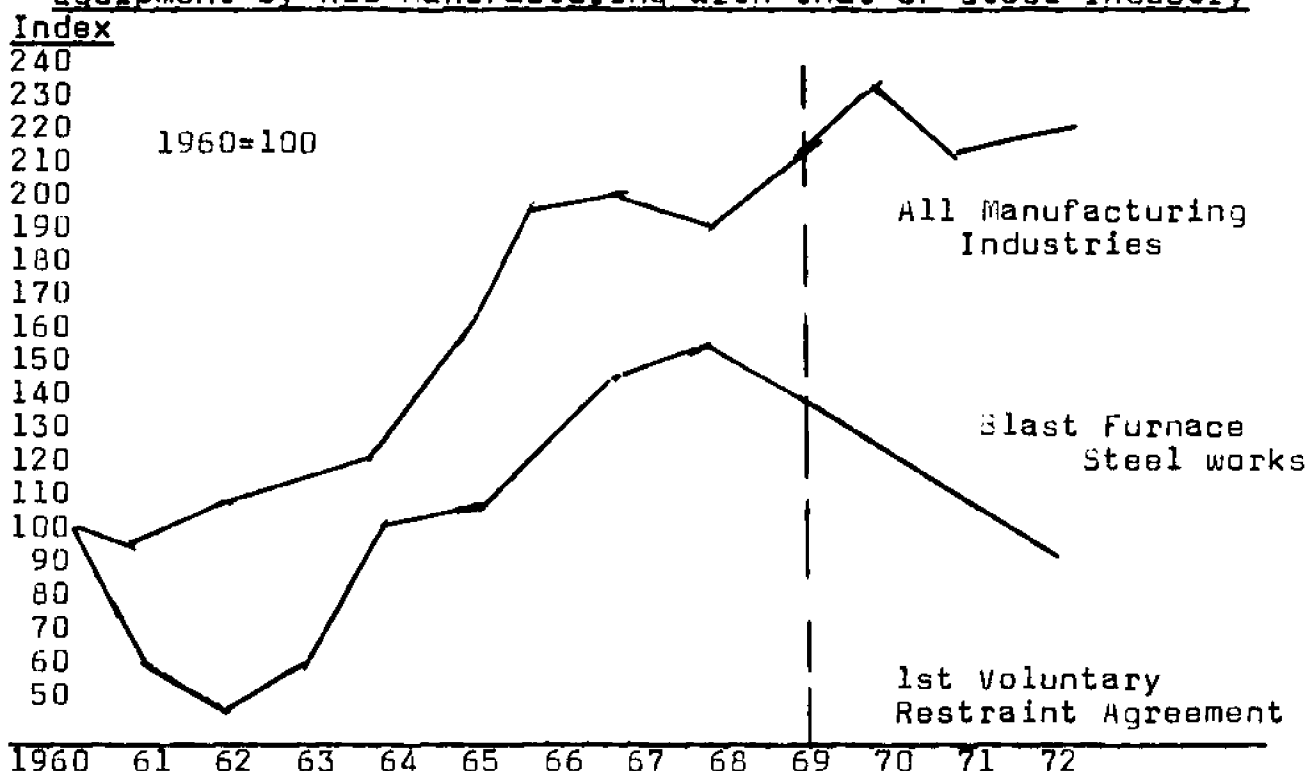
Although continuing casting would reduce capital outlays considerably, the process was adopted in Europe more than a decade before it first was used by a major American producer in 1960. Even with the use of the continuing casting method, steel production has remained a highly capitalized industry. The investment outlays for the more efficient giant blast furnaces have counteracted large shares of the reduced investment expenditures of the continuing casting process. In fact, it is a generally accepted belief that the creation of a modern efficient plant of medium size would require an initial capital outlay greater than \$400 million. As shall be discussed in Part II below, this amount not only prohibits the establishment of new firms, rendering competition in the classical sense impossible, but is also used as a justification of the major steel producers to gain governmental assistance in the form of protection against imports and new tax breaks.

The fact that American steel producers were losing

their productive advantages to foreign steelmakers served as a primary justification for the initiation of the Voluntary Restraint Agreement. According to a report by the General Accounting Office, the government's objective in negotiating the agreement was to give the domestic industry an interim period to modernize its facilities. The argument for modernization, however, is clothed in the garb of an appeal to national security. The crux of the position is that the United States cannot afford to depend upon foreign suppliers for steel, as steel is vital to national defense. Therefore, quotas are temporarily needed to protect the industry from foreign competition. Once American producers modernize their plants, adequate profits can be earned while meeting the competition from imports.²⁹ Whatever the merits of the national security argument, one hard fact remains: the objectives of the appeal to national security have not been realized because the steel industry has failed to upgrade its facilities since the 1969 arrangements. In fact, capital expenditures have actually declined since 1968. Table IV.6 compares steel investment expenditures with all manufacturing industries between 1960 and 1972.

²⁹For a discussion see F.L.Molz, "The Political Economy of Steel Import Quotas," Journal of Economic Issues, IV, No. 2,3. Also, Report to the Interagency Working Group on the Steel Industry, (July 13, 1970, updated Jan., 1971).

Table IV.6³⁰ Index of Expenditures for New Plant and Equipment by All Manufacturing with that of Steel Industry*



The relationship between investment and the Voluntary Restraint Agreement becomes more pronounced when U.S. capital outlays are compared with those of her foreign competitors before and after the V.R.A. The contention that import quotas are needed to allow domestic producers to modernize is exposed as nonsensical in light of the relative declining position of American capital expenditures since the quota arrangements. Table IV.7 compares American investment with that of competing foreign steel producers during the period of 1965 and 1971.

³⁰ Economic and Foreign Policy Effects of Voluntary Restraint Agreements on Textiles and Steel, p. 16.

*A growing proportion of annual capital expenditures is for pollution control equipment required by law rather than modernization.

Table IV.7³¹

	<u>Trends in Investment Expenditures</u> (in millions of dollars)					
	1965	67	68	69	70	71
European Comm.	932	730	802	1017	1990	2188
OECD-Europe	1310	1200	1267	1476	2478	3253
Canada	151	114	61	95	176	196
U.S.	1823	2173	2372	2136	1735	1449
Japan	454	842	1167	1494	1855	2447
OECD Total	3738	4329	4867	5201	6244	7345

The evidence of Table IV.7 serves as an indictment of the American industry. In 1968 United States investment reached its peak of \$2372 million. After attaining such heights just prior to the V.R.A., investment expenditures went into constant decline, eventually dropping below its levels of 1965. While annual investment expenditures were dropping in the U.S., the yearly investment of the Japanese industry for 1971 represented an outlay of almost six times greater than in 1965; U.E.C.D. capital outlay for 1971 was nearly three times greater than in 1965.

The notion that the primary function of steel import quotas is to protect a highly concentrated industry is given further credence in view of the facts that (1) the data of Table IV.7 for U.S. expenditures include outlays for pollution controls. In the United States expenditures for environmental protection are taking an ever-increasing proportion of annual capital outlays. As a result, American outlays on new plants and equipment are overstated; and (2) since the late 1960's there has been a strong tendency

³¹ Data taken from the Iron and Steel Industry in 1971 and Trends in 1972, (Paris: Organization for Economic Cooperation and Development, 1973) p. 25.

for the large integrated American producers to invest in new productive facilities overseas rather than in the U.S.³² Table IV.8 lists the participation of American steel firms in foreign productive companies. Significantly, the majority of such ventures have occurred subsequent to the VRA.

Table IV.8³³ Foreign Steel Productive Facilities*

<u>Company</u>	<u>Foreign Facility</u>
Armco Steel Co.	Armco Molycop S.p.A. - Italy Armco-Pittsburgh SA - Belgium Australian Steel & Mining Co -Australia Marsteel - Phillipines
Inland Steel Co.	Societe Industria Profilate Somaglia, Italy Ryerson - Holland, N.V.
Republic Steel	Promexametals SA - Mexico
U.S. Steel Corp.	Mapri - Brazil Intupersa - Guatemala Metesa - Nicaragua & El Salvador Terninoss - Italy Deriver - Italy Altos Hornos de Vizcaya -Spain Altos Hornos de Mediterrrano - Spain FHS Stahlver Formung, GmbH- Germany Triangler Daemmstoffwek GmbH, -Germany
Wheeling-Pitts-	Armco-Pittsburgh - Beligum
burgh	Acos do Brasil SA - Brazil
Youngstown	Nippon Conemsc Co. - Japan Continental Emsco Co.- Canada Continental Emsco Co.- Venezuela Continental Emsco Co.- Mexico

The data of Table IV.8 are significant in several respects. First, the spending of profits on foreign mills suggests that the domestic industry, in spite of slight

³² See Chapter III above.

³³ The data for Table IV.8 were obtained from Moody's Industrials, 1964-73; Annual Reports and Securities and Exchange Commission Reports, Form 10-K, 1969-1973.

* We are only focusing on international productive facilities. Most of the large steel corporations have very extensive mineral holdings through the world and most are also involved in myriad fabricating ventures. Armco Steel, for instance, operates 31 fabricating plants in 24 different countries.

cost advantages of producing in the United States, is not willing to compete with foreign producers in the American market. The tendency toward multi-nationalism might also be taken as an indication of the reluctance of American producers to disrupt the domestic market. By investing abroad while the home market is protected, the large steel corporations can compete with foreign producers without threatening the structure of the U.S. market.³⁴ Second, foreign investment of the integrated producers raises questions concerning the industry's explanation for the decline of capital expenditures since the V.R.A. According to the steel companies, profits, although higher than their foreign competitors, are insufficient to allow for the necessary capital expenditures essential both to modernize existing facilities and construct new plants. From this the industry concludes that (1) pollution control standards which divert capital funds from investment in new productive facilities and equipment, must not be raised; and (2) the federal government must encourage investment through a system of massive tax breaks. The industry explicitly recommends the enactment of a federal income tax policy which will provide for the recovery of

³⁴The fear of overproduction and market disruption is not particular to American producers. For in 1971, while recognizing an increase in world demand, the OECD expressed a fear that reaction to new demand might create excess capacity thus jeopardizing the "equilibrium of the industry as a whole." The Iron and Steel In 1971 and Trends in 1972, p. 25.

all productive industrial investment within five years. This five year recovery period is not to be mutually exclusive of an improved investment credit which, according to the industry, should be made applicable to foreign investment. The request for additional tax breaks to fight imports while meeting new steel demand is of special interest in light of the fact that the large steel corporations are quite adroit in avoiding federal taxes. In 1971, for instance, the United States Steel Corporation did not pay any federal income tax³⁵ and the 11 firms behind U.S. Steel paid only minimal amounts.⁴⁶

Finally, by putting capital into foreign productive facilities, the domestic industry is rubbing against the grain of their already dubious argument that import quotas are needed to preserve American jobs.³⁷ If American jobs are of such fundamental concern, one cannot help but wonder why the industry is exporting jobs abroad. A safe conclusion, therefore, might be that employment levels

³⁵ See Hearings before the Subcommittee on Intergovernmental Relations of the Committee on Government Operations, U.S. Senate, 92nd Congress, 2nd session, on the Impact and Administration of the Property Tax, p. 45.

³⁶ "Steel Industry Economics and Federal Income Tax Policy," A.I.S.I. (1974), p. 43. The American Iron and Steel Institute recognizes this fact in the following statement: "It is believed that most of the 12 largest steel companies incurred substantial minimum taxes in 1970 and 1971."

³⁷ For a discussion see F. Molz, "The Political Economy of Steel Import Quotas." Also, "How the Hard Core Can Survive Layoffs," Business Week, (March 29, 1969) p. 84.

in the United States are not of primary importance to American steel.

Examination of the pricing policies of the American steel industry since the V.R.A. provides additional evidence that these producers are primarily concerned with extracting maximum possible profits from a tightly controlled market.* Comparison of price increases before and after the quota restrictions shows that between January, 1960 and December, 1968 the steel mill price index rose by a total of 14.1 points for an average increase of 0.45 per year.³⁸ In the four years between 1968 and 1972, however, the steel price index climbed 26.7 points. This represents an annual increase of 6.67 points. In other words, steel prices have increased at a rate 14 times greater since the initiation of the quota arrangements than in the 9 previous years. Table IV.9 graphs the wholesale price index for steel and all other industrial commodities. Table IV.10 lists the price indexes and

*There is some question concerning the effectiveness of the V.R.A. After the agreement was reached limiting the tonnage of steel shipments, foreign producers began to import high value specialty products so that while the maximum allowable weights were usually not exceeded, the total value of the shipments increased. Since 1971 there has been a strong increase in world demand so that shipments have been far below permissible amounts of steel since that year. This is not to say that high demand is responsible for the price increases of American producers. For American prices increased prior to the new demand. Moreover, the demand has been world-wide and American charges have outstripped foreign competitors. The really important aspect of the voluntary import arrangements is that they provided for predictability while preventing further encroachments on the American market.

³⁸Economic and Foreign Policy Effects of Voluntary Restraint Agreements on Textiles and Steel, p. 23.

percent annual change of steel and all other industrial commodities.

Table IV.9³⁹ Comparison of Wholesale Price Index for Industrial Commodities and Steel Mill Prices

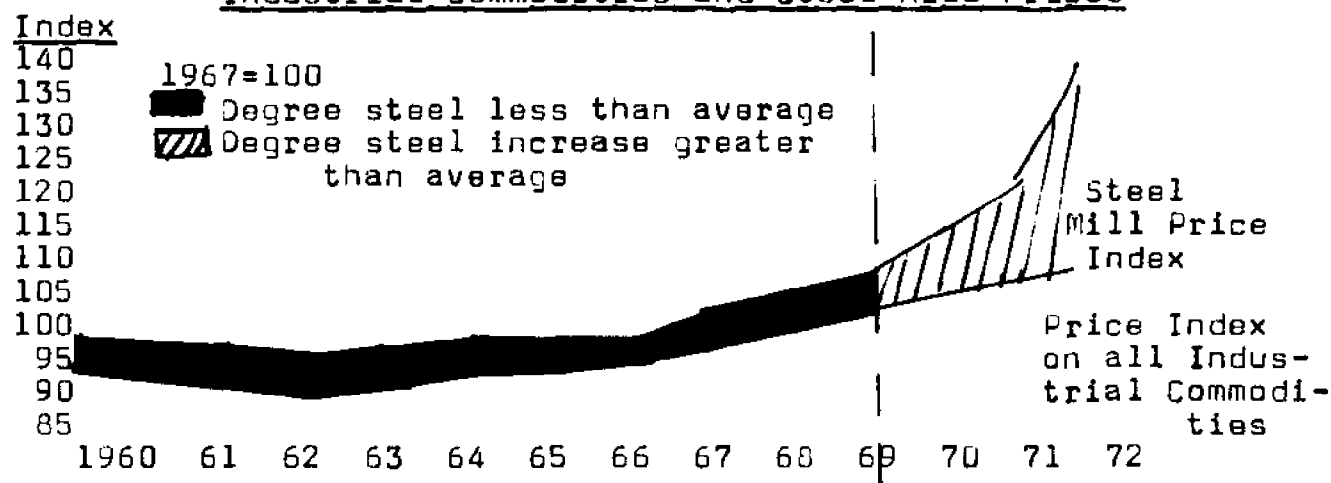


Table IV.10⁴⁰ Wholesale Price Indexes (annual averages) 1967=100

Year	Industrial Commodities	Steel Mill Products
1960	95.3	96.4
1965	96.4	97.5
1966	98.5	98.9
1967	100.0	100.0
1968	102.5	102.5
1969	106.0	107.4
1970	110.0	114.3
May, 1970	113.7	120.7
Average Annual % of Change:		
1960-65	+0.2	+0.2
1965-70	+2.7	+3.2
1968-70	+3.6	+5.6
1969-70	+3.8	+6.4

Although steel price increases since 1968 cannot be blamed entirely on import restrictions, it has been estimated by consumer groups and consulting firms that the costs of the V.R.A. to the consumer has ranged somewhere between \$500 million and \$2 billion annually. The

³⁹ Ibid., p. 24.

wide discrepancy between the two figures suggests that any estimation of the effect of the V.R.A. on steel prices must be approached with caution.⁴¹ Still, the most conservative approximation of \$500 million annually is not an insignificant amount.

III

The failure of the American steel industry to meet the challenge of imported steel cannot be divorced from the very structure of the domestic industry. The fact that a small handful of vertically integrated firms controls over 80% of production is significant in that it places the economic power of a fundamental industry in the hands of a few giant corporations. Of even greater importance is the fact that the large producers are often joined together through joint subsidiaries and interlocking directorates. The tendency for so-called competitors to share in the ownership of a third firm provides opportunities to plan together in order to realize objectives. In the case of joint subsidiaries in mining this is of special interest. For joint ownership of coal and iron ore

⁴⁰ Report to the President on the Economic Position of the Steel Industry, p. 16.

⁴¹ Economic and Foreign Policy Effects of Voluntary Restraint Agreements on Textiles and Steel, p. 23.

mines allows planning to originate at the bottom step of the productive process. Joint control over productive facilities is the logical conclusion of the process and insures cooperation among the controlling firms throughout the entire productive process. This can only serve to create those stable market conditions necessary to guarantee the success of each of the individual firms within the realm of acceptable risks. The same may be said of dual primary interlocks. When members of two or more different steel companies sit together on the board of another firm the opportunity for collaboration and cooperation exists. This is of special importance with regard to the role played by banking interlocks. For the banks often have access to confidential information on corporate affairs and finances which is readily available to members of the board. Thus, banking directors from steel firms may acquire much confidential information on their competitors and are in a position to plan policy accordingly.

Chapter III has argued that the potential for collaboration exists at many junctures. The analysis of investment and pricing policies of Chapter IV suggests the actualization of this potential. Indeed, although it is not beyond the ability of the American industry to meet the competitive challenge of imported steel, U.S. producers

systematically have raised prices and reduced capital expenditures since the V.R.A. This, in spite of the fact that import quotas have been defended on the grounds that modernization of facilities is needed to increase the competitive position of the domestic industry vis-a-vis foreign steel. With restrictions placed upon imports keeping them at low and static levels, it is not surprising that investment has declined. For when price increases can overcome inefficient productive methods the rational choice is to raise prices and invest capital in other areas. Given this rationale, capital can seek out new and more effective fields of profit and the industry's recent tendencies toward diversification and multi-nationalism are more comprehensible. The history of the United States steel industry certainly supports those who contend that innovation is not found in industries with rigidly controlled markets.*

The policies of domestic steel since the V.R.A. indicate that the industry will continue to strive for protection. But, with the increased world demand for steel and the relative ineffectiveness of the voluntary restrictions since 1972, it might be expected that quotas would become a moot question. This is not the case. All indicators

*The declining position of the U.S. in comparison with Japan is revealed in the fact that as of 1970 48% of American production was based on the Basic Oxygen process. In Japan the proportion was 76%. See Report to the President, p. 28.

now point to a cooling-off of world demand accompanied by the re-emerging threat of imported steel.⁴² Thus, continued use of import quotas raises important questions concerning the political and economic stability of the free world. For if foreign production is geared for American markets, when global demand subsides, the United States' market will be of primary importance for the health of foreign steel producers. It is likely that in the face of declining demand Japanese and European producers will attempt to utilize their low profit pricing advantages in the United States, even if they should exceed permissible shipments allowed by voluntary limitations.⁴³ The consequences of such actions are devastating. On the one hand, they could initiate a trade war. Excessive imports could pressure the American industry to seek tougher mandatory restrictions which in turn could lead to foreign retaliation. The Japanese already have made it clear that at this time mandatory restrictions would cut off a major

⁴²The New York Times, Oct. 15, 1974.

⁴³Recently, there have been critiques of the V.R.A. on the grounds that voluntary agreements never work. In support of the failure of the steel agreement is the fact that since 1969 imports of more expensive specialty steels have shot way up. Between 1969 and 1972, for instance, stainless steel imports have increased by 52%, sheet and ship stainless by 76%. This has led the Subcommittee on General Legislation of the Committee on Armed Services, U.S. Senate, to conclude that with re to the V.R.A. "...there has been a gross violation...by foreign producers and the shifts of product mix toward more expensive steels... have had critical impact on the U.S. specialty steel producers." See Report on the Essentiality of Specialty Steels Industry to National Security, esp. p. 5.

source of income and make it impossible to buy finished American products.⁴⁴ Such a boycott could have severe consequences with regard to domestic employment levels, the balance of payments, and possible political realignments. In viewing the viability of future import quotas, a Senate Staff Study explicitly recognized the possibility that quotas could drive the Japanese closer to Communist China.⁴⁵ It is no wonder, then, that commentators have remarked that steel imports raise basic questions concerning American foreign policy.

Yet, the problems and consequences just discussed remain mainly hypothetical. Perhaps they will someday materialize; perhaps not. Whether they do or not to a large extent will lie with the major American steel corporations. If "Big Steel" is willing to cut directly into profits by lowering prices, or to do so indirectly by pouring capital into the domestic industry rather than overseas or in diversified activities, American steel might easily become competitive and in the long run force foreign imports to seek new markets. But, past history has indicated a strong antipathy to reduce profits even minimally. In the American steel industry profit remains the primary goal of the corporation. The ascension of the new scien-

⁴⁴ See, "Pressure for Quotas May Spark Trade War," Business Week, (March 22, 1969) pp. 76-77.

⁴⁵ Senate Staff Study, Steel Imports, p. 250.

tific elite as forecast by scholars such as Bell, Galbraith and Heilbroner, does not characterize the technologically backward U.S. steel industry. Therefore, as world demand declines one should expect to see steel turning toward government for immediate protection and assistance in the form of import quotas and tax breaks. This raises the question of how steel transforms its economic power into political control, a question which shall now be explored in the second part of the present work.

CHAPTER V STEEL AND THE POLITICAL PROCESS: CONGRESS

We've made great progress toward our goal of restoring our competitive position - both through our own efforts and through governmental policies for realizing exchange rates and curbing inflation. With realistic safeguards against unfair competition from abroad, we're confident that we can complete the job.

Statement of Stewart S. Cort, Chairman, Bethlehem Steel Corporation, before the House Ways and Means Committee, June 7, 1973.

The ability of the steel industry to influence specific areas of legislation passed by the United States Congress must be evaluated in light of the enormous economic power of the companies singly and the industry as a whole. Not only do they control a vital resource, employ 500 thousand people, and possess great amounts of wealth,¹

¹In 1972, for instance, the 9 largest steel producers had an average combined net cash flow (including income and depreciation) of 1½ billion dollars. See Hearings before the Committee on Ways and Means, The Trade Reform Act of 1973, House of Representatives, 93rd Congress, 1st session.

but they also command enormous sums of capital for investment in related industries. This is not to suggest, however, that the steel companies alone have total control of the government apparatus and therefore always attain their objectives. On the contrary, as an analysis of steel's political campaign in Congress indicates, the steel corporations do not always get what they want just when they want it.

The Trade Bill of 1974 represents one aspect of steel's multi-pronged drive in Congress and is indicative of the overall success of Big Steel in fulfilling its economic objectives through the state. Indeed, steel's determination to seek legislative protection from imports is of more than passing interest. On the one hand, protection was deemed necessary because of the dubious effect of the Voluntary Restraint Agreement. Although by 1973 imported steel had declined to under 15%² of the American market, down considerably from its 1971 zenith of 18.3%³, the feeling among steel producers was that the agreement was not responsible for the decline and that it did not go far enough in protecting geographical markets and specialty steel producers.⁴ The position of specialty steel

²"A Grim Forecast for Steel Users," Business Week, (May 11, 1974), pp. 118-119.

³The Trade Reform Act of 1973, Pt. 12, p. 3968.

⁴See Hearings, The Trade Reform Act of 1973, pp. 3957-4031; also, Report of the Committee on Finance, U.S. Senate together with additional views of H.R. 10710, To

producers is especially symptomatic of the V.R.A. Since the first agreement of 1969 which limited the total tonnage of imported steel, foreign producers began to substitute more costly specialty steels for the less expensive carbon products. Even with the 1972 agreement restricting specialty products, the trend continued. In 1972, for instance, with the extension of the V.R.A. in effect, foreign steel accounted for 36% of stainless steel wire; 49% of the U.S. market for stainless steel wire rod; and more than 23% of the U.S. market for stainless steel plates.⁵ To complicate matters, nonsignatories to the agreement were responsible for an unspecified proportion of the above products as well as for small amounts of carbon steel.⁶

Additional protection was not only considered essential because of the weaknesses of the V.R.A., but also because of the dependency of the American economy on a strong domestic steel market combined with the cyclical nature of world steel supply and demand. The flavor and tone of the steel industry's campaign in Congress concerning imported steel was reflected in the testimony of Stewart S. Cort, Chairman of Bethlehem Steel and the American Iron and Steel Institute. According to Mr. Cort, several factors

Promote the Development of an Open Nondiscriminatory Economic System, to Stimulate the Economic Growth of the U.S. and for Other Purposes. 93rd Congress, 2nd session.

⁵The Trade Reform Act of 1973, p. 3963.

⁶Ibid., p. 3971.

had served to improve steel's position by 1973. Among the conditions cited by Cort were the adjustment in exchange rates which made foreign steel more expensive; the agreement between the steelworkers' union and the major domestic producers to settle differences without resort to strike or lockout; and a temporary increase in world demand which resulted in significant declines in imported steel for 1973.⁷ Yet, according to Mr. Cort's logic, the very factors leading to such favorable conditions, are the same which mandate the necessity for more rigorous protection against imports. For, Cort argues, steel is a cyclical industry and "(t)he rise and fall of both volume and prices of imported steel in response to factors arising outside of the country show how mistaken it would be to place increasing reliance on foreign steel."⁸ In other words, there will be times when foreign producers find themselves with excess capacity and, on other occasions supply will be less than demand. If the United States must rely on foreign steel, its economy which is dependent upon steel, will be subject to the vicissitudes of foreign steel producers. Therefore, Cort concludes, as steel requirements are increasing in the United States to such an extent that raw steel capacity must expand by 25 million tons to meet new demand during

⁷ "A Grim Forecast for Steel Users."

⁸ The Trade Reform Act of 1973, p. 3963.

in 1950's, it is essential that the domestic industry be given adequate levels of financial incentives in the form of tax assistance and the passage of trade legislation containing specific safeguards against imports. Ironically, without such safeguards, the domestic industry will be characterized by low profits, thus rendering it impossible to finance capital expenditures for new equipment. If such capitalization is prevented, the United States would have to rely on foreign steel while the domestic industry suffered from idleness. Mr. Cort summarizes his position:

Unless new trade legislation contains meaningful safeguards, foreign producers will export...much surplus to the U.S. at whatever price is necessary to make the sale. We shall then be in the same untenable situation we have been during much of the past decade - high imports, unutilized domestic steel-making capacity, and shockingly low returns on our steelmaking investment. 9

The contention that governmental assistance is essential so that increased capacity requirements might be achieved is defended on the premise that unless this goal is realized the steel industry must suffer from excess capacity. The way to circumvent this puzzling question, at least according to the industry's spokesmen, is to have government help finance productive facilities while placing restrictions on imported steel. In other

⁹ Ibid., p. 3962.

words, Cort was contending (1) the U.S. should not allow its own economy to fluctuate according to stimuli it does not control, even if this means more expensive steel; and (2) the government should act to protect domestic steel because failure to do so might lead to dependence and unused capacity, thus causing unemployment. Without duly considering the question of efficiency and cost, Cort's argument found general acceptance in the Congress. The Trade Bill of 1974 reflected this clearly, and an examination of its content in relation to the industry's demands, serves to demonstrate the acceptance of steel's position in Congress.

The Trade Bill of 1974 has not given steel everything it desires, but, as one steel representative noted, "the measure established some general principles the industry has demanded for a long time, even though it doesn't provide iron-clad guarantees of help."¹⁰ In arguing the principle that the federal government must actively protect industries threatened by foreign competition, spokesmen for steel presented the following four concrete requests before the House Ways and Means Committee as being of crucial importance.

(1) The industry contends that the raising or lowering of tariffs by the President should take into account those industries threatened by import competition

¹⁰"There's Good and Bad News in the Trade Bill," Iron Age (Oct. 11, 1973) pp. 36-37.

and that special attention be given to those industries, such as steel, contributing heavily toward trade deficits. (In 1966 the steel deficit was responsible for approximately 50% of the 2 billion dollar deficit in that area.)¹¹

(2) The Tariff Commission was to decide whether imported steel contributed toward injury, not whether imports were the primary cause of injury.

(3) The industry felt that Congress should specify criteria requiring the Tariff Commission to take action and the Tariff Commission should specify within broad levels the kind of relief.

(4) The President should be required to act and be authorized to change the form of relief, e.g., depending upon international considerations.

The final version of the trade act incorporated most of the major political goals of the industry. With regard to the first demand, the Trade Bill deals with the balance of payments deficit by granting the President authority to increase surcharges on such goods by up to 15% for a period not exceeding 150 days, or to apply import quotas for the same duration. Import-affected industries won a major victory with the provision that the President would be required to conduct negotiations on a product-by-

¹¹ Senate Staff Report, Steel Imports, p. 81. By 1972 new total deficits were reached in the trade of steel. See The Trade Reform Act of 1973, p. 3968.

product basis. This is of special importance, for the steel industry also has, by virtue of its foreign mineral holdings, an interest in free trade when it is economically beneficial to the industry. Therefore, the integrated producers find themselves in support of free trade when it comes to shipping essential raw materials into the United States, but supporting protectionist policies with regard to competing finished steel products.¹² In addition, the act set up special trade advisory committees representing labor, industry, agriculture, and the public to provide "policy and technical advice during the negotiations within their respective sectors."¹³ In the future, then, the large organized interests, such as steel, would play a more direct and active role in shaping governmental trade policy.

The bill also liberalized import relief with the

¹² The argument for the shipping of chromium from Rhodesia into the U.S. by the steel companies is a good case in point. An amendment to boycott Rhodesian chrome because of the government's racist practices was fought by the large specialty producers who buy chromium from Rhodesia. This bit of economic practicality is a direct refutation of the public relations' claim of steel's deep concern with humane social causes. This will be discussed in greater detail below. For steel's role in Rhodesia see, The Repeal of the Rhodesian Chrome Amendment, Hearings before the Subcommittee on Africa and the Subcommittee on International Organizations and Movements of the Committee on Foreign Affairs, House of Representatives, 93rd Congress, 1st session. For other aspects of steel's role in international trade see, International Economic Policy, Hearings before the Subcommittee on International Trade of the Committee on Banking and Currency, House of Representatives, 93rd Congress, 2nd session. Also, "Mining Becomes Big Business," Business Week, (Sept. 25, 1971) p. 51.

¹³ The Trade Act of 1974, Summary of the Provision

proviso that imports need only be a contributing factor and not the primary cause of damage; and, finally, under certain conditions the President could be forced to take action by Congress and, as suggested by steel interests, would have discretion in choosing the form of relief. Of the four important demands made by the industry, only the third request that Congress specify criteria requiring the Tariff Commission to take action had not been realized. Some caveats, however, are in order concerning the success of steel's demands. On the most immediate level, all of steel's demands have not been attained. Although the above four crucial requests establish principles for relief, there are no hard mechanisms guaranteeing assistance. The criteria for the Tariff Commission to take action are vague and time-consuming and the President need not take action unless relief is deemed in the national interest.

On a more subtle level, steel was not the only industry advocating such protective legislation - the textile, footwear, and manufactured glass industries all have congruent interests. Therefore, the success or failure of the trade act cannot be attributed solely to the steel corporations. Finally, without an elaborate and detailed analysis of the Trade Bill of 1974, it is difficult

of H.R. 10710 prepared by the Staffs of the Committee on Finance of the U.S. Senate and Committee on Ways and Means of the House of Representatives, p. 5.

to state precisely the extent to which the demands of steel were shaped and modified by opposing pressures in the first place. The present work, however, is attempting to gain an overall view of steel's political activities, not to focus on the trade act; and while the preciseness of the findings will not be quantifiable, important general trends emerge which provide for a clear understanding of the overall role of the steel corporations in the political process.¹⁴ In examining the forces organized against protective legislation, it appears safe to assume that the demands and success of Big Steel were modified by those corporate interests with extensive foreign markets which feared that protectionist legislation, especially with regard to steel, might lead to retaliation by foreign governments against their products. In fact, retaliation could often be of economic necessity to foreign industrialized nations. This certainly would be the case of Japan which utilizes her earnings from exported steel to purchase manufactured goods from American firms. Without the revenue from steel, Japan's buying power would be diminished and American firms exporting goods to that country would suffer considerable market losses.¹⁵ According to Business Week, it was this fear of retaliation which

¹⁴ Mills, The Power Elite.

¹⁵ Business Week, (Feb. 1, 1972) p. 18.

ruled out import quotas on steel as a viable option during the 1960's. The editors' write:

Quotas, however, almost certainly would have touched off reprisals abroad, possibly even a trade war. That would have been much more damaging to trade than the present restrictions. 16

When steel-sponsored import quota bills first appeared in Congress during the late 1960's, the "free trade" interests organized political committees to prevent passage of such legislation. The trade committees were headed by members of the nation's largest corporate enterprises.¹⁷ The Committee for a National Trade Policy, for instance, was to resist trade quotas and had as its directors officers from such giants as Standard Oil of New Jersey, Mobil Oil Company, and Lockheed Aircraft. These three corporations alone had a net income of over 3.6 billion dollars for 1973.¹⁸ Other directors of C.N.T.P. came from Gillette Corp., Honeywell Inc., Excell-o Corp., and McGraw Hill. Not only are all members of the latter group successful enterprises engaged in extensive foreign trade, but in 1969 the Chairman of C.N.T.P. and President of Gillette, Carl J. Gilbert, was appointed as the President's Special Trade Representative.

¹⁶ Ibid.

¹⁷ See, "Pressure Mounting for Import Quotas Legislation," Congressional Quarterly Weekly Report, (Feb. 2, 1968), esp. pp. 155-169.

¹⁸ Data taken from Moody's Industrial Index, 1974.

A second group of corporations heavily involved in foreign trade founded the Emergency Committee for American Trade to prevent the enactment of import quotas.¹⁹ The E.C.A.T. was especially concerned with steel import quotas and the possibility of foreign retaliation. The founding members of the E.C.A.T. were officials of such monoliths as Ford Motor Co. and General Motors, both of which ship finished heavy goods overseas. For 1973, these two giants had combined sales and income of about 50 billion dollars respectively.²⁰ Together they employ about 500 thousand workers domestically.²¹ Other leading officials of the E.C.A.T. came from Boeing Co., the Borg-Warner Corp., Chase Manhattan Bank, Xerox, and I.B.M. World Trade Corporation.²²

In addition to the C.N.T.P. and E.C.A.T. efforts against import quotas, other pressures came from importing companies, farm organizations, and consumer groups. The National Consumers League, for example, an organization representing the legislative aims of over 20 state consumer groups, conducted an extensive letter-writing campaign. It was expected that during 1968 some 15 thousand members would write their Congressmen in opposition to import

¹⁹ "Pressures Mounting for Import Quota Legislation."

²⁰ Data from Moody's Industrial Index, 1974.

²¹ Ibid.

²² "Pressures Mounting for Import Quota Legislation."

quotas.²³ The role of non-corporate interests in the trade policy process, however, is questionable. A major consumer and union goal was to increase the tax burdens on the multi-national corporation. This proposal was defeated when the major corporate interests joined together in opposition to any stipulation infringing upon the economic policies of their international activities.²⁴

Given the degree of organized opposition against import quotas and the fact that while voluntary quotas might prove to be of limited success to the steel industry, such restraints do seem to provide a reasonable compromise in that they avoid the spectre of foreign retaliation against American exports. The Trade Bill of 1974, therefore, appears to represent an important victory for the domestic industry even in the face of powerful and organized resistance to much of the essence of steel's demands. Perhaps the most crucial demand was the establishment of the long-sought-after principle of legislative protection.

It must be noted also that the steel industry does not usually stand as a lone dissenter among corporate interests. Indeed, in other areas of legislation of vital

²³ Ibid.

²⁴ See Congressional Quarterly Weekly Report, "Major Trade Bill Reported in Senate, 17-0," (Dec. 7, 1974) esp. statement by Sen. Vance Hartke, p. 3268.

concern to the corporations, steel is often joined by others who previously were in opposition. The tax provisions of the 1974 Trade Bill represent a good example when steel joined forces with other major corporate interests to delete from the bill stipulations eliminating the foreign tax credit and increasing taxes on earnings.²⁵

Tax policy is of special interest to the domestic steel corporations for federal income tax programs affecting capital recovery are extremely important to the industry. During the 20 year period through 1972, for instance, 72 percent of the industry's cash flow, net of dividends, was derived from depletion, depreciation, and amortization.²⁶ In spite of this, the Big Steel corporations argued even more for tax write-offs in the form of depreciation, amortization and depletion. Called before the Joint Economic Committee in the fall of 1974 to explain price increases of about 44% over a 12 month period ending the previous August, industry spokesmen took the offensive. After arguing that such raises were essential for the expansion of capacity, leaders of the steel firms urged the committee to support faster capital investment write-offs and ex-

²⁵ Ibid.

²⁶ "Steel Industry Economics and Federal Income Tax Policy," A.I.S.I.

plained how investment in non-productive pollution control equipment could lead to steel shortages in the future. Steel's explanation was not warmly received by the Chairman of the committee, William Proxmire. Senator Proxmire concluded that the industry's current price structure was sufficient to modernize and replace existing equipment, pay for pollution controls, and expand production by 20 to 25 million tons by 1980, while doubling the dividends to stockholders. In questioning steel's demands for tax assistance and price increases, Mr. Proxmire concluded that "(n)othing we have heard here today indicate that further price increases are justified."²⁷

Despite Proxmire's castigations, some two months later significant price increases were announced by the industry's leaders and, after discussions with governmental officials, largely maintained.²⁸ Such success in maintaining price increases is not new with the steel industry. For under similar, but even less favorable conditions in 1962, six months after backing down from price increases, the industry boosted them again. This time, however, the increases were unchallenged and occurred amidst legislative proposals granting tax relief amounting to 24 million dollars annually. The tax assistance was proposed as a form of government subsidy to help finance

²⁷ "Senator Proxmire's Confrontation on Prices with Top Steel Officials ends up a Draw," Wall St. Journal, (Oct. 5, 1974).

²⁸ Ibid.

capital expenditures when the original price increases were rolled back.²⁹ In 1971 further tax advantages were gained with passage of the revenue act which restored the investment credit and provided for shorter term depreciation allowances. The 1975 Tax Reduction Act gave the industry additional assistance when it raised the tax credit from 7 to 10%. Yet, the question as to how the steel corporations might attain their political goals in Congress remains open.

II

Corporate spokesmen long have recognized the need to develop close working relationships with members of Congress. In recent years this trend has become even more pronounced and more directly appreciated by lobbyists for the steel industry. "You're wiped out today if you don't get your side of the story told,"³⁰ claims a leading corporate official. And the steel industry takes elaborately calculated measures to guarantee a sympathetic following among legislators on Capitol Hill. There are a number of ways, direct and indirect, used by the American

²⁹ "Row Over Steel Prices Spurs Taxation Relief," Business Week, (April 28, 1962).

³⁰ "Why the Corporate Lobbyist is Necessary," Business Week, (March 18, 1972) pp. 62-65.

steel industry or resulting from its position in the American economy which serve to ensure that the objectives of steel will be in the forefront of policy considerations in Washington. The first is the general interest legislators have in the steel companies' economic health, as indicated by stockholdings of key members of Congress and their committees.

In 1968 the House and Senate both passed the first financial disclosure rules in the history of the Congress and, although the regulations are different for each house, in both cases, members are required to make only limited financial disclosures.³¹ In spite of the limitations on the disclosure rule, there is available sufficient data indicating that a significant number of federal legislators have direct ownership interests in the major American-based corporations. In the House of Representatives, for example, where members are required to disclose any interests worth more than \$5000. or more than \$1000. income from any company doing business with the federal government or subject to federal regulatory agencies; the source of any income other than Congressional salaries exceeding \$5000. annually; any capital gain from a single source greater than \$5000.; and the source of honoraria of more than \$300; some 193 representatives own stock in America's leading corporations. Of the 193 stockholders, only 13 have shares in

³¹Financial Disclosures by Members of Congress, Congressional Quarterly, Washington, 1974.

the large steel or steel-related corporations.

Table V.1³²

<u>State</u>	<u>Representative</u>	<u>Committee</u>	<u>Company</u>
California	Craig Hosmer	Interior	Wheeling-Pittsburgh
	Victor Veysey	Appropriations	Armco Steel Cleveland Cliffs
Delaware	Pierre S. Dupont	Foreign Affairs	Hanna Mining
Maryland	Paul Sarbanese	Select Comm on Committees	Inland Steel
Michigan	Philip Ruppe	Judiciary	Inland Steel
Missouri	Richard Bolling	Interior	National Steel
Nebraska	Dave Martin	Select Comm on Committees	Inland Steel
		Government Operations	
New York	John Wydler	Science & Aeronautics	Colt Indus. Lykes-Youngstown
	Bella Abzug Jonathan Bingham	Government Operations	Jones & Laughlin U.S.S.
		Public Works	
		Foreign Affairs	
Ohio	Charles Mosher	Interior	
Pa	Albert Johnson	Science & Aeronautics	Armco Inland
		Banking & Currency	U.S.S.
Texas	James Collins		U.S.S. Republic

Given the fact that only 13 members of the House, or some 3% of its total membership and approximately 6% of all stockholders, own steel stock, it is safe to conclude that direct stock ownership in steel companies is not a direct influence on public policy legislation affecting steel. Indeed, with the exception of Rep. Paul Sarbanese, all other owners of steel stocks also possess extensive

³¹ Data for Table V.1 taken from Financial Disclosures by Members of Congress.

holdings of greater value in other companies listed in the Fortune directory.

On another level, however, the data on stock ownership is by no means without any significance. Given the fact that only 7.9% of the U.S. population owns stock, but that 43% of the House membership does, it seems safe to conclude that a good proportion of all representatives have a general vested interest in the economic well-being of the private corporations and of the corporate economy in general, in which steel is a crucial component.

The steel industry also has influence in Congress by attempting to court leading members through speaking engagements, dinners, and the dispersement of honoraria. In the House of Representatives during 1973 some 10 representatives received fees for speaking before steel sponsored or affiliated organizations. The majority of the 10 were members of standing committees relevant to the interests of steel. Table V.2 lists honoraria and representative according to committee, and Table V.3 enumerates both steel stock ownership and honoraria by committee.

<u>Table V.2³³ Representatives and Honoraria by Committees</u>	
<u>Committee</u>	<u>Representative to received Honoraria</u>
Minority Leader	James Rhodes
Interior	Morris Udall
Ways & Means	Donald Brotzman
	Phil Landrum
	Hugh Carey
	Al Ullman
Armed Services	Patricia Schroeder
Joint Atomic Energy	Orval Hansen
Joint Economic Comm	Hugh Carey
Public Works	James Stanton
Banking & Currency	Albert Johnson, William Steiger

Table V.3 Representative, Stock Ownership or Honoraria
by Committee

<u>Committee</u>	<u>Representative</u>	<u>Stock/Honoraria</u>
Minority Leader	James Rhodes	Honoraria
Interior	Morris Udall	Honoraria
	Craig Hosmer	Stock (Wheeling-Pitts- burgh)
	Phillip Ruppe	Stock (Inland)
	Jonathan Bingham	Stock (U.S.S.)
Ways & Means	Donald Brotzman	Honoraria
	Philip Landrum	Honoraria
	Hugh Carey	Honoraria
	Al Ullman	Honoraria
Foreign Affairs	Pierre Dupont	Stock (Hanna)
	Jonathan Bingham	Stock (U.S.S.)
	Ugden Reid	Stock (Newmont Mining)
Appropriations	Victor Veysey	Stock (Cleveland Cliffs)
Armed Services	Patricia Schroeder	Honoraria
Select Committee on	Richard Bolling	Stock (National)
Committees	Paul Sarbanese	Stock (Inland)
	William Steiger	Honoraria
Joint Atomic Energy	Orval Hansen	Honoraria
Joint Economic Comm	Richard Bolling	Stock (National)
	Hugh Carey	Honoraria
	H. Reuss	Stock (Majestic Mines)
Public Works	Bella Abzug	Stock (Jones & Laughlin)
Science & Aeronau-	John Wydler	Stock (Colt)
tics	Charles Mosher	Stock (Armco, Inland)
Judiciary	Paul Sarbanese	Stock (Inland)
Banking & Currency	Albert Johnson	Honoraria
	H. Reuss	Stock (Majestic Mines)
Government Operation	Dave Martin	Stock (Inland, Minne- sota Mining)
	John Wydler	Stock (Colt)

Analysis of Tables V.2 and 3 reveals, not surpris-
ingly, that members of the House Ways and Means Committee,
the Congressional committee most responsible for writing
tax laws, were very likely to receive honoraria from large
steel interests. The direct impact of honoraria in terms
of buying votes for steel is not what is either probable,

³³ Data for tables V.2 and V.3 taken from Financial
Disclosures by Members of Congress.

nor necessarily what is implied here. Nevertheless, speaking engagements and the honoraria accompanying them provide one way for the steel companies to make their views known to crucial individuals in Congress under conditions that, psychologically at least, leave the relationship between the private industry and public policy very ambiguous to say the least. Of additional interest is the fact that many owners of steel stocks also sit on committees of special relevance to the industry. The Science and Aeronautics Committee, for instance, which is involved in research utilizing the latest in specialty steels, has two members, Rep. John Wydler and Charles Mosher, with stock interests in 4 steel firms, 2 of which are deeply involved in the production of specialty steels (Crucible and Armco). The House Committee on the Interior and Insular Affairs which is concerned with questions of interest to the integrated producers such as mine safety, strip mining, etc., has three members with interests in U.S. Steel, Inland, and Wheeling-Pittsburgh. A fourth member, Morris Udall, was the recipient of honoraria from four mining associations with steel affiliates.

Financial disclosures of members of the Senate indicate a greater dependence on honoraria by the large steel corporations than practiced in the House. The Senate disclosure rules are most limited and, therefore, very little

information is available concerning stock holdings of individual members. The Senate rules only require that senators and senatorial candidates make public the amount and source of each honorarium of at least \$300. dollars received during the preceeding year. Senators are also expected to list sources and amounts of income of political contributions in excess of \$50. dollars. But as this requirement pertains only to donations received directly and as most funds are received by campaign committees, little campaign information is available through disclosure reports.³⁴ Table V.4, "Senate Committees and Honoraria," breaks down senatorial honoraria by steel interests according to committees.

<u>Table V.4³⁵</u>	<u>Senate: Committees and Honoraria</u>
<u>Committee</u>	<u>Senator</u>
Finance	Paul Fannin
	Vance Hartke
Public Works	James McClure
	Jennings Randolph
	Robert Byrd (Chairman)
Armed Services	Barry Goldwater
	John Tower
Banking	Adlai Stevenson
	John Tower
Interior & Insular Affairs	Paul Fannin
	James McClure
	James Abourezk
	Henry Jackson
Joint Budget Control	Paul Fannin
	Vance Hartke
Joint Economic	R. Schweiker
Commerce	Adlai Stevenson
	Philip Hart
Foreign Relations	Robert Griffin
Select Small Business	J. Glenn Beall, Jr.
	James Abourezk

Continued

³⁴For a discussion see Financial Disclosures by Members of Congress, pp. 1-6.

Joint Atomic Energy	Henry Jackson
Aeronautical-Space Sciences	Gary Goldwater
	James Abourezk
Labor & Public Relations	Jennings Randolph
	Richard Schweiker
	James McClure
Joint Defense Production	John Tower

The data of Table V.4 reveal that the 12 members receiving fees from steel and related associations include highly influential party leaders - Senator Byrd is the Democratic Whip and Senator Griffin, the Republican - and represent some 14 committees, 8 of which are of special importance to the industry. The 8 committees of immediate interest to Big Steel are Finance, where the Trade Bill was assigned; Public Works, which is concerned with, among other things, environmental control;³⁶ Interior and Insular Affairs is interested in questions of mine safety and standards; factors all central to steel's quest for increases in capital to expand production; Aeronautical and Space Sciences, Armed Services, and Joint Defense Production which are all vital in that defense and defense-related space programs are prime consumers of carbon and specialty steel products;³⁷ and the Foreign Affairs Committee which often

³⁵ Data for Table V.4 taken from Financial Disclosures by Members of Congress.

³⁶ U.S. Steel's V.P. of Governmental Relations has noted that 20% of all legislation introduced in Congress in 1971 dealt with pollution. "Most would have an impact on U.S.S. if ever adopted," he claims. "Why the Corporate Lobbyist is Necessary." p. 64.

³⁷ See, for instance, NSA Authorization for Fiscal Year 1975, Report of the Comm. on Aeronautical & Space Sciences, 93rd Congress, 2nd session.

deals with questions of world trade.

The Senate Foreign Relations Committee is of special interest. In 1971 the Committee directed legislation allowing for the importation of Rhodesian chrome into the United States. This legislation, commonly known after its sponsor, Sen. Byrd, as the Byrd Amendment, received strong backing from the major steel producers who wanted the Rhodesian chromium for their specialty steels.³⁸ Passage of the Byrd Amendment engendered much domestic and international controversy in that it was in direct opposition to United Nations' trade sanctions against the white supremacist government in Rhodesia. In 1973 an attempt to repeal the law was defeated with the strongest opposition coming from the steel industry which registered additional lobbyists and galvanized its trade associations against the proposed bill.³⁹ In both cases, Senator Robert Griffin, who serves as a ranking Republican of the Foreign Affairs Committee as well as Republican Senate Whip, played an important role in determining the fate of the bill. Mr. Griffin's ties with the steel industry are quite strong. His state of Michigan is the site of steel-producing and mining facilities and, to a certain degree, the economic

³⁸The Repeal of the Rhodesian Chrome Amendment, Hearings, House of Representatives, 93rd Congress, 1st session.

³⁹Congressional Quarterly Weekly Report, (Nov. 2, 1974), p. 3031.

health of Michigan is dependent upon the well-being of the steel industry. In addition, the Senator has been a recipient of honoraria from the industry and, as shall be discussed below, is also a leading recipient of campaign contributions from the large steelmakers.

Some steel sponsored members of the Senate belong to more than one committee of immediate and crucial importance to the political goals of the major steel corporations. Table V.5 lists those senators belonging to two or more of the eight committees.

Table V.5⁴⁰

<u>Senator</u>	<u>Committees</u>
Barry Goldwater	Armed Services Aeronautical & Space Sciences
Paul Fannin	Interior & Insular Affairs Finance
James Abourezk	Interior & Insular Affairs Aeronautical & Space Sciences
John Tower	Armed Services Joint Defense Production

Financial disclosures of members of the House and Senate reveal a number of junctures in which the steel industry is politically visible. This visibility ranges from the passive and inconclusive ownership of steel stocks to the more active practice of disbursing honoraria to influential members of Congress. Stock ownership and honoraria, however, are dwarfed by steel's more significant

⁴⁰ Data for Table V.5 taken from Financial Disclosures by Members of Congress.

activities in the election campaigns of members of Congress.

III

As a reaction to the exposés of the "uckrakers, in 1907 Congress passed legislation prohibiting corporations chartered under federal law to contribute to any election campaign. Over the years, however, the large corporations have managed to circumvent this rather simplistic proposal by having individual directors and officers, along with members of their families, make contributions as individual citizens. In fact, even without the 1907 regulation on corporate campaign activities, a number of corporate spokesmen argue that the current practice of individuals giving to campaign coffers would be followed and that the firms themselves ~~need~~ not directly be involved in the process.⁴¹ Mr. William Whyte, U.S. Steel's Vice-President for Governmental Relations, best explains the logic behind this "soft-sell" approach. "Too much visibility,"⁴² Whyte contends, may bring trouble. For a show of corporate muscle could stimulate reaction in the form of anti-trust activity. Therefore, in justifying U.S.

⁴¹ The fear of being too aggressive politically has led such giants as G.E. to cut its non-sales office in Washington by 50% during 1971. G. M. is also very sensitive to this problem and has a reputation for downplaying its corporate representation. "Why the Corporate Lobbyist is Necessary." p.64.

⁴² Ibid.

Steel's approach, Mr. Whyte concludes:

We try to keep a low profile...
It's best for a company our size.
Just the name itself sounds massive. 43

This low-keyed approach is pursued by the major steel producers who attempt to downplay their financial role in the electoral process. Mr. Whyte's duties during 1972, for instance, involved commuting from his Washington, D.C. office to Pittsburgh twice weekly to report on the political progress of proposed steel import restrictions and to develop a new system showing executives how to contribute to political campaigns. In analyzing the available data on campaign contributions for members of the Senate and House, the meaning of the ideas of "low-keyed" and "low profile" become clear. As used by the industry the terms have procedural rather than substantive meaning. That is, a "low profile" campaign is one which need not be readily visible but still is the result of strong and aggressive effort. This is certainly the case of steel's role in the electoral process for 1972.

The provisions of the recently enacted Federal Elections Campaign Act of 1971 require that organizations and committees either collecting or spending at least one thousand dollars during a single calendar year in support of candidates for federal office must register and file

⁴³Ibid.

periodic reports of expenditures and receipts. In addition, the reports must itemize all expenditures and contributions over \$100. The reports are then registered with the appropriate federal officer: the Comptroller General for Presidential races; the Clerk of the House and Secretary of the Senate for House and Senate races respectively.⁴⁴ Eventually, the data are compiled and published. The published reports of the Secretary of the Senate and the Clerk of the House contain the names of all individuals contributing one hundred dollars or more, and therefore provide the raw data from which steel's campaign contributions are extracted. A word of warning, however, is in order, for the reports may not be entirely accurate. Indeed, as a Common Cause publication points out, "(t)he number of reports, candidates, political committees and contributions make it impossible to guarantee absolute accuracy."⁴⁵ But while absolute accuracy can not be taken for granted, there is no reason to doubt that the federal reports closely approximate the reality of campaign contributions. Furthermore, given the vast number of reports, etc., involved, mistakes are most likely to be the result of incomplete information which, in any case, might serve to understate the amount of con-

⁴⁴ Common Cause, 1972 Federal Campaign Finances: Interest Groups and Political Parties, III, (Washington, Common Cause, 1974)pp.i-iii.

⁴⁵ Ibid., p. iii.

tributions including those made by the steel corporations.

During the 1972 elections for the Senate and House of Representatives, members of the top 9 steel producers funneled more than a quarter of a million dollars into the campaign coffers of candidates for Congress.⁴⁶ The \$268,250.00 contributed, however, does not state the full amount of steel's financial activities. The industry, as part of its low-profile approach, often depends upon its trade associations and law firms to attain its political ends.⁴⁷ The instance of campaign contributions provides no exception, for the law firms retained by steel kicked in an additional \$48,239.00 to many of the same candidates supported by their employers, the big steel companies.* Table V.6, "Total Campaign Contributions," lists all con-

⁴⁶Compilations based on data from, The Annual Statistical Report of Receipts and Expenditures made in Connection with Elections for the U.S. Senate in 1972. Pts. I & II, prepared under the direction of Francis R. Valeo, Secretary of the Senate; and The Annual Statistical Report of Receipts and Expenditures made in connection with Elections for the House of Representatives in 1972, Pts. I & II, by W. Pat Jennings.

⁴⁷"Why the Corporate Lobbyist is Necessary," p. 64. Many others have cited the importance of the lawyers as liaisons between the corporations and government. C. Wright Mills, for instance, sees the lawyers as an instrumental part of what he calls "high level lobbying." The Power Elite, (N.Y.: Oxford University Press, 1959). Others include G. William Domhoff, The Higher Circles (N.Y.: Random House, 1970) and Robert Engler, The Politics of Oil.

*The law firms examined include the following major companies who are listed as counsels for the major steel corporations in the Martindale & Hubbell's Annual Directory: Armco; Breed, Abbott & Morgan; Bethlehem; Cravath, Swain,

tributions and distinguishes between steel companies and law firms in each House of Congress.

Table V.6⁴⁸

<u>Total Campaign Contributions</u>			
	<u>House</u>	<u>Senate</u>	<u>Total</u>
Steel Firms	\$113,006.61	\$155,244.00	\$268,250.61
Law Companies	6,542.00	41,697.00	48,239.00
Total	119,548.61	196,941.00	316,489.61

As Table V.6 indicates, during the election campaign of 1972 the officials of the steel companies invested almost a third of a million dollars in Congressional election campaigns. The questions now become: To whom did the money go? and, What did the major steel companies receive in return for their generosity? In analyzing the data, a number of trends emerge which suggest that the industry-wide pattern of campaign donations is systematic and well-coordinated among the various steel companies.

The first apparent trend is that contributions to national and state-wide political campaigns came from steel

and Moore; Inland; Mayer, Brown & Platt; Cleveland Cliffs; Jones, Day, Cockley & Reavis; LTV-Jones and Laughlin; Jones, Day, Cockley & Reavis and Dawson, Quinn, Riddel, Taylor & Davis; Republic; Jones, Day, Cockley & Reavis, Arter and Hadden, White & Case; National; Thorp, Reed & Armstrong; U.S.S.; U.S. Steel does not employ a single outside law firm and lists as its counsels, Messrs. M.L. Heald, and G.C. Schwartz. White and Case has as a partner, Mr. Roger Blough, retired President of U.S.S. Wheeling-Pittsburgh; Reed, Smith, Shaw & McClay; Youngstown; Arter and Hadden; American Iron and Steel Institute; Rogers & Wells, Wilmer, Cutler & Pickering, Arnold & Porter.

⁴⁸ Data for Table V.6 taken from Annual Statistical Reports, House and Senate races, 1972.

company officials, including members of law firms on retainer, involved in national and state-wide corporate policies on all levels. Contributions from steel management, on the other hand, go to local campaign chests for members of the House of Representatives. This is eminently sensible. Management officials are often based at individual plants or move from plant to plant and are more likely to be directly involved with local issues than the directors and lawyers operating out of the home office or a single major city. Moreover, such tactics provide good public relations in that the candidate for the House can associate the financial support with a real person whom he is likely to have met rather than an impersonal corporation with whom it is difficult to associate.⁴⁹ Corporate directors and corporate counsels, on the other hand, tend to operate out of central corporate offices and insure that steel's interests will be heard by all parties willing to listen.

Table V.7, "Contributions by Directors, Lawyers, and Management," distinguishes amounts of the total contributions according to group. Table V.8, "Contributions of Directors, Lawyers, and Management by House and Senate," lists the proportion of each group by House and Senate.

⁴⁹ "Why the Corporate Lobbyist is Necessary."

Table V.7⁵⁰ Contributions by Directors, Lawyers,
and Management

Directors	\$107,181.35
Lawyers	48,239.00
Management	67,808.31
Total	<u>323,228.66</u>

Table V.8 Contributions by Directors, Lawyers and
Management by House and Senate

	Total	Direct to Candidates		To National & State-wide Committees
		House	Senate	
Directors	107,181.35	32,728.52	48,913.	25,539.83
Managers	67,808.31	15,700.00	40,186.	11,922.31
Lawyers	48,239.00	5,600.00	18,718.	23,921.00

A second characteristic of steel's financial activities during the election campaigns for Congress in 1972 is the preponderance of funds going to Republicans. Of the \$323,228.66, some \$306,686.50 went directly to Republican candidates or to Republican party organizations. Within the Republican Party, money was disbursed to all receptive candidates without regard for political ideology. The example of Senator Charles Percy provides a good case in point. As the Senior Senator from Illinois, Mr. Percy represents a state with extensive steel productive facilities employing thousands of workers. Over the years, he has established himself as a friend of the industry. During 1972, for instance, Senator Percy appeared before the

⁵⁰ Data for Tables V.7 and 8 taken from Annual Statistical Reports, House and Senate, 1972.

Senate Subcommittee on Intergovernmental Relations to testify on the impact and administration of the property tax.⁵¹ The Senator's testimony came at a time when various citizen groups were complaining that the steel corporations were being given property tax breaks that were then passed on to the homeowners. An organization calling itself the Campaign Against Pollution estimated that because of such underassessment, U.S. Steel's South Works in Chicago was receiving an annual tax gift of some 16.4 million dollars. Moreover, the C.A.P. argued that U.S. Steel was still Chicago's worst polluter.⁵² According to C.A.P. researchers:

.....South Works belched 63,247 tons of particulate pollution into the air in 1965. By 1970 when the corporation claimed that it reduced pollution by 85%, South Works in fact poured 61,658 tons of dirt into the skies over South side. 53

The claims of the C.A.P. had been supported by the research of the organization. The Chicago Research Project researchers, in addition to the underassessment, found the following underassessments in the Chicago area.⁵⁴

⁵¹ See Hearings before the Subcommittee on Intergovernmental Relations of the Committee on Government Operations, U.S. Senate, 92nd Congress, 2nd session. Impact of the Property Tax.

⁵² Ibid., pp. 372-374.

⁵³ Ibid., p. 374.

⁵⁴ Ibid., p. 375.

1. Republic Steel's South Chicago Works under-assessed by 62%, saving the corporation 5.5 million in taxes annually.

2. Interlake's Riverdale and Chicago Works underassessed by 42%, saving the company an annual amount of 1.3 million.

3. International Harvester's Wisconsin Steel underassessed by about 70%, saving the company 3.8 million yearly.

Yet, in spite of the raging controversy over tax gifts to the steel industry in Illinois, not once did Mr. Percy directly refer to the role of the steel corporations. Rather, the Illinois senator focused on the impact of the property tax on elderly persons. When the problem of underassessment finally was raised, Mr. Percy discussed a race track which was underassessed by some 22.3 million dollars, much less than the 149.5 million dollar underassessment of U.S. Steel, which was not even mentioned.⁵⁵

Senator Percy also served the industry through his support of the Trade Bill. Long an advocate of "free trade" the senator, who had formerly been associated with the Bell and Howell Corporation, a multi-national corporation exporting electronics and photographic equipment,⁵⁶ advocated

⁵⁵ Ibid., pp. 4-5.

⁵⁶ "Why the Corporate Lobbyist is Necessary." p. 63.

acceptance of the bill's provisions providing protection for industries threatened by imported goods. In addition, Percy, by virtue of his membership in the Senate Subcommittee on Labor and Health, Education and Welfare, is in an excellent position to help the steel industry. The subcommittee oversees the activities of such industrial advisory committees having key steel officials as members of: the Business Research Advisory Committee; Advisory Committee on Foreign Labor and Trade; and the Business Research Advisory Council.* As a reward for his efforts, the steel industry contributed a total of \$32,144.00 directly to the campaign coffers of Senator Percy. In addition, executives of the integrated steel firms gave another \$29,459. to the United Republican Fund of Illinois, an organization which funneled over \$70,000.00 into the Percy campaign. Although the bulk of the money came from those companies whose major interests are in Illinois, the financing of the re-election of Senator Percy represented in part a collective effort by the major steel corporations. Tables V.9 and 10 break down direct and indirect** contributions to the Senator by steel companies and their law firms.

*The activities of the advisory committees are discussed in Chapter VI below.

**By direct is meant those funds contributed to those organizations raising money solely for the Percy campaign. Included are: Citizens for Percy, Testimonial Dinner for Percy, Lawyers for Percy, Businessmen for Percy, Executives for Percy and Re-Elect Sen. Percy. By indirect is meant that money given to the United Republican Fund of Illinois, which was a major contributor to the Percy campaign.

Table V.9⁵⁷Direct Contributions

<u>Company/Law Firm</u>	<u>Amounts</u>
Inland Steel	\$ 6,180.
National Steel	2,610.
Bethlehem Steel	100.
Jones & Laughlin	16,204.
Lykes-Youngstown	250.
AISI (Wilmer, Cutler & Pickering)	1,500.
Armco (Breed, Abbott & Morgan)	500.
U.S.S. (White & Case)	200.
J & L (Quinn, Dawson, Riddel..)	500.
Total	<u>31,444.</u>

Table V.10 Contributions to the United Republican
Fund of Illinois

<u>Company/Law Firm</u>	<u>Amounts</u>
Inland	\$ 13,000.
Jones & Laughlin	3,759.
National	5,000.
Interlake	1,000.
Armco	1,000.
Cleveland Cliffs	2,000.
Mayer, Brown & Platt	2,200.
Jones, Day, Cockley & Reavis	1,000.
Arter & Hadden	500.
Total	<u>29,459.</u>

Steel's role in the campaign of Republican Senator Clifford P. Hansen of Wyoming is indicative of the efforts of a single company. Mr. Hansen, who serves on the Senate Finance and Interior Committees, received a total of \$24,336. directly from the industry. Of this amount, \$23,836 is traceable to the Armco Steel Company. The Wyoming senator has a history of favoring protectionist legislation and in 1968 was one of the 35 senators to co-sponsor such legislation.

⁵⁷ Data for Tables V.9 and 10 taken from Annual Statistical Report, Senate, 1972.

Just as the steel firms support the senatorial candidacies of receptive modern Republicans, so do they invest in the campaigns of more conservative Republican candidates. Senator John Tower, for instance, directly received \$9,000. from steel executives while the Senate Republican Whip, Robert Griffin, was given \$6,662. These two amounts represent the fourth and fifth largest direct contributions made by steel during the Congressional elections of 1972. Not surprisingly, both senators are in very good positions to assist the industry, and do so. Senator Tower, through his committee assignments, has aided the industry with his support of large defense spending and, in 1968 was one of 35 senators to co-sponsor a steel quota bill.⁵⁸ Moreover, the Texas senator was influential in getting Congressional approval for legislation in 1972 prohibiting the Department of Defense from purchasing alloy steels from foreign producers. As noted above, Senator Griffin was instrumental in the industry's legislative struggle to permit the importation of Rhodesian chromium. And, as Republican Whip, he was also responsible for aligning Republicans behind the protective stipulations of the Trade Bill.

Although the bulk of campaign contributions by the steel corporations finds its way into the Republican Party,

⁵⁸ Congressional Quarterly Weekly Report, (Feb. 2, 1968), p. 156.

the industry does not limit its support to Republicans. Indeed, party affiliation is secondary to the willingness and ability of a candidate to further the interests of steel. The Texas senatorial race in 1972 provides a good example of steel's "bipartisan tendencies." In Texas the Republican incumbent, John Tower, received \$9,000., but an aspirant for the Democratic nomination, Mr. Harold "Barefoot" Sanders, also a man of pro-business sentiment, was given over \$12,000. by steel in his unsuccessful attempt to take the nomination away from Ralph Yarbrough. Other Democrats receiving assistance from the industry largely represented conservative southern and midwestern representatives and included Senator John Sparkman of Alabama, Chairman of the Committee on Banking and Urban Affairs, member of the Senate Foreign Relations Committee, Select Small Business and Joint Economic Committees; Senator James Eastland of Mississippi, Chairman of the Senate Judiciary Committee, a committee concerned with anti-trust questions; Sam Nunn of Georgia, member of the Senate Armed Services Committee; Everett Jordan of North Carolina, defeated in a primary election, and Dick Clark from Iowa.

Elections for the House of Representatives also reveal the bipartisan tendencies of the steel corporations. The practice of support to receptive Democrats where Demo-

crats win and sympathetic Republicans in Republican areas is revealed by the fact that of the 56 candidates for the House receiving financial assistance from the steel corporations, 35 were Republicans and 21 were Democrats. Yet, only 19 of the 38 elected were Republicans, while 19 were also Democrats. This suggests that the steel industry supports sensitive Democrats when their election is virtually certain. In fact, all of the Democrats supported by the major steel companies won their elections by margins of 2:1 or greater and in one case ran unopposed. Table V.11 lists the electoral results of those Democrats supported by steel in the general elections of 1972.

Table V.11⁵⁹ Electoral Results of Steel-Supported Democratic Candidates for the House

<u>Candidate</u>	<u>State</u>	<u>Amount</u>	<u>Result</u>
Wilbur Mills	Ark.	2500.	won
Lee Aspinall	Colo.	200.	lost
Paul G. Rodgers	Fla.	1500.	won
Claude Pepper	Fla.	850.	"
Dante B. Fascell	Fla.	1000.	"
Dan Rostenkowski	Ill.	1000.	"
John Brademas	Ind.	200.	"
Joe D. Waggonner	La.	250.	"
Peter Rodino	N.J.	500.	"
Elizabeth Holtzman	N.Y.	200.	"
John Jarman	Okla.	1700.	"
Al Ullman	Oreg.	250.	"
Edith Green	Oreg.	250.	"
Joshua Eilberg	Pa.	200.	"
Thomas E. Morgan	Pa.	200.	"
Richard Fulton	Tenn.	750.	"
Barbara C. Jordan	Texas	600.	"
Bob Casey	Texas	600.	"
Thomas N. Dowling	Va.	250.	"
Purcell	Texas	500.	lost
Abner Mikva	Ill.	600.	lost

⁵⁹ Data taken from Annual Statistical Report, House, 1972.

A glance at Table V.11 suggests that the Democrats receiving support were not only more certain of winning the election, but also held influential positions in Congress and served on the most important committees. The House Ways and Means Committee, for instance, which essentially wrote the House version of the Trade Bill, had five Democratic members receiving financial contributions from steel corporations. These five include Wilbur Mills, the Chairman, and Al Ullman, Mills' successor, Mills received \$2500. from members of U.S. Steel, and Ullman received \$250. in addition to an undisclosed amount in honoraria from the American Iron and Steel Institute. Dan Rostenkowski of Pennsylvania got \$1000. from Bethlehem, and Joe Waggoner of Louisiana and Richard Fulton of Tennessee received \$250 and \$750, respectively. Although there is a greater tendency to support Republican candidates, many of the Republicans backed by steel were among the most influential members of the House. In addition to the \$600. gift by officials of the Lykes-Youngstown Company to Gerald Ford, then Majority Leader of the House, two Republican recipients also served on the Ways and Means Committee. Representative Pettis of California, considered to be the leading Republican member of the House supporting the Trade Bill, received approximately \$500 and Herman Schneebeli, from a steel district in Pennsylvania, received \$250. Table V.12, "House Candidates and Committee Assignment,"

lists the successful candidates and incumbents according to committee assignment.

<u>Table V.12⁶⁰</u> <u>Candidate</u>	<u>House Candidates and Committee Assignments</u> <u>Assignment</u>
Wilbur Mills	Ways & Means, Chairman Joint Internal Revenue Taxation, Chairman Joint Reduction of Federal Expenditures
Paul G. Rodgers	Interstate & Foreign Commerce Merchant Marine and Fisheries
Claude Pepper	Internal Security Rules Select Crime Investigation, Chairman
Dante Fascell	Foreign Affairs Government Operations
Dan Rostenkowski	Ways & Means Joint Budget Control
John Brademas	Education and Labor House Administration Joint Library Joint Printing
Joe D. Waggoner	Ways & Means
Peter Rodino	Judiciary, Chairman
Elizabeth Holtzman	Judiciary
John Jarman	Interstate and Foreign Commerce
Al Ullman	Ways and Means Joint Budget Control Joint Internal Revenue Taxation Joint Reduction of Federal Expenditures
Edith Green	Appropriations
Joshua Eilberg	Judiciary
Thomas E. Morgan	Foreign Affairs, Chairman
Richard Fulton	Ways and Means
Barbara C. Jordan	Judiciary
Bob Casey	Appropriations
Thomas Downing	Merchant Marine & Fisheries Science & Astronautics

An examination of the voting behavior of Congressmen receiving support from the steel industry reveals a close relationship between honoraria, stock ownership, campaign contributions and legislative support of the steel companies.

⁶⁰Data for Table V.12 taken from Annual Statistical Report, House, 1972 and America Votes 10, Government Affairs Institute (Washington: Congressional Quarterly, 1973).

Tables V.13 and V.14 list those members of Congress voting on the Trade Bill who received honoraria or contributions or who own stock in the steel corporations by House and Senate.

Table V.13 Voting Behavior, Honoraria, and Stock Ownership

<u>House</u>		<u>Senate</u>	
For	Against	For	Against
James Rhodes(h)	H. Carey(h)	P. Fannin(h)	V. Hartke(h)
Donald Brotzman(h)	Sarbanese(s)	J. Randolph(h)	J. McClure(h)
Morris Udall(h)	Abzug(s)	R. Byrd (h)	J. Abourezk(h)
Al Ullman(h)		J. Tower (h)	
Patricia Schroeder (h)		R. Schweiker(h)	
Orval Hansen(h)		P. Hart (h)	
James Stanton(h)		R. Griffin(h)	
A. Johnson (h)			
P. Landum (h)			
R. Steiger (h)			
R. Bolling (s)			
J. Bingham(s)			
P. Dupont(s)			
Ogden Reid(s)			
P. Ruppe (s)			
C. Mosher (s)			
V. Veysey(s)			
H. Reuss (s)			
D. Martin (s)			
C. Mosher (s)			
J. Wydler(s)			

Table V.14 Voting Behavior and Campaign Contributions

<u>House</u>		<u>Senate</u>	
For	Against	For	Against
Rodgers	Pepper	Tower	-
Fascell	Rostenkowski	Griffin	
Waggonner	Brademas	Sparkman	
Jarman	Rodino	Thurmond	
Ullman	Holtzman	McClellan	
Green	Morgan	Clark	
Fulton	Jordan	Helms	
Casey		Nunn	
Downing		Bartlett	
		Mondale	
		Hansen	

The data of Tables VI3 and 14 indicate that of the 12 senators receiving support and voting on the Trade Bill, 11 backed the act along with steel; in the House, 9 of the 16 voting took a pro-steel position. For honoraria and stock ownership, the percentages supporting the industry's position are even greater. Some 21 members of Congress received honoraria from the steel companies and 18 of the 21 voted for the Trade Bill. Of the 13 members owning stock in the steel corporations, 11 supported the Trade Act. Yet, the investigation of steel's financial activity does not conclusively prove that the steel corporations always successfully use their financial resources to influence the legislative process. No such claim or effort is being made here. Indeed, the strong positive relationship between support of the Trade Bill and steel interests is mitigated by a number of factors. First, the bill received the overwhelming support of Congress, winning by margins of 274-140 and 72 -4 in the House and Senate, respectively. Second, the act was a compromise involving the support of many interests. Finally, the legislators supporting the bill also received contributions and other forms of financial assistance from other interested parties beside steel.

In spite of the aforesaid limitations, the study of steel's direct activity of financing campaigns and

indirect actions such as the dispensement of honoraria and the stock interests of Congressmen, does indicate that the steel companies are in a powerful strategic position to have their views heard by receptive and influential congressional leaders in both the House and Senate. Given the fact that legislators rely for their campaign financing on such a minute proportion of the population - 1% giving 90% of all campaign contributions - the more than one-half million dollars allocated by the industry takes on added significance.

The role of the law firms in this process is also enlightening; for the activities of the law companies are indicative of steel's "soft-sell" or undercover approach.* Moreover, the relationship between steel and law firms tends to support the findings of Chapter III which ~~revealed~~ vast amounts of economic collusion among the top producers. The actions of the law companies might indicate that political collusion is not restricted to trade associations but also operates through law firms, with some corporations retaining the same legal counsel. As noted in Table V.10, the Jones and Laughlin Corporation, Republic, Hanna Mining Co., and Cleveland Cliffs Iron Co. all of whom are connected together through joint ventures and subsidiaries, also retain the same major Cleveland law

*A close analysis of this question is conducted in the proceeding chapter on "Steel and the Executive."

firm of Jones, Day, Cockley & Reavis. Lykes-Youngstown, which has several economic links with U.S. Steel, also shares the same law firm of Arter & Hadden with its largest competitor. Others retained by Arter & Hadden include the Steel Company of Canada, Interlake Steamship Co., and Pickands-Mather Corporation. The ability of law firms to represent more than one steel corporation gives that firm access to the plans and programs of both companies and could coordinate the activities of the two, further centralizing power within the industry.

As important as the financial activities of the steel companies may be, they do not prove conclusively that the steel firms always use their financial resources successfully to influence legislation precisely to their liking. But it is not necessary to prove this in order to conclude that the data indicate a significant amount of direct and indirect influence on the key legislators. Yet, the available data most likely understate the extent of steel's financial activities in the political arena. On the one hand, the contributions only cover the period subsequent to April 7, 1972, when the strict financial reporting requirement took effect. There is no telling how much was donated prior to the April 7th deadline, although there are clues suggesting considerable activity during that period. A secret list disclosed that officials of the Bethlehem Steel Corporation gave \$46,000 to the Finance Committee to Re-Elect the President just before the cut-off date.⁶¹ In fact, as shall

be discussed in Chapter VI below, Nixon fund-raisers added approximately \$5 million to Nixon campaign coffers alone on the two days preceeding the disclosure deadline.⁶² While no such list exists for the myriad Congressional races, there is no reason to assume the presidential campaign **was unique in this respect.**

A second factor in evaluating the significance of steel's campaign contributions is the role played by trade organizations. The National Association of Manufacturers, for instance, to circumvent the prohibitions on political contributions by corporations, formed the Business-Industry Political Action Committee. In 1972 the greatest amount of campaign contributions from a single organization - \$410,600, came from this organization.⁶³ Most of the money went to many of the same Republicans and southern Democrats supported by the steel corporations. Among the directors of B.I.P.A.C. is found H.C. Lumb, a Vice-President of the Republic Steel Corporation.⁶⁴

⁶¹ "Nixon's Corporate Contributors," Congressional Quarterly Weekly Report, (March 23, 1974) p. 724.

⁶² "Nixon's Donors: 120 million before the Deadline," Congressional Quarterly Weekly Report, (Oct. 6, 1973) p. 2659.

⁶³ "1972 Federal Campaign Finances Interest Groups and Political Parties," Common Cause, p. vii.

⁶⁴ Congressional Quarterly Almanac, 1971, p. 431.

Any conclusions which might be drawn must be guarded. Yet, whatever the significance of the campaign contributions by the steel industry, they do represent but a single aspect of the steel corporations' ability to convert its economic resources into political control. Of equal and perhaps greater importance are the industry's lobbying activities in Congress as well as its massive public relations campaigns to "educate" the public.

IV

A more direct method of gaining Congressional support is seen in the lobbying activities of the steel corporations in Congress. In their struggle to restrict foreign imports while receiving other related governmental assistance in the form of tax breaks and less rigorous pollution standards, the industry deploys an army of lobbyists. Included among steel's political arsenal are ex-governmental and Congressional officials, and most respectable and prestigious law firms, company vice-presidents in charge of governmental relations, corporate presidents who cultivate personal relationships with members of Congress, company legal counsels, public relations firms,

and finally, the old-fashioned registered lobbyist. Virtually each one of the major producers is represented in Washington by men in at least one of these positions and often several corporations jointly share the same lobbyist.

Armco, Bethlehem, United States Steel, and Cleveland Cliffs Iron Company all maintain well-financed professionally staffed lobbyist offices in Washington. U.S. Steel's Washington office, for instance, employs 17 full-time staff members.⁶⁵ In addition to the Washington offices, the individual steel firms often jointly employ outside lobbyists to ~~present~~ their interests. The hiring of outside people is a practice followed when special influence and access to government is desirable. In a recent drive to modify tax provisions relating to the steel corporations, the U.S. Steel Corporation, Bethlehem Steel, Inland and the Hanna Mining Company employed Mr. John W. Byrnes to represent their interests.⁶⁶ Mr. Byrnes was formerly a U.S. Representative from Wisconsin for 19 years between 1945 and 1973; more importantly he was the ranking Republican member of the House Ways and Means Committee, the focal point in Congress for all legis-

⁶⁵ Ira Katznelson, Mark Kesselman, The Politics of Power, (N.Y.:Harcourt, Brace, Jovanovich, Inc. 1975) p. 138.

⁶⁶ Lobby Report, Congressional Quarterly Weekly Report, (June 22, 1974) p. 1644.

lation concerning taxation. The companies also hired the law firm of Foley & Lardner to assist Mr. Byrnes with his task. Members of Foley & Lardner include several former employees of the Anti-trust Division of the U.S. Department of Justice as well as the former counsel to the House Committee on the Judiciary, Mr. H. W. Fost, Jr. As part of the "low profile" approach, however, the steel companies, according to one official at the National Association of Manufacturers, "...usually give the tough jobs to the trade association and lie low."⁶⁷ A major part of the political campaign against foreign imports was conducted by the American Iron and Steel Institute. Indeed, the drive for quota legislation in 1968 was spearheaded by the steel institute and viewed by administration officials as being the most "sophisticated" lobby effort of all protectionist forces.⁶⁸ The A.I.S.I. hired James F. Collins, a former Deputy Assistant Secretary of Commerce for Domestic Business Affairs, to lead its Washington lobbying effort. The Institute also employed Mr. Lloyd M. Cutler, a highly successful Washington lobbyist and partner in the prestigious law firm of Wilmer, Cutler and Pickering. Several members of the firm have

⁶⁷ "Pressures Mounting for Import Quotas Legislation," Congressional Quarterly Weekly Report, (Feb. 2, 1968)p. 158.

⁶⁸ Preparing for TV appearances has become a major concern of corporate public relations in recent years. Many major firms send their leading officials to special schools to get the corporate point of view across to the public. See, "Babes in TV Land: Teaching Businessmen to Face the Nation is a Growing Business," The Wall St. Journal, (Mar. 7, 1975).

ties with relevant agencies of the executive branch of government. The steel trade organization was also to retain the services of Arnold & Porter and Royall, Koegel & Wells to lobby with regard to those legislative proposals governing international trade and particularly those provisions of the then proposed trade bill dealing with the question of relief from unfair import competition.

As shall be discussed below, both firms employ numerous former officials of the executive branch of government. Several former representatives and counsels to Congressional committees are also associated with the firms. One member of Royall, Koegel & Wells, for instance, Mr. Stanley R. Tupper, served as a U.S. Representative (R., Maine) during the period between 1961 and 1967; a second, Mr. Caesar L. Pitassy, was formerly counsel to the House Judiciary Committee. Arnold & Porter had 3 members who had been associated with Congress: Mr. Lanny J. Davis was Senator Muskie's National Campaign Coordinator for the senator's Presidential campaign; Mr. Daniel Martin was Senator Muskie's Chief Legislative Assistant and, prior to assuming the post, was Staff Assistant to Senator Joseph Tydings; and, finally, Mr. Myron Curzan who served as Legislative Assistant to Sen. Robert Kennedy, 1966-1968.

The American Iron and Steel Institute also secured the services of a prominent New York public relations firm, Hill and Knowlton. To document its position the Iron and Steel Institute put out a booklet entitled, "The Steel Import Problem." The pamphlet argued that modernization of the domestic industry was impossible unless United States steelmakers were guaranteed a significant part of the market. Several hundred copies of this booklet were distributed to important members of Congress and throughout the industry. The "Steel Import Problem" was followed by other publications arguing the need for import quotas. The pamphlets included "Steel Imports - A National Concern," "The Steel Industry Today," and an annual "Statistical Report on Steel Imports."

In addition to the above, the A.I.S.I. had its public relations people attend relevant Congressional hearings so as to provide instant public rebuttal to Congressional critics.⁶⁹ During the height of the import campaign the steel institute even issued a pamphlet showing steel executives how to prepare for television appearances, how to write effective speeches and conduct other aspects of a big grassroots effort.⁷⁰ The pamphlet was

⁶⁹"The Steel Industry Today and Tomorrow," A.I.S.I., n.d. See for instance, Stewart Cort, "The Steel Industry and Trade Reform," AISI, 1973.

⁷⁰See, "Babes in TV Land: Teaching Businessmen to Face the Nation is a Growing business."

circulated privately and was not released to newsmen or members of the public. One consequence of this grass-roots campaign was the publication of "The Picture Story of Steel," a pamphlet aimed at teaching through pictures the benefits of steel and the steelmaking process to young grade school children. Once the Trade Bill of 1974 seemed assured of passage in Congress, the Institute began a similar campaign to attain tax breaks as financial incentives to increase capacity. The first result of this effort was a 75 page document entitled, "Steel Industry Economics and Federal Income Tax Policy." The fundamental point of the work is, simply, the steel industry needs tax breaks to survive and it is the responsibility of government to see to its survival.⁷¹

The "soft-sell" approach conducted by steel's public relations people is best summed up by Robert H. Gray, Hill & Knowlton's senior Vice-President and Washington manager, who served as a top level aide to former President Eisenhower. "There are much better ways than flatly buying access to a Congressman's or Senator's ear," Gray contends.⁷² Indeed, Hill & Knowlton, with offices in 42 cities throughout the United States can launch an effective local or national campaign with comparative ease. Members

⁷¹ "Steel Industry Economics and Federal Income Tax Policy," AI&I.

⁷² "Why the Corporate Lobbyist is necessary." p. 65.

of the firm are quite at home on Capitol Hill, the most recent recruit being Liz Carpenter, the former press-secretary to Lady Bird Johnson. According to Gray, Mrs. Carpenter should be an additional asset to the firm "because of her contacts with the female press, her knowledge of the female mind, her friends on the Hill, and her high credibility rate."⁷³ The former press-secretary registered as a lobbyist on the advice of her boss who believes that

there is only one thing worse outside of Washington than to be known as a lobbyist, and that is to have it implied that you are a lobbyist and not even registered. 74

The unregistered lobbyist, however, plays a crucial role in increasing steel's political influence in Congress. According to the 1946 Federal Regulation of Lobbying Act, a lobbyist is defined as a person who is paid principally to aid the passage or defeat of any legislation by Congress. Given these criteria, U.S. Steel's William Whyte, for instance, does not bother to register. According to Whyte's estimations, he spends only about 5% of his time trying to influence legislation and U.S. Steel's lawyers had determined that 51% of the time would make lobbying the principal activity. Therefore, there is no legal requirement to register. Whether registered or not, men

⁷³ Ibid., p. 65.

⁷⁴ Ibid.

such as Whyte and Inland's, J. Daniel Ray, have extraordinary access to the ears and sentiments of the nation's lawmakers. Whyte, a former neighbor and godfather of one of President Ford's children, often entertains congressmen at his home near Washington. Weekly dinners for two dozen or more lawmakers are a regular affair at the Whyte household - all expenses paid, of course, by U.S. Steel.⁷⁵ A popular alternative and complement to the Vice-President of Governmental Affairs is the direct participation of the Corporate Chief Executive Officer in the political process. By virtue of their positions as captains of leading economic institutions, legislators are often anxious to discuss the problems of steel with the industry's leaders. George Stinson of National Steel, Stewart Cort of Bethlehem, and Edgar Speer of U.S. spend much time expressing their views to receptive members of Congress. In evaluating the role of the corporate official in the congressional process, Roger S. Ahlbrandt, Chairman of Allegheny-Ludlum Industries, notes that "the industry's leading executives personally spend much of their time meeting with agencies, senators, and congressmen to acquaint them with our feelings."⁷⁶

As further insurance guaranteeing steel access to

⁷⁵ Ibid., p. 64.

⁷⁶ Ibid., p. 65.

Congress, the law firms retained by the individual corporations also have direct links with the Congress. The firm of Jones, Day, Cockley & Reavis, retained by Republic, Jones and Laughlin, Cleveland Cliffs, and the Hanna Mining Company, employs James M. Brower, the Congressional liaison for the Secretary of the Air Force, 1957-62. As a high level military official with Congressional ties, Mr. Brower has great potentialities for steel and their defense needs. A partner in the law firm of Dawson, Quinn, Riddell, Taylor and Davis, counsel for LTV and Jones and Laughlin, and U.S.S., W. Riddell served as Tax Counsel for the House Committee on Ways and Means between 1955-58. Armco Steel's concern with tax equity led to the hiring of the New York law firm of Paul, Weiss, Rifkind, Wharton and Garrison to concern itself explicitly with the Interest Equalization Tax. In addition to former Attorney General, Ramsey Clark, the law company employs Mr. Adrian DeWind. Mr. DeWind is in an especially favorable position to assist the steel industry. He has served formerly as a tax legislative counsel in the Treasury Department; a Chief Counsel, House Ways and Means Committee on Administration of Internal Revenue Laws; and finally, as a member of the President's Task Force on Tax Policy. Mr. DeWind most certainly knows where to go and what to do to protect steel's interests; and, more importantly, given his extensive background in the area of

government taxation, his is a familiar and respected face among contemporary government officials.

V

In protecting and strengthening their interests in Congress, the steel corporations both possess and utilize vast amounts of economic power to attain their political objectives. The livelihood of hundreds of thousands of workers and their families is dependent upon their employment at the steel mills; and, while unions have taken some steps to restrict the corporations' hiring and firing abilities, if the mills should close down, the unions would be totally helpless and the income of thousands would be cut off. Such a possibility could in a matter of days transform prosperity into depression.⁷⁷ The ability to employ large numbers is a characteristic of the contemporary industrial corporations which often have different interests with regard to any specific issue. Indeed, the Trade Bill, through its exclusion of consumer supported regulations on the multi-national corporation and its acceptance of free trade principles amidst selective protec-

⁷⁷ This was the case in Gary, Ind. when the U.S.S. Corp. closed down ten open hearth furnaces rather than pay a \$2,300 daily fine for polluting the air. This resulted in the layoffs of about 4,000 workers. See, "U.S. Steel to Close Open Hearth Furnaces at Gary, Ind." Wall St. Journal, (Jan. 7, 1975).

tionism, provides real clues concerning the ability of the corporations to work out their differences.

The control of jobs is supplemented by a sense of legitimacy the corporations possess through the widespread ownership of stock among members of Congress. While just 7.9% of the total population owns stock,⁷⁸ 43% of the membership of the House own a significant amount of shares. A good number have very small ownership interests in the leading steel firms, but a material interest nevertheless.

The financial holdings of Congress in the steel corporations is minimal, however, and probably serves nothing more than as a reminder of steel's respected position in the American economy. The role of the steel corporations in Congress is more aggressively pursued in their campaign activities. With huge sums of wealth at their disposal, the corporations distribute it freely in the form of honoraria and campaign contributions. Undisclosed thousands went to key Congressional leaders in the form of honoraria; several hundred thousand dollars found its way into the campaign coffers of important and receptive members of Congress. This, combined with the contributions of closely related groups such as the Business Industrial Political Action Committee, insures that steel's

⁷⁸Gabriel Kolko, Wealth and Power in America, (N.Y.: Praeger, 1962) pp. 50-51.

interests will be expressed and considered in Washington. Moreover, the fact that just 1% of the population contributes 90% of the money for federal elections suggests that corporate officials can clearly distinguish themselves from the general population and make it easy for legislators to equate their company's case with the unheard public's unless there is a truly unusual situation which arouses broad public concern over a prolonged period of time. Finally, and perhaps most importantly, the steel corporations employ prestigious law firms whose members have close links with Congress; public relations companies ready to provide favorable answers to any unfavorable criticism; and, of course, the registered and unregistered lobbyists, anxious to demonstrate to the Congressman the needs of the industry and able to do so in an atmosphere of elegance and comfort. Each of these activities provides important junctures at which the steel corporations express their problems and propose alternatives to Congress. The success of such tactics in Congress has been clear and consistent over the years. As discussed above, the industry is presently trying to gain additional tax breaks which already have been increased through the investment tax credit of 1962, the Revenue Act of 1971, and the Tax Reduction Act of 1975 which has been seen by industry officials as a first step in the right direction.⁷⁹ The Trade

⁷⁹Lewis W. Foy, "A Progressive Program for a Backward Nation," Speech at the Downtown Rotary Club, Washington, July 23, 1975.

Act of 1974 establishes the principle of governmental protection and serves to warn foreign producers to be cautious in the pursuit of American markets for their steel. Such protection from finished steel products has been accompanied by legislation granting the right of "free trade" to the industry with regard to the importation of foreign minerals, even in light of United Nations' prohibitions against trade with racist nations. Indeed, the political context and the specific activities of the steel corporations in Congress suggests the importance of those resources related to control of the means of production; employment, wealth, prestige, and legality for steel's political power.

The activities of the industry in the executive branch of government indicates an even greater effort on the part of the steel companies to transform their economic assets into political influence. Indeed, as a study of the Voluntary Restraint Agreement reveals, when Congress is stalemated by the opposition of conflicting and powerful interests, the executive itself becomes the target and the agent of action.

CHAPTER VI STEEL AND THE EXECUTIVE: I

On July 9, 1968 the Senate Finance Committee announced that it was deferring further consideration of iron and steel import legislation until after foreign steel producers implemented proposed voluntary controls on steel shipments to the United States. The announcement went on to state that the committee had studied the question of import quotas on iron and steel mill products and its membership felt that "the rapid and continuing growth in steel imports is creating a serious threat to our national security and our balance of payments."¹ But it also added that the leading officials of the Japanese steel industry had expressed their intention "to adopt a program for voluntary restraints on steel shipments to the United States."² The Finance Committee decided to hold in abeyance any new action on imported steel until a reasonable opportunity had been provided for the implementation of the proposed voluntary restraint program.³

¹ Congressional Quarterly Weekly Report, (July 10, 1968), p. 1807.

² Ibid.

³ Ibid.

The first Voluntary Restraint Agreement restricting steel imports into the United States for the years 1969 through 1971 was initiated by the Department of State under the direction of President Johnson. Under the initial agreement, Japanese and E.C.S.C.* producers agreed to hold their 1969 shipments to 5.75 million tons each from the ECSC and Japan. It was estimated that imports from other producers, primarily the United Kingdom and Canada, would amount to an additional 2.5 million tons, thus raising the total to 14 million tons of imported steel from all sources. The Japanese and ECSC exporters also stated their intention to exercise their best efforts to maintain approximately the same product mix so there would be no significant upgrading. Annual increases of steel shipments up to 5% were projected for 1970 and 1971.⁴ In return, the State Department agreed that the United States would not take any action to restrict Japanese and ECSC steel mill product exports such as mandatory quotas systems, increase of import duties, and other restrictions on the importation of steel mill products.⁵

With an increase in world-wide steel demand coin-

⁴ Report on the Intra-agency Working Group on the Steel Industry, also, Exhibit A to Complaint, pp. 28a-35a, Consumers Union lawsuit.

⁵ Ibid., pp. 32a, 34-35a.

* European Coal and Steel Community

ciding with the first V.R.A., the direct effect of the agreement remained unclear. By the end of 1971, however, two factors began to emerge: first, with guarantees against steel imports and a concomitant decline in competition in the domestic market, American steel producers, as discussed in Chapter IV, systematically began to cut back on capital investment while initiating a series of price increases.⁶ Second, foreign participants in the cartel arrangements had shifted their product mix from carbon steel to more expensive specialized products. By 1970 imports of specialty products were up some 3.2% and their dollar value increased by 24.8%.⁷ The long-term effect of the restraint agreement was that it appeared to provide domestic producers with the stable market conditions they had desired. But this stability was being threatened with disruptions by the importation of larger proportions of specialty steels. As the expiration date of the first agreement approached, however, the domestic industry increased its drive both in Congress and the executive branch to secure continued governmental guarantees against imported steel.

During July of 1971 the President met at the White House with leaders of the steel industry and labor to hear their views concerning the problems created by imported

⁶See especially pp. 107-9 below.

⁷"Critical Times for Specialty Steels," Centerlines, VI, 1971.

steel for the national economy.⁸ Among those industry and union officials present were the chief executives of the 9 major steel companies, as well as Messrs, I.W. Abel, Burke, Maloney, Bradhoff, and Kleinman of the United Steeworkers of America.⁹ Also attending the meeting was the Deputy Under Secretary of State, Nathaniel Samuels, who presented a report on the views of the Japanese and European steel producers regarding a renewal of the V.R.A. No representatives of consumer organizations were invited to the discussion and the participation of non-governmental personnel was restricted to the aforesaid individuals. Later on in the summer of 1971, representatives of the Consumers Union met with State Department officials, including Deputy Assistant Secretary Julius L. Katz. The Consumers Union asked for specific information regarding the restraint negotiations; what decisions the government had made about the need for restraints; the explicit basis for any such decisions; and, the Consumers Union expressed its view that the imposition of restraints would unfairly

⁸ See exhibit B to Complaint, Consumers Union lawsuit, p. 51a.

⁹ The agenda for the July, 1971 meeting is described in exhibit B to complaint of the Consumers suit and has been supported by Mr. Fred Jaicks of the Inland Steel Corp. Mr. Jaicks also provided the list of participants but suggested that while discussion of the V.R.A. was undertaken, the main emphasis of the meeting was the related question of productivity. Interestingly enough, the participants of the other major firms made no comment regarding the meeting and the Senior V.P. of the AISI, Mr. James Collins, a former Deputy Assistant Secretary of Commerce who headed the institute's drive for quota legislation during the 1960's, could not even recall the aforesaid meeting.

and adversely affect consumers and the national interest by increasing the price of steel, by increasing the price of other products dependent upon steel, and by contributing to inflation. The State Department response mentioned in very general terms the progress of negotiations, but did not state what specific decisions government had come to or the statistical or other basis for those decisions.¹⁰

The following May, a White House statement by the President announced the renewal of the restraint arrangements with more rigorous and detailed guarantees against specialty steels. The 1972 arrangements limited the E.C.S.C.'s total shipments of steel to 8,015,794 tons for 1972 while providing for growth rates of just 1% in 1973 and 2% for 1975. Explicit stipulations regulated product mix and shipments by geographical location. The Japanese producers also accepted geographical and product restrictions and agreed to a 2% per annum growth rate for 1973 and 1974.¹¹ Aside from the crucial fact that the agreement was voluntary and therefore lacking an enforcement mechanism, it presented the domestic steel industry with great gains against the disruptive forces of market competition.

¹⁰From a discussion with Mr. Richard A. Frank, attorney with the Center for Law and Social Policy, which initiated a law suit against the V.R.A.

¹¹Exhibit B to complaint, Consumers Union Lawsuit, pp. 36a-47a.

Executive intervention in 1969 and especially in 1972 came at a time when the nation's leading exporters of industrial goods were solidifying their ranks against mandatory protectionist measures for fear of foreign retaliation. The arrangements served to protect steel from foreign competition while taking only minimal risks with regard to foreign retaliation. Indeed, consumer groups and consulting firms have estimated that the U.R.A. has cost the American consumer between \$500 million and \$2 billion annually.¹² Questions, therefore, must be raised concerning the role steel played in the executive branch of government in gaining protection against foreign imports.

I

During the 1972 election campaigns for national offices, the United States steel industry was most active in the presidential race. According to reports filed with the Comptroller General, individuals officials of the major steel companies and their law firms funneled \$307,389.12 into the campaign coffers of presidential candidates after

¹²See n. 112 below. Also, Economic and Foreign Policy Effects of Voluntary Restraint Agreements on Textiles and Steel, p. 23.

April 7, 1972. Of this amount \$233,229.09 comes directly from the steel corporations, while \$74,160.03 has been donated by the law firms. Table VI.1 breaks down total contributions by steel companies and law firms.

<u>Table VI.1¹³</u>		<u>Total Presidential Campaign Contributions</u>
Grand Total -	\$307,389.12	
Steel Firms -	233,229.09	
Law Firms -	74,160.03	

<u>Steel Itemized</u>		<u>Law Firms Itemized</u>	
Armco	18,000.	Jones, Day, Cockley & Reavis	10,290.
Bethlehem	6,375.	Arter & Hadden	2,984.29
Inland	4,450.	Cravath, Swain & Moore	4,000.
LTV(J&L)	58,791.26	Thorp, Reed & Armstrong	3,800.
National	26,905.83	Breed, Abbott & Morgan	1,000.
Sharon	10,000.	Wilmer, Cutler & Pickering	43,510.74
Republic	12,625.	Rogers & Wells	7,000.
U.S.S.	21,050.	Reed, Shaw & McClay	625.
Lykes-Young-		Dawson, Quinn, Ridell...	1,050.
stown	15,550.	White & Case	500.
Wheeling-	3,532.	Mayer, Brown & Platt	200.
Pittsburgh			
Interlake	5,500.		
Cleveland	3,150.		
Cliffs			
Hanna	37,300.		
Allegheny	10,800.		
Ludlum			
	<u>233,229.09</u>		<u>74,160.03</u>

Steel's tendency to go with a winner is revealed in the fact that the bulk of its campaign contributions to presidential candidates went to the incumbent President Nixon. Of the total \$307,389.12, some \$252,403.38 went to him. The steel corporations gave approximately 80%

¹³ Data for Table VI.1 taken from Federal Election Campaign Act of 1971, Alphabetical Listing of 1972 Presidential Campaign Receipts, I & II, U.S. General Accounting Office.

of this amount to Mr. Nixon or, in absolute terms, \$202,279.09. The remainder, a sum of \$50,124.29, came directly from steel's law firms. Table VI.2 lists those contributions to the President by individual steel corporations and their law firms.

Table VI.2¹⁴ Contributions to President Nixon by
Steel Companies and Law Firms Itemized

Grand Total	-	\$252,403.38	
Steel Firms	-	202,279.09	
Law Firms	-	50,124.29	
<u>Steel Firms Itemized</u>		<u>Law Firms Itemized</u>	
Armco	18,000.	Jones, Day, Cockley & Reavis	9265.
Bethlehem	5,250.	Arter & Hadden	2734.29
Inland	4,200.	Cravath, Swain & Moore	4000.
LTV	57,791.26	Thorp, Reed & Armstrong	2000.
National	25,805.83	Breed, Abbott & Morgan	1000.
NVF	10,000.	Wilmer, Cutler & Pickering	24000.
Republic	5,100.	Rogers & Wells	7000.
U.S.S.	21,050.	Reed, Shaw & McClay	125.
Lykes-Youngs-			
town	5,100.		
Wheeling	3,532.		50,124.29
Pittsburgh			
Interlake	5,000.		
CC	3,150.		
Hanna	37,300.		
Allegheny	1,000.		
Ludlum			
	202,279.09		

One notable aspect of Table VI.2 lies in the fact that almost all the contributions directly traceable to the steel industry (approximately 98%) went to President Nixon, while a much smaller proportion of the campaign contributions of the law firms (about 80%) found their way to the former president. This disparity might be explained

¹⁴Ibid.

in a number of ways. On the one hand, it could be attributable to gifts by individual members of the law firms without remuneration by the industry. Indeed, it would be absurd to suggest that all contributions by all members of the law firms retained by the steel corporations are influenced by their clients. A second consideration stems from the fact that the law firms are often retained by clients other than the steel industry. Thus, either of the two contingencies somewhat reduce the significance of steel's contributions through their law firms. Yet, while such a caveat is in order, the fact remains that the law companies did funnel 80% of their contributions into the Nixon campaign.

The total amount of campaign contributions filed with the Comptroller General's Office includes only those contributions made subsequent to April 7, 1972 in accordance with the provisions of the Federal Elections Campaign Act of 1971. There is much evidence, however, to suggest that the aggregate figures are grossly understated. Indeed, according to a secret list kept by President Nixon's secretary, RoseMary Woods, the steel industry was very active prior to the April deadline. Mrs. Woods' secret list reveals that officials of the Bethlehem Steel Corporation gave an additional \$49,002. The Ling-Temco-Vought Corporation gave an additional \$95,250. prior to April 7th. John D. Murchison, an oil man and director of the LTV Corporation,

combined with his brother, Clint, to give another \$50,000 to the Nixon re-election fund, bringing LTV's total to \$145,250 in unreported campaign contributions. If these figures are added into the registered contributions, the aggregate amount of steel's contributions to Presidential candidates for 1972 exceeds the one-half million dollar mark, or more precisely is \$501,641.12, with \$446,655.38 of the total going directly to President Nixon's campaign coffers.¹⁵

It is not unlikely, however, that the figures are still highly understated; for the entirety of the list has not been made public and the pre-April 7th contributions, if any, made by executives from the other steel producers are not included. Furthermore, the published fact of the secret list indicates that the steel industry ~~might~~ be involved indirectly through the activities of accounting firms serving as independent auditors. The Cleveland firms of Ernst and Ernst and the New York company of Price-Waterhouse gave \$88,000 and \$102,000 respectively to the Nixon re-election drive. Ernst and Ernst has among its clients the Republic Steel Corporation, National Steel, Cleveland Cliffs, and the Hanna Mining Com-

¹⁵ See, "Nixon's Corporate Contributions," p. 724. And, "Nixon Donors: \$20 Million before the Deadline," p. 2659.

pany. The clients of Price-Waterhouse include the United States Steel Corporation, Bethlehem Steel, Jones and Laughlin, Wheeling-Pittsburgh and Inland Steel.* This is not to suggest that the steel companies are behind the contributions of their auditors. But as the accounting firms, in addition to the usual practices of tax accounting, etc., also offer extensive advisory services including the recruitment of policy-making personnel and market plan strategy, and do have intimate knowledge of competing steel producers, it is at least worthwhile to make note of the contributions, however indefinite the role played by the steel corporations.¹⁶

The role of campaign funds to the executive is of obvious importance to the steel corporations, important to the tune of about half a million dollars. Steel's concern with the executive, however, is not restricted to the President's role in the V.R.A. or his position vis-a-vis corporate tax breaks, but also in numerous other areas crucial to the financial success of the integrated producers. Anti-trust policy, pollution control, enforcement of anti-dumping statutes and fiscal governmental policies affecting the American dollar and therefore steel's competitive position internationally are administered by the executive

*It is of some interest to note that the groupings of steel corporations according to the accounting companies, Price-Waterhouse and Ernst & Ernst, roughly coincides with the structural groupings identified in Chapter III.

¹⁶For a discussion see, "Accounting: A Crisis over Fuller Disclosure," Business Week, (April 22, 1972) pp. 55-60.

branch with profound consequences for the steel industry. Prior to 1972, for example, federal "buy American" restrictions mandated that foreign steel must offer a 6% advantage over American produced steel to be considered on an equal basis for work on federal projects; equal consideration with regard to the Defense Department entailed a 12% advantage. In 1972 an executive order mandated an advantage ranging from 30-50% below the cost of domestic steel to be considered for purchase by the federal government. This order virtually removed foreign steel from competition with the more expensive American producers for federal projects.

Given the option open to the executive branch, the large campaign contributions must therefore be viewed as part of an attempt by the industry to voice its position directly in the center of the American government. Indeed, as one commentator has suggested, "the twilight zone between huge campaign contributions and outright bribes ...(is) murky."¹⁷ However murky this so-called "twilight zone" is, one clear trend emerges: the major steel corporations in the United States attempt to gain access to government through the concrete activity of massive campaign contributions.

¹⁷Quoted in Donald R. Matthews, U.S. Senators and their World, (Chapel Hill: University of North Carolina Press, 1960), pp. 72-73.

II

A second method by which the leading steel producers gain access to the executive branch is through the participation of key personnel on important federal industrial advisory committees. The importance of the country's leading producers to the national economy has led to the creation of approximately 1500 advisory committees. Many of these are industrial advisory committees, serving under some 50 offshoots of the executive branch of government. On a superficial level, corporate participation in federal industrial advisory committees might seem to represent a real public service; the participants, usually high-salaried corporate officials possessing highly detailed and technical information concerning the problems confronting key sectors of the economy, serve without remuneration from the federal government in an advisory role. Senator Lee Metcalf has noted, "(l)egally their function is purely as kibitzer."¹³ In practice, however, the federal industrial advisory committees put the corporations in a position favorable to the enhancement of their interests. Senator Metcalf describes the role of the industrial

¹³ Lee Metcalf, "The Vested Oracles: How Industry Regulates Government," in Alan Shank, ed., American Politics, Policies and Priorities, (Boston: Holbrook, 1974).

advisory committees in the following terms:

The industry advisory groups enjoy a favored position over other non-industry special interests and even public interest groups. If the environmentalists, for instance, asked to sit in while government policy was being made and to have free access to the files of the Environmental Protection Agency, they would be scoffed at. But this is exactly the position the nation's largest companies enjoy inside the Defense Department, the Department of Commerce, and elsewhere. Because of their quasi-official status, advisory councils are aware of potential policy changes and inter-agency dissensions that may help them oppose government actions.

19

Steel's participation in the industrial advisory committees is quite widespread. In 1972, for example, officials of the major steel corporations belonged to 34 different advisory councils. Table VI.3 breaks down advisory service of the individual corporate officials by executive agency and department.

Table V.3²⁰ Steel Officials & Advisory Committee Membership
(1972)

<u>Dept.</u>	<u>Committee</u>	<u>Name</u>	<u>Co.</u>
Commerce	National Industrial Pollution Control Council-Steel Subcouncil	Edwin Gott	U.S.
"	"	Earl Mallick	U.S.
"	Pittsburgh Area Marketing Advisory Comm.	John W. Todd	U.S.

¹⁹ Ibid., p. 230.

²⁰ Data taken from Federal Advisory Committees, First Annual Report of the President to the Congress, Including Data on Individual Committees, March, 1973, Parts I-V. Subcommittee on Budgeting, Management, and Expenditures of the Comm. on Government Operations.

Commerce	National Industrial Pollution Control Council-Subcouncil on Steel	S.S. Cort	Beth
"	"	John Sweezey	"
"	"	R.W. Slagle	Armco
"	"	C.W. Verity	"
"	"	John Brough	Inland
"	"	Fred Jaicks	"
"	"	R.C. MacDonald	Interlake
"	"	G.A. Stinson	National
"	"	W.B. Boyer	Republic
"	"	Perry Miller	"
"	National Industrial Pollution Control Council	W.B. Boyer	"
"	"	G. Humphrey	Hanna
"	"	R.C. MacDonald	Interlake
"	NIPCC-Mining & NonFerrous Metal Subcouncil	R.F. Anderson	Hanna
"	"	G. Humphrey	"
"	Industry Advisory Council on Iron & Steel Scrap Problems	J.W. Garrett	U.S.S.
"	"	J.R. McAlpin	Armco
OMB	Business Advisory Council on Federal Reports	B.F. Holcomb	U.S.S.
ODD	Navy Industry Shipboard Cable Advisory Comm.	R.W. Miller	"
"	Military Airlift Comm of the National Defense Transportation Assn.	K.L. Vore	"
"	National Advisory Council	Gary Wielich	Youngstown
HEW	Health Services & Mental Health Admin-Coal Mines	M. Bundy	U.S.S.
"	Health Research Advisory Comm.	David Anderson	Bethlehem
"	National Advisory Council for Disease Control	W.J. Buchanan	Armco
Labor	Advisory Council on Employment Welfare & Pension Benefit Plans	Bracy Smith	U.S.S.
"	Basic Steel Industry Advisory Comm. on Apprenticeship and Training	C.J. Forbes	"
"	Business Research Advisory Council	B. Holcomb	"
"	Comm. on Foreign Labor & Trade	J.D. Short	"
"	Comm of Manpower & Employment	B. Holcomb	"
"	Comm on Wages & Industrial Relations	James Short	"
"	National Manpower Advisory Comm.-Subcomm. on Training	John Gorsuch	"

Labor	North Atlantic Regional Man-	C.T. Spivey	U.S.
	power Advisory Comm.		
"	Business Research Advisory Coun-	R.D. Woodward	Beth
	cil -Comm on Economic Trends and		
	Labor Conditions		
"	Comm on Productivity and	L. Fenninger	"
	Technological Development		
"	National Advisory Comm on	F. Barnako	"
	Occupational Safety & Health		
"	Safety Standards Advisory	J. Botsford	"
	Comm on Noise		
"	Business Research Adv. Council	L. Fenninger	"
"	National Manpower Advisory	Robert Rose	Armco
	Council-Great Plains States		
"	Regional Manpower Advisory Comm	"	"
"	Business Research Adv. Comm.-	Warren Bacon	Inland
	Comm on Manpower & Employment		
"	Basic Steel Industry Advisory	George Flaccus	J & L
	Comm on Apprenticeship & Training		
"	"	George Angevine	National
"	"	John Bonner	Youngstown
"	Business Research Adv. Council	R. Fisher	Republic
"	Comm on Manpower & Employment	"	"
"	Comm on Wages & Industrial Relations	"	"
EPA	Coal Desulfurization Adv. Comm	T.K. King	U.S.
"	Coal Preparation Industrial Adv.	Donald King	"
	Comm.		
"	"	David Anderson	Beth
"	"	Frank Miller	"
"	National Air Pollution Control	Wm. Smith	National
	Technique Advisory Comm.		
FCC	National Industrial Adv. Comm	Frank Herndon	U.S.
	ICEP-Working Group I		
"	Use & Restoration of Leased Inter-	"	"
	City Private Line Services		
"	Radio Technical Comm for Marine	J.W. Rankin	"
	Services - Assembly		
"	"	W.R. Random	"
"	National Industrial Adv. Comm-	C. Snyder	Beth
	Amateur Radio Services Subcomm		
DOT	Chemical Transportation Industry	R. Danielson.	"
	Comm to the Marine Safety Council		
"	Chicago Air Traffic Control Adv.	Everett Dyer	Republic
ICC	Tariff Users Advisory Comm	Richard Miller	Beth

A cursory perusal of those committees having steel officials as members indicate that many of the councils are concerned with matters of crucial importance to steel's interests. Among the more outstanding are National Industrial Pollution Control Council of the Commerce Department, a committee charged with the responsibility of collecting data and evaluating industrial programs relating to the quality of the environment. Big steel, which consistently had been resisting pollution control regulations, now finds itself in a position to advise the national government on environmental standards. The Commerce Department's Industry Advisory Council on Iron and Steel Scrap Problems, with members from both Armco and U.S. Steel, is concerned with governmental assistance and regulation of the scrap industry, an industrial sector crucial to the domestic steel industry. The committee has investigated such relevant matters as the exporting of scrap by the independent scrap companies to Japan for conversion into raw steel during periods of high demand in the United States.²¹ Indeed, world-wide demand for American scrap drives up the price domestic producers must pay for this important material. It is in the interest

²¹ Minutes of the Industry Advisory Committee on Metal Scrap Problems, May 30, 1973 and July 30, 1974. Also see, World Iron-Ore Pellets and Direct Iron Capacity. U.S. Dept. of Commerce, Domestic and International Business Administration, Feb., 1973.

of the integrated producers to restrict the shipping of scrap overseas thereby increasing the domestic supply and concomitantly lowering prices.²² Government action eventually placed restrictions on such exports. Included among the other outstanding committees with participants from the steel industry are the Defense Department's National Advisory Council, which brings steel officials right inside the Pentagon, a major consumer of steel products. The OMB's Advisory Council on Federal Reports, which is influential in protecting corporate secrets, has representatives from the U.S. and Armco Steel Corporations. In May of 1972 the Council on Federal Reports met to discuss that ever-sensitive problem of utilization of plant capacity. The Labor Department's various industrial committees such as the Business Research Advisory Council's Committee on Foreign Labor and Trade, the Council's Committee on Productivity and Technological Development, and the Business Research Advisory Council itself, which in 1972 was chaired by Bethlehem's Laurence Fenninger, are all directly involved in matters related to the question of steel imports.

Membership on advisory committees dealing with problems of importance to the industry suggests that industry officials, through such affiliations, are in a

²²"Steel Scrap Prices Surge \$7.50 a Ton for August Supplies," Wall St. Journal, July 31, 1974.

favorable position to enhance steel's interests. Nothing has been said regarding how the steel corporations actually do further their economic interests by utilization of the advisory industrial councils. A brief investigation of steel's activities indicate that the advisory committees do indeed serve as internal lobbyists to the executive branch of government. The experience of the National Industrial Pollution Control Council provides a good case in point.

The National Industrial Pollution Control Council was created in April of 1970 by President Nixon with the explicit purpose of offering advice through the Secretary of Commerce on Industrial Problems to the Chairman of the Council on Environmental Quality. The NIPCC was staffed with 63 top level executives of the country's leading industrial polluters. Included on the council are representatives from the steel, automobile, and chemical industries. The committee is chaired by Mr. Bert S. Cross, Chairman of the Board and Chief Executive Officer of Minnesota Mining and Manufacturing.²³ At the time of Mr. Cross' appointment in 1970, Minnesota Mining had been under order for over four years by the state of Wisconsin to terminate its practice of disgorging sulfurous wastes into the public sewers of Prairie du Chien. Mr. Cross himself, along with several other officials of the firm,

²³ See Federal Advisory Committees.

was later convicted of a misdemeanor arising from the company's illegal campaign contributions to President Nixon's re-election campaign.²⁴ Members of the steel industry serving on the NIPCC with Mr. Cross include R.C. MacDonald, Chairman of the Committee's Steel Sub-Council and President and Chief Executive Officer of the Interlake Steel Corporation; the Vice-Chairman of the Sub-Council until his death in 1973 was W.B. Boyer, President and Chief Executive Officer of the Republic Steel Corporation; Stewart S. Cort, Chairman of Bethlehem Steel; W. Martin Dillon, President of Northwestern Steel and Wire Company; Edwin A. Gott, Chairman, U.S.S. Corp.; George A. Stinson, President of the National Steel Corporation; and C. William Verity, Jr., President of the Armco Steel Corporation. No members of the council represented conservation interests, consumers, universities and other so-called public interest groups. Membership was, and remains today, closed to all but the leading polluters.

The exclusion of all but the major polluters has led one astute observer to comment that the "National Industrial Pollution Control Council must be placed in the category of the rabbit being sent to fetch some lettuce."²⁵

²⁴ "I.R.S. Urges Minnesota Mining Ex-Officers Face Criminal Charge for Political Fraud," Wall St. Journal, Dec. 31, 1974, p. 2. Also, "Minnesota Mining Concedes Ex-Officers Face Prosecution..." Wall St. Journal, Jan 2, 1975.

²⁵ Metcalf, p. 231.

Indeed, given the narrow representation on the NIPCC, the behavior of the council seems quite predictable. An October 14, 1970 meeting, for instance, was not announced to the public, even though meetings and transcripts of the advisory committees are not restricted unless it is thought that the costs of public participation are prohibitive or would prevent the committee from functioning. When a number of environmentalists and consumer organizations heard rumors of the meetings and requested admission, they were denied. Their demand for transcripts of the meeting was also refused. This is not too surprising, for the council had allotted just ten minutes for the discussion of national pollution standards while setting aside one hour and forty-five minutes to explore the possibility of corporate tax breaks and other financial incentives to promote pollution control. To prevent future public disruptions of the council's meetings, the NIPCC decided to hold its next meeting in the State Department building, where security regulations forbid the entry of all but state department employees, without prior approval.²⁶

The National Industrial Pollution Control Council not only serves to advise the Commerce Department on the

²⁶ Ibid., pp. 232-233.

financial incentives needed to attain its pollution control goals, but also serves as a government-sponsored public relations organization of the world's greatest industrial polluters. Indeed, within one year following its establishment, the council had printed through the Government Printing Office some 25 reports of their members' attempts to save and restore the natural environment. Needless to say, the data of the reports is usually drawn from industry public relations sources and trade journals. Although these rosey-hued brochures do carry the disclaimer that they do not represent the views of the Commerce Department or any other governmental agency, the corporate polluters do distribute them to members of Congress and the American public with the clear intimation that such government printed documents are sanctioned by the government and represent well-investigated scientific truths.

The activity of the Steel Sub-Council of the NIPCC is especially demonstrative of steel's use of industrial advisory committees to influence public policy. At the May, 1974 meeting of the American Iron and Steel Institute in New York, Mr. Edgar Speer, the newly appointed Chairman of United States Steel, warned his fellow steel producers that the industry might be "headed for an environmental calamity (because of) relentless pressures conceived in a

moment of panic."²⁷ The head of the country's largest producer noted that during the last three years the steel industry had funneled better than 10% of capital for the environment and called on Congress to "take another look at the environmental laws its has already passed."²⁸ The same message, but only more elaborately argued, had been circulated in Congress as a steel industry sub-council report for 1972. The glossy-covered government document describes in glowing terms the industry's high-cost efforts to combat pollution. In fact, the brochure is actually nothing more than a lengthy itemized list accompanied by elaborate photographs of expenditures on environmental controls by the industry. The theme of the brochure is an expansion of U.S. Steel's "We're Involved" campaign. The point seems to be that the steel producers are overly involved, spending huge amounts of capital for the public good during periods of extraordinarily low profits. Inevitably, the report manages to associate low profits with imported steel which is characterized as "unfair competition." The industry's position is best summed up in the following paragraph of the report.

What the steel industry has done and
is doing to enhance the environment
by eliminating pollutants in air and

²⁷ "Steel Executive Optimistic on Coal and Ure," New York Times, May 23, 1974, pp. 59,65.

²⁸ Ibid.

water and by solid waste disposal involves major commitments of funds. This despite the fact that in years such as 1971 steel industry economics were not particularly favorable for a number of reasons, among them inflation and the impact of foreign imports. 29

The 26 page report not only describes the industry's gain in protecting the environment, but closes with a number of recommendations for governmental assistance allowing steel to continue with its great anti-pollution campaign. Among the recommendations are a call for outright tax breaks; tax deductions on all capital investment directed toward the environment, government sponsored low cost loans for the construction of industrial pollution abatement systems and direct grants to municipalities for the construction of such industrial treatment plants. The proposals represent an attempt to gain public funds for capital expenditures.

The A.I.P.C.C. allows the industry to define pollution problems directly ~~for~~ those executive agencies and departments with the authority to oversee environmental control issues. In addition, the committee also permits the major producers to pursue government sponsored public relations activities which have the air of government sanction.

²⁹ The Steel Industry and Environmental Quality, Sub-Council Report, AIPCC, August, 1972.

Such efforts tend to obscure the real fact of the matter: the steel corporations remain today among the country's leading industrial polluters having fundamental interests often contrary to the espoused rhetoric of environmental concern. Indeed, the sub-council report made no mention of U.S. Steel's Gary, Indiana plant, among dozens of other environmental polluters not discussed. The Gary plant which has been called the largest industrial polluter in the United States, recently closed its open hearth furnaces rather than pay a minimal fine to the Environmental Protection Agency.³⁰ The closing of the furnaces resulted in approximately four thousand layoffs, thus making the lesson of Gary clear to environmentalists: economic depression is a likely result of government's pushing too hard on environmental standards. The U.S. Steel Corporation has also been faced with an order to clean up emissions at its Ensley rail-making facility in Birmingham, Alabama. The Ensley plant puts out about 30% of domestic rail production and, as the Wall St. Journal has noted

If the Ensley plant were to close,
it would be a matter of real concern
to such railroads as the Southern
Railway, which gets all its rail from
there.

31

³⁰"U.S. Steel settles EPA Court Fight over Gary Plants: Facilities Called the Largest Industrial Polluter Given a Clean-up Order," Wall St. Journal, Sept. 10, 1974. Also, "U.S.S. to Close Open Hearth Furnaces at Gary, Tomorrow," Wall St. Journal, Jan. 8, 1975.

³¹"Railroad Rehabilitation," Wall St. Journal, April 1, 1975. p. 1.

The Commerce Department's Business Advisory Council also provides another important point of access for the steel industry. The council, which was established in June of 1933, is designed to "foster, promote, and develop foreign and domestic commerce."³² Since its establishment the BAC has worked with the Secretary of Commerce and the President as a kind of "clearing house for industrial views on matters which affect business."³³ In addition, many of the advisors serving on the committee eventually take governmental positions. During the first 16 years of its existence, the BAC sent about one hundred of its members into governmental service. The activities of the Business Advisory Council, however, remain highly secretive. According to the Commerce Department, for instance, membership lists for 1972, as well as minutes for meetings during that year, are not available. The department also notes that the council did not issue any formal reports for that year. Whatever inferences that are drawn from the secretiveness of a public advisory committee, one theme seems to be stressed. That is, the BAC has been politically quiescent in recent years. A careful examination of the Business Council suggests that this may not be the case.

³² Donald M. Nelson, Arsenal of Democracy, (N.Y.: Harcourt, Brace and Co., 1946) p. 343.

³³ Ibid.

Despite the Commerce Department's claim that membership lists for 1972 are not available, a number of important steel executives have voluntarily revealed their affiliation with BAC. Of interest here is the fact that those officials offering such information are all associated with a single steel corporation: United States Steel. Of the twelve directors of the country's largest steel firms, seven are members of the BAC. These seven include the former chairman of the council and a past President of U.S. Steel, Roger Blough; the present Chairman and Chief Executive Officer, Mr. Edgar Speer; and, the Messrs. E. H. Gott, Henry Smith Wingate, Harlee Branch, John D. deButts and Charles F. Meyers, Jr. The fact that only U.S. Steel officials were willing to disclose their membership on the BAC might suggest that the above-mentioned list understates steel's influence on the council.

There does seem to be evidence indicating that the Business Advisory Council has played a significant role in shaping American trade policy through its affiliated private research organization, the Committee for Economic Development. The CED was created as the unofficial research arm of the BAC. All of the original members of the CED, with two exceptions, also belonged to

the BAC. The function of the CED is to issue documented policy statements concerning government policy toward areas of special importance to large industrial interests.³⁴ One such area of interest is seen in the CED's reports on foreign trade. The reports essentially follow the doctrine of free trade with important exceptions concerning specific sectors of the economy unduly injured by unfair foreign competition.³⁵ In fact, the basic principles of the reports coincided with the Trade Bill of 1974. The CED's possible influence in government is derived from the great number of its members temporarily serving the public. Committee members such as W.D. Eberle, the President's Special Representative for Trade Negotiations; P.W. McCracken of the Council of Economic Advisors; Roy L. Ash, Assistant to the President and Director of the Office of Management and Budget; Frederick B. Dent, the Secretary of Commerce; and, finally, Daniel Parker of the Agency for International Development were all in important positions to influence governmental trade policy. Steel officials directly associated with the CED are: Joseph L. Block, the

³⁴For a discussion see Wm. Domhoff, The Higher Circles, (N.Y.: Random House, 1970) pp. 189-190. Also, Karl Schrieffgiesser, Business Comes of Age (N.Y.: Harper & Row, 1968) p. 61.

³⁵"Toward a New International Economic System," CED, and "U.S. Foreign Policy and Domestic Economy," A statement by the Program Committee of the CED.

former Chairman of Inland Steel; Stewart S. Cort, Chairman of Bethlehem Steel; R. Heath Larry, Vice-Chairman, U.S. Steel Corporation; Roger M. Blough, former President of U.S. Steel; and George Stinson, Chairman of the National Steel Corporation.

III

The role of the Committee for Economic Development points to another facet of Big Steel's political activities: its involvement in voluntary associations such as the CED and the National Association of Manufacturers, and its participation on special presidential commissions and research commissions. Each affiliation provides an additional juncture of access through which the industry may present its problems to government officials. The extent of the steel corporations' participation in industrial advisory committees, private research organizations, and presidential commissions is revealed in Tables VI.4 and VI.5. Table VI.4 enumerates the membership affiliation of individual steel directors by steel corporation and provides an alphabetical listing of all such organizations with which steel is involved. Table VI.5 lists those organizations having two or more representatives from the steel industry.

**Table VI.4³⁶ Membership in Advisory, Private and
Presidential Commissions by Steel Corporations**

<u>Commission</u>	<u>Member</u>	<u>Corp.</u>
American Comm for Institute of Advanced Study-Europe	Henry Wingate	U.S.S.
Atomic Power Development Asso	W.J. Cisler	Natl.
Brazilian Air Ministry	Thomas V. Jones	U.S.S.
Business Concil.	E.H. Gott	"
	Edgar B. Speer	"
	Henry Wingate	"
	Roger M. Blough	"
	Harlee Branch	"
	John D. deButts	"
	Charles F. Meyers	"
Business Roundtable	Rober M. Blough	"
Comm on Private Philanthropy and Public Needs	John H. Filer	"
Comm for Economic Development	Stewart S. Cort	Beth
	Joseph L Block	Inland
	George Stinson	Natl
Conference Board & Tax Founda- tion	John D. deButts	U.S.
Connecticut Business & Industry Association	John H. Filer	"
Council on Foreign Relations	Henry Wingate	"
Foreign Policy Assn.	R.H. Larry	"
Institut des Hautes Etudies Scientifiques	Henry Wingate	"
International Chamber of Commerce	R.H. Larry	"
	Henry Wingate	"
	Stewart S. Cort	Beth
	G.K. Funston	Republic
International Copper Research Assn.	Henry Wingate	U.S.S.
LA World Affairs Council	T.V. Jones	"
National Comm on Productivity	R.H. Larry	"
National Assn of Manufacturers	Edgard B. Speer	"
Pittsburgh Regional Planning As.	E.H. Gott	"
Port Authority of NY & NJ	G. L. Levy	J & L
Private Planning Assn of Canada	Henry Wingate	U.S.S.
The Air Force System of Command	T.V. Jones	"
The Conference Board	G.K. Funston	Republic
Rand Corp.	T.V. Jones	U.S.S.
Va. Military Institute	John D. deButts	"

³⁶ Data for Tables VI.4 and 5 taken from personal correspondence with leading steel officials and Standard and Poors' Corporate Directory, 1973.

Table VI.5 Organizations with two or more Representatives from Steel Corporations

<u>Organizations</u>	<u>Member</u>	<u>Corp.</u>
International Chamber of Commerce	R. H. Larry	U.S.S.
	Henry Wingate	"
	Stewart Cort	Bethlehem
	G.K. Funston	Republic
Business Council	Edgar Speer	U.S.S.
	Henry Wingate	"
	Roger Blough	"
	Harlee Branch, Jr.	"
	John deButts	"
	Charles Meyers	"
	E. H. Gott	"
Commission for Economic Development	Stewart S. Cort	Bethlehem
	Joseph Block	Inland
	George Stinson	National

Table VI.4 indicates that key officials of the steel corporations are affiliated with a total of 22 public and private organizations which attempt to influence public policy. These organizations range from the above-mentioned Business Advisory Council to such international research organs as the Institut des Hautes Etudies Scientifiques. Included among the others are the National Commission on Productivity which recently made explicit recommendations concerning the problem of imported steel; and the Council on Foreign Relations, which has been called by the New York Times, "a testing ground for new ideas, with enough political and financial power to bring the ideas to the attention of policy makers in Washington."³⁷ Indeed, one political scientist, Lester Milbrath, has claimed that "The Council on Foreign Relations, while not financed by govern-

³⁷ "Experts on Policy Looking to Youth," N.Y. Times, May 15, 1966, p. 34.

ment, works so closely with it that it is difficult to distinguish Council actions stimulated by government from autonomous actions."³⁸ Also included are such defense industry-related organizations as Rand Corporation and such regional structures as the Pittsburgh Regional Planning Association and the Connecticut Business and Industry Association. Table VI.5 indicates that the membership is concentrated in three associations: the International Chamber of Commerce, the Committee for Economic Development and the Business Advisory Council.

The aforesaid tables do not reveal steel's activities in defunct organizations or on those commissions with more indirect forms of representation. One such committee is the President's Task Force on Business Taxation. The task force was established in 1969 to assist the President with ideas and recommendations on tax structures for 1970 and beyond. The task force was to "concentrate on the role of business taxes in promoting economic growth, full employment, and a strong progressive economy."³⁹ The 15 member force included 13 representatives from major corporate and financial interests and two academics. One academic, however, the Rev. William T. Hogan, Director of the Industrial Economic Research Institute of Fordham University, is closely affiliated with the leading domestic steel producers.

³⁸Quoted in Domhoff, The Higher Circles, p. 114.

³⁹Business Taxation, The Report of the President's Task Force on Business Taxation, Sept. 1970.

The Reverend is often a recipient of honoraria from the industry and has participated in conferences sponsored by the American Iron and Steel Institute. Professor Hogan's numerous detailed works focus on the domestic steel industry and inevitably call for tax breaks and the stretching of anti-trust laws so that the United States producers might take greater advantage of the economy of size.⁴⁰ Hogan, as previously noted, sees the need for more corporate mergers as a means of diminishing the attractiveness of imported steel.

Members from industry on the task force include Mr. Robert L. Anderson, a former Secretary of the Treasury for the Eisenhower Administration. Mr. Anderson has been closely associated with a Vice-President of Republic Steel, Mr. H.C. Lumb. Both served as founders and directors of the political arm of the National Association of Manufacturers; the Business Industrial Political Action Committee. A second official having ties with the major steel corporations is George W. Humphrey, another former Secretary of the Treasury in the Eisenhower Administration. Mr. Humphrey is a past Chairman of the W.A. Hanna Company, and the father of the present-day Chairman of the Hanna Mining Company. In the past, Humphrey has had some very profitable experiences with the federal government. During 1952, for instance, there was great concern over a possible nickel shortage and government officials had expressed a strong desire to

⁴⁰ See especially William T. Hogan, The 1970's: Critical Years for Steel.

build a domestic mobilization base. In response to this, the Hanna Mining Company proposed a rather complex plan which eventually was accepted. In essence, Hanna would open a new nickel ore body in Oregon and sell the ore to the government for \$6.00 a ton. Under a second contract, the government would sell the ore back to a newly created subsidiary of Hanna's, the Hanna Smelting Company. The government would advance some \$22 million dollars to Hanna to build this new subsidiary. After refining the ore, the newly created company would sell the nickel to the government at cost. If the project proved unfeasible, Hanna had the right to cancel and would be reimbursed by the government for its capital outlay in the mine. The government would also take back the newly created smelting plant and Hanna would not have to pay back the \$22 million advanced. If the process worked out, Hanna could buy the smelter from the government at but 7½% of cost. The dual contract idea was designed so that all profits might be chalked up to the mining company, which, as an extractive enterprise, would be entitled to great tax breaks in the form of depletion allowances. Government would expose itself to a loss of \$30 million while Hanna took no risks whatsoever. In fact, Hanna stood to make large gains from the sale of the ore while gaining a new smelter at a most

nominal cost.⁴¹

Government negotiators resisted Hanna's terms but finally gave in when Humphrey intervened personally during December of 1952. Humphrey convinced negotiators of the fairness of the deal by threatening to withdraw if the contracts were not signed prior to his being sworn in as Secretary of the Treasury on January 21, 1953. The Chairman of Hanna, therefore, avoided any conflict of interest charges when he gave up the chairmanship for government service, but he did hold onto his Hanna stock and extracted high dividends for a number of years.

During the first seven years of operation the new mining company returned with a 457% profit on capital investment.⁴² With this background and his close ties with the steel industry, Mr. Humphrey was deemed ready for new public service on the President's Task Force on Business Taxation.

A third member of industry serving on the task force was B. Kenneth Sands of the Price-Waterhouse Co. Price-Waterhouse is a major accounting firm which has as clients such steel producing titans as United States Steel, Bethlehem, Inland, Jones and Laughlin, and Wheeling Pittsburgh Corporation.

⁴¹See Glenn H. Snyder, Stockpiling Strategic Materials, (San Francisco: Chandler Pub. Co., 1966), esp. pp. 242-244.

⁴²Ibid., p. 244.

With the overwhelming majority of members representing corporate interests and with the steel industry having a number of representatives on the task force, it is not surprising that the commission would devote a proportion of its time to a study of the domestic steel industry with a particular emphasis on the question of steel imports. The task force, in fact, echoed the demands of the large American steel firms in attributing the decline of the industry's competitive position to the lack of capital, capital that could be made available through new corporate tax breaks. After demonstrating the technological decline of the domestic industry as opposed to its Japanese competitors, the President's advisors concluded:

It is recognized, of course, that many factors other than tax considerations have contributed to the rapid increase in investment, improvements in production technology and modernization of foreign production facilities discussed above. It is notable, however, that to a greater extent than the United States under pre-1969 Tax Act law and to a much greater degree than under the present law, all the countries referred to have deliberately focused their tax policies on affording, through rapid cost recovery allowances and similar incentives, a tax climate favorable to private investment in plant and equipment. If the United States is to improve, or even maintain, its position in international trade, domestic policy will have to encourage, rather

than downgrade, the making of private investment for expanding, modernizing, and ~~increasing~~ the efficiency of our industrial facilities. Constructive revision of the present capital cost recovery system is an important element of any public policy designed to further this objective. 43

The President's Task Force issued its report during the September of 1970 amidst a concerted effort on the part of the corporate sector to restore the pre-1969 tax investment credit. The steel companies were among the most vociferous proponents of the tax credit. In 1971 Congress adopted in part the recommendations of the Task Force by restoring the investment tax credit, a credit first granted to the steel companies subsequent to the industry's confrontation with President Kennedy in 1962. Although it cannot be argued that the industry's activity through the Task Force on Business Taxation was solely, or even primarily, responsible for its success, the task force did provide another access point allowing the corporations to express their views directly to the president.

IV

Massive campaign contributions combined with govern-

⁴³ Business Taxation, p. 11.

mental and private agency service are two salient channels through which the industry exerts pressure on the executive. As the industry is a major source of campaign contributions, the President is expected at least to show the courtesy of hearing steel's story expressed through personal discussions with its key officials. The dispersement of large campaign contributions, both legal and illegal, is not merely a case of corruption as the Muckrakers had argued. Vast campaign contributions are best understood as the necessary use of wealth by corporate officials to protect their private interests. The importance of steel to the private economy, combined with such factors as lobbying and campaign contributions, allow members of the industry to serve on relevant industrial advisory committees where they may protect the industry's prerogatives. Service on formal advisory committees and informal research organizations such as the Committee for Economic Development provide the corporate leaders with access to the highest governmental councils in the United States. The effect of all this is to blur the distinction between private power and public government. This blurring of private and public lines is developed further through the temporary placement of steel executives in governmental posts. Indeed, Chapter VII shall examine the exchange of personnel between the steel corporations and government. The chapter shall also investigate steel's relationship with national security and the consequences, both economic and political, of the everymerging identity between corporate and public interests.

CHAPTER VII STEEL AND THE EXECUTIVE: II

The steel industry's recognition of the value of government as an ally capable of furthering its corporate interests renders political access an important factor in its drive to realize its economic well-being. As discussed earlier, this access leads to many junctures where public and private interests merge so that it often becomes difficult to distinguish between the two. The blurring of any clearly delineated lines between public and private interests reaches its zenith in the movement of steel personnel to and from important government posts. The shifting of personnel between industry and the executive provides the steel corporations with significant leverage in pursuing their political goals. The first and second sections of this chapter shall investigate the extent to which steel and steel-affiliated personnel serve in the executive branch of government. The relationship between steel and the Defense Department, which is of special importance, is discussed in the third section. Not only do steel officials temporarily serve in the Department of Defense, but the military's

reliance on steel products gives added weight to the industry's alleged need for protection against imports.

I

The major steel corporations and their law firms have had key personnel, including directors and top level managers, in practically every relevant government department and agency. This is important for several reasons. On a most immediate level, participation in high government decision-making councils often places former steel officials in positions where their decisions have direct impact on the steel corporations. The experience of Hanna's former Chairman, the former Treasury Secretary, George W. Humphrey, is a good case in point. In addition, first-hand participation in governmental circles introduces the steel executive to the most intimate workings of the national government. The astute official learns the real workings of the existing bureaucratic channels and is able to develop close relationships with governmental policy-makers. The friendships with government officials provide continued access after leaving public

service. Finally, as a direct participant in high government councils, the corporate executive is able to gain prior information concerning programs of interest to his private firm. With this knowledge corporate policy can be adjusted either to accept the proposed program to through a massive public relations effort to resist it. Table VII.1, "Steel Directors and Managers with High-Level Government Service," lists personnel of steel companies who have served or are still serving on executive branch departments and agencies.

Table VII.1 Steel Directors and Managers with High
Level Government Service

<u>Director/Manager</u>	<u>Company</u>	<u>Government Service</u>
William Martin, Jr.	U.S.S.	Chairman, Export-Import Bank Asst. Secy, Dept. Treasury Chairman, Board of Governors, Federal Reserve Bank
G.W. Humphrey	Hanna National	Secy, Dept. of Treasury
Lewis L. Strauss*	Inland	Chairman, Atomic Energy Commission
Robert S. Ingersoll	Armco	Deputy Secy. of State

*Deceased 1/74.

The data of Table VII.1 indicate that while the leading companies had placed only three of their officials in policy-making government posts, the positions themselves

were of great importance to the industry. The knowledge of the Treasury Department possessed by such former senior officials as S.W. Humphrey and William McChesney Martin, Jr. could be of great value to steel producers. The Department of the Treasury is concerned with a number of questions directly relevant to big Steel: the implementation of corporate tax policy, including tax loopholes and capital write-offs; the enforcement of anti-dumping legislation, an issue directly affecting the question of imported steel; and, of course, the Treasury Department's involvement with fiscal policy which affects the corporation's ability to raise capital. The former Chairman of the Atomic Energy Commission, Inland's Lewis S. Strauss, was in a favorable position to influence defense procurement policies as well as government R & D expenditures. Finally, Mr. Robert S. Ingersoll, who became Chairman of the Board and Chief Executive Officer of the Borg-Warner Corporation subsequent to his tenure at Armco Steel, as a member of the State Department was directly involved in foreign trade policy. The State Department was concerned with the implementation of voluntary quota systems, such as those adopted by foreign steel producers.

Despite steel's affiliation with a number of important government agencies and departments, the number of steel officials involved is not overwhelming. To focus on only the intermovement of steel executives, however, is to

distort the true role of steel in the governmental process. The law firms retained by the corporations provide important links between the private aspirations of the industry and the public power of the state.

Table VII.2, "Law Firms and Government Service," enumerates lawyers of the steel companies with governmental service according to agency and department.

Table VII.2 Law Firms and Government Service

Department of Defense:

<u>Lawyer</u>	<u>Agency</u>
Paul Porter (Arnold and Porter)	Counsel-National Defense Advisory Comm, 1940-41. Deputy Administrator, UPA, 1942-43. Assoc. War Food Administrator, 1943.
James M Brower (Jones Day...)	Congressional Liaison, Secy. Air Force, 1957-62. Deputy Director, Legal Affairs, Secy of Defense, 1967-70. Comptroller, Space & Missiles Systems, Management Office, 1970-71. Deputy Commander, Satellite Communications Office, 1971-73.
John S. Walker (")	Counsel, Joint Comm on Atomic Energy, U.S. Congress, 1951-53.
Sturgis Warner (")	Asst. Gen Counsel, Office of War Mobilization & Reconversion, 1946.
James A Dobkin (Arnold & Porter)	Legal Advisor to the Comm on Government Procurement, 1971-73.
L. Alexander (")	Member, National Security Comm. 1964. Deputy Spec. Counsel to President, 64-65. Assoc " " " " , 64-65. Deputy " " " " , 66-67. Chairman, Equal Opportunity Comm, 1967. Member, President's Comm. of Income Tax, 1967-69.
John A Wells (Rogers & Wells)	Chief Counsel, Interpretations Branch, UPA, 1942. Asst. Counsel, Navy Price Adjustment Board, 1944-45.
Thaddeus Holt, (Breed, Abbott & Morgan)	Deputy Undersecy of Army, 65-67.
John Davis (Dawsin, Quinn...)	Chief Trial Counsel, U.S. Dept. of Defense, 1960-66. Legal Advisor and Spec. Asst. to the Secy of Defense, 1966-67. Spec. Asst. to Deputy Asst. Secy of Defense, (Intl. Security Affairs) 67-68.

Table VII.2 continued-
Department of Justice-

Uto E. Koegel (Rogers and Wells)	Asst. U.S. Attorney, Dept. of Justice, 1923-24.
Theodore Garver (Jones, Day, ...)	Spec. Asst. to the Attorney General, Tax Division, 1954-56.
N.D. Keller (Reed, Smith,...)	Spec. Asst. to Attorney General, Tax Division, 1929-40.
Carolyn E. Agger (Arnold & Porter)	Attorney, Tax Division, 1939-43.
Robert J. Joerner (Jones, Day,...)	Chief Evaluation Section, Anti-trust Division, 1963-65.
Murray H. Bring (Arnold & Porter)	Spec. Asst. to Asst. Attorney General in charge of Civil Division, 1961-62. Director of Policy Planning, Anti-trust Division, 1963-65.
Carl L. Steinhouse (Jones, Day,...)	Member, Legal Staff, Div of Anti-trust, 1959-73.
Erwin N. Griswold (")	Member, U.S. Civil Rights Comm. 1961-67. Solicitor General, 1967-73.
Robert A. Hammond (Wilmer, Cutler,...)	Chairman, Industry Regulation Comm., Anti-trust section, 1972.
Steven P. Lockman (Arnold & Porter)	Attorney, Office of Legal Counsel, 69-71
Jerome Chapman (")	Asst. to the Solicitor General, 65-67.
Jack Lipson (")	Trial Attorney, Anti-trust Div. 1965.
Richard Wertheimer (")	Attorney, Anti-trust Div. 60-65. Legal Advisory and Spec. Asst. U.S. Agency for International Dev. 65-68.
Peter K. Bleakley (")	Trial Attorney, Anti-trust Div.
Malvin Spaeth (")	Attorney, Anti-trust Div. 59-60. Spec. Asst. to Asst. Attorney General, Anti-Trust Div. 1963-65.
Bruce Montgomery (")	Anti-trust Division, 1960-62.
Frederick Bruenner (Breed, Abbott,...)	Asst. Attorney General, Anti-trust Div.
Roger A. Clark (Rogers, and Wells)	Trial Attorney, Anti-trust Div. 58-60.
Elaine Crane (Jones, Day,...)	Trial Attorney, Civil Div. 1969-71. Spec. Asst. to U.S. Deputy Attorney General, 1971-72.
Edward P. Troxell (")	Spec. Asst. to U.S. Attorney General, 72- Asst. U.S. Attorney, 1953-61. U.S. Attorney, D.C., 1956-61.
Carl Chronister (Reed, Smith)	Deputy Attorney General, 1943-49.
David Bonderman (Arnold & Porter)	Spec. Asst. to the Asst. Attorney General, Civil Rights Div., 1968-69.

Table VII.2 continued-

Edgar H. Brenner (Arnold & Porter)	Trial Attorney, Civil Div. 1954-57.
William McGovern ("")	Spec. Asst. to Attorney General, 38-45.
Norman Diamond ("")	U.S. Dept. of Justice, 1942-43.
William Glendon (Rogers and Wells)	Asst. U.S. Attorney, 1950-53.
William P. Rogers("")	Deputy Attorney General, 1953-57.
	Attorney General, 1957-61.
Stephen R. Lang (Breed, Abbott...)	Trial Attorney, 1958-61.
Arthur Quinn (Dawson, Quinn...)	Attorney General, Counsel, 1961-63.
Gerald M. Stern (Arnold and Porter)	Attorney, Civil Rights Div. 1961-64.

Department of the Treasury-

Robert Gerard (Wilmer, Cutler...)	Now heads newly created "Capital Office" to deal with capital market problems.
Francis LaVelle (Mayer, Brown...)	Asst. Tax Legal Counsel, 1961-65.
Lee T. Scher (Jones, Day)	With Office of Chief Counsel, IRS, 66-70
James T. O'Hara ("")	Member, Exempt Organization Branch, IRS, 1964-67.
	Reorganization Branch, IRS, 1964-67.
	Section Chief, Reorganization Branch, IRS, 1967-69.
Joseph Iannucci ("")	Member, Reorganization Branch, IRS, 58-6
Wallace M. Wright ("")	Trial Attorney & Senior Tax Attorney, IRS, 1956-61.
H. Chapman Rose ("")	Asst. Secretary of Treasury, 1953-55.
	Under Secy of Treasury, 1955-66.
Mitchell Rogovin (Arnold, and Porter)	Asst. to Commissioner. 1961-64, and Chief Counsel, IRS.
Otto E. Koegel (Rogers & Wells)	Assoc. Counsel of Bureau of War Risk Insurance, 1918-23.
Howard Kohn (Arter & Hadden)	Trial Tax Attorney, Office of the Chief Counsel, IRS, 1946-48.
Jerry Uppenheimer (Mayer, Brown...)	Tax Legislative Counsel, 1970-73.
Eugene Rossides (Rogers & Wells)	Asst. Secy, U.S. Treasury, 1969-73.
	Spec. Asst. to Undersecretary, U.S. Treasury

Department of State-

William P. Rogers (Rogers & Wells)	Secretary of State, 1969-73.
Charles Brower (White & Case)	Legal Advisor, 1969-

Table VII.2 continued-

Walter Truemann (Mayer, Brown...)	Dept. of State, 1950-54.
Murray H. Bring (Arnold & Porter)	Spec. Asst. to Deputy Under-secretary of State, 1962-63.

SEC. etc.-

Milton V. Freeman (Arnold & Porter)	Asst. Solicitor, SEC, 1942-46.
James R. McAlee (")	Legal Asst. to the Chairman, SEC., 1959-61.
Ralph R. Demmler (Reed, Smith...)	Chairman, SEC, 1953-55.
Allen C. Holmes (Jones, Day...)	Chairman, Comm on Federal Trade, Sect. of Anti-trust Law, American Bar Assn, 1969-
Gary G. Gerlach (Arnold & Porter)	Legal Advisor to FCC Commissioner, 71.
Edward T. Tait (Reed, Smith Shaw...)	Executive Asst. to Chairman & Executive Director of SEC, 1953-55. Commissioner, FTC, 1956-60.

Commerce, Council on International Economic Policy, Housing, Misc. -

Robert J. Dodds (Reed, Smith...)	General Counsel, 1949-61.
David H. Gunning (Jones, Day...)	Council of International Economic Policy, Executive Office of the President, 1972-73.
Richard A. Goldstein (Arnold & Porter)	Spec. Asst. to Undersecretary of Housing & Urban Development, 70-73.
George P. Bickford (Arter & Hadden)	General Counsel, HUD
Kenneth W. Dam (Cravath, Swain...)	(Former) Asst. Director of Management & Budget for National Security and International Affairs
Paul A. Porter (Arnold & Potter)	Chairman, FCC, 1944-46.
Richard Wertheimer (")	Legal Advisor & Spec. Asst. U.S. Agency for Intl Development, 65-68.
Melvin Spaeth (")	Asst. General Counsel, FPC, 1965.
Norman Diamond (")	Dept. of Interior, 1939-42. Chief Counsel, Office of Price Administration, 1942.
Stuart Rothman (Rogers & Wells)	Chief Bldg & Construction Attorney, U.S. Housing Administration, 42-44. Director, Project Planning & Programming Div. FPH Authority, 44-46. Solicitor, Dept. of Labor, 53-59.

Table VII.2 continued-

Stuart Rothman	Acting Administrator, Wage, Hour, and Public Contracts Div. U.S. Dept. of Labor, 1955. General Counsel, Labor Relations Board, 1959-63.
Julius Greisman (Arnold & Porter)	Chief Attorney, Tax Legislative Council, Law Dept. 1948-56.
Daniel Rezneck (")	Asst. U.S. Attorney for D.C. 61-64.
Simon Lazarus III (")	Legal Asst. to FCC Commissioner, 1967-68. General Counsel & Exec. Director, Dept. of Consumer Affairs, N.Y.C. 1970. Presently serving as White House Counsel (appointed by Pres. Ford).
Phillip Buchen (Law, Buchen, Withers...)	

Law Firm Members with Congressional Links-

Larry J. Davis (Arnold & Porter)	Co-ordinator, Sen. Muskie's Presidential campaign, 1970-72.
Daniel M. Lewis (")	Asst. to Sen. Tydings Chief Legislative Asst. to Sen. Muskie 1971-72.
John D. Hawke (")	Counsel, Select Subcommittee on Education, U.S. House of Representatives, 1961-62.
Caesar L. Pitassy (Rogers & Wells)	Member, Judiciary Comm., 1973.
W. Riddell (Dawson, Quinn...)	Attorney Advisory, U.S. Tax Court, 52-55. Tax Counsel, Comm. on Ways & Means, 55-58.
William Burton (Arter & Hadden)	Member, Gen. Assembly, Ohio House of Representatives, 1951-54.
William W. Taft (")	Member, Gen. Assembly, Ohio House of Representatives, 1961-64. Ohio State Senator, 1967-72.
Dale W. Wickman (Mayer, Brown...)	Staff Attorney, Joint Comm on Internal Revenue Tax, 1959-62. Spec. Counsel for Tax Reform Act of 1969, U.S. Senate Finance Comm.

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Table VII.2 indicates that law firms retained either directly by the major steel producers or through the American Iron and Steel Institute have had or still have employees holding a total of 77 governmental positions. The

Justice Department heads the list with some 30 employees, followed by Treasury with 12 and Defense with 9 lawyers. The State Department and the Securities and Exchange Commission rank fourth in the total number of employees with steel affiliations. While the large number of lawyers indicates that the industry has great access to government decision-making bodies through its law firms, a mere quantitative approach is not sufficient. Analysis based merely on the number of employees assumes that all government employees, departments, and agencies are of equal importance. Careful analysis of the various positions reveals significant qualitative differences. The Department of State, for instance, has only four employees who are associated with law firms retained by the leading steel corporations. Included among the four, however, is the former head of the State Department, William P. Rogers. Mr. Rogers is presently a partner in the firm of Rogers and Wells, which is on retainer by the American Iron and Steel Institute. The former secretary is deemed important for a number of reasons, the primary one being his role in the negotiations of the second Voluntary Restraint Agreement.

Mr. Rogers' tenure as head of the State Department began in 1969, shortly after the adoption of the first V.R.A., which allows for voluntary restrictions on imported steel

and, in essence, gave government sanction to American participation in an international steel cartel. During his term as chief, the Department of Justice indicated that the voluntary arrangements seemed to violate anti-trust legislation and threatened to take action. The State Department intervened by advising the Justice Department that the arrangements were of crucial importance to national security and the trust-busters withdrew.¹ As discussed earlier, the national security argument was a theme developed by the steel industry after the weaknesses of their economic contentions in support of quotas on steel were exposed. The merits of the national security defense of the arrangements, as discussed below, are also dubious. In any case, the State Department prevailed. Upon the expiration of the first agreement, Mr. Rogers and his subordinates again took an active role in the negotiations with foreign steel producers, eventually reaching a new agreement which was deemed much more satisfactory by the domestic producers. During the negotiations representatives of Big Steel participated closely with the State Department. The Department, on the other hand, gave only minimal information to consumer and public interest groups and, as discussed in Chapter VI,

¹ Houthhaker, Report on the Intra-agency Working Group on the Steel Industry.

would not answer basic questions concerning the economic consequences of the agreements. At best, it seems that State Department cooperation with consumer groups was minimal.² As a result of all this, the Consumers Union initiated legal action against the Voluntary Restraint Agreement and named Mr. Rogers as a defendant in the action.³

The Justice Department, with 30 members, has played a less obvious role in steel's drive against imported steel. Members of the department with steel ties hold a variety of positions in areas of importance to the industry. Of interest is the fact that three Justice employees are with the department's tax division. In fact, two of steel's lawyers have held very important posts in the anti-trust section. Mr. Robert J. Hoernes of Jones, Day, Cockley & Reavis and Mr. Murray E. Spring of Arnold & Porter simultaneously served between 1963 and 1965 as Chief of Evaluation Section and Director of Policy Planning, respectively. The fact that the leading steel producers are constantly involved in anti-trust legislation renders their influence with trust-busters of prime importance.⁴ Minimal levels of intervention by the Justice

²Consumers Union of U.S., Inc., vs. William P. Rogers, et al., U.S. Court of Appeals, D.C. Nos. 73-1095, 73-1096, 73-1097, 73-1132, 73-1133, 73-1135, 73-1138(Consolidated).

³Ibid.

⁴Lester Nelson, "Tying Arrangements," Anti-trust Bulletin, XV, (Spring, 1970).

Department despite increasing numbers of mergers, joint ventures, and joint subsidiaries indicates that access through employment in the Justice Department could be very significant. The available data in this area must be viewed with caution. No direct link between Justice Department employment and public policy has been established despite strong intimations to the contrary.

The evidence connecting steel personnel in the Treasury Department with public policy is much stronger. Twelve of the lawyers retained by the industry have held various high-level posts. Eugene T. Rossides of the law firm of Rogers and Wells became Assistant U. S. Secretary of the Treasury following his service as Special Assistant to the Undersecretary of the Treasury in 1969. He held this post through 1973. Mr. Robert Gerard, formerly of Wilmer, Cutler and Pickering, a firm retained by the American Iron and Steel Institute in its drive against imported steel, was recently appointed to head the new "Capital Office" of the Treasury Department. The new office is mandated to investigate problems of capital markets. Significantly, steel's argument for protection against imports is based largely on the alleged need of the domestic producers to raise new capital. The Capital Office greatly increases the possibility of steel's realization of this goal.

The 12 lawyers serving in the Treasury Department, combined with the role played by former policy-making officials, G. W. Humphrey of Hanna Mining Company and William M. Martin of United States Steel, give the industry's leading producers formidable representation in the Treasury Department. The department has been instrumental in reducing the attractiveness of foreign imports through policies of currency devaluation and a sudden "tough" enforcement of the anti-dumping codes. During 1973, for example, Secretary of the Treasury, George P. Schulz, announced a 10% devaluation of the American dollar. The effect of the devaluation was to render foreign goods 10% more expensive and American products immediately became 10% cheaper. Devaluation served the same function as a tariff and represented an aggressive attempt on the part of the United States government to increase exports while decreasing foreign imports. The steel sector of the economy, which had been a net importer of steel since 1959, benefited greatly from the devaluation. In addition, it is to be recalled that the V.R.A. would remain in effect only so long as the United States government did not take any unilateral action restricting the imports of steel mill products, or to raise

the tariff thereon, including any new imposition of supplemental duties."⁵ Devaluation provided for a tariff while circumventing the aforesaid restrictions. As an offshoot of the devaluation policies, the Treasury Department, which has authority over the enforcement of dumping codes, began to crack down on imported goods to the extent that U.S. trading partners were crying foul.⁶ The Treasury even developed guidelines spelling out how the anti-dumping rules applied to price differentials resulting from currency alignments. If a foreign supplier were to cut his price to American customers to offset the effect of currency revaluation, he would also have to lower his home price or fall afoul of the department's anti-dumping watchdogs.⁷ Subsequent to this doctrine, the steel industry for the first time began to win dumping cases against foreign producers.

A leading proponent of the strict enforcement of the codes was Assistant Secretary Rossides. During his term at the Treasury Department, he was known as something of an expert on the anti-dumping statutes and developed a reputation as an advocate of rigorous enforcement.

⁵ Consumers Union vs. Rogers, p. 47a.

⁶ "T-Men Get Tough on Dumping," Business Week, (Feb. 5, 1972) p. 34.

⁷ Ibid.

Under Rossides' leadership the Treasury took decisive action against imports sold at "less than fair value."^{*} Beginning in 1970 the department had determined in 18 separate proceedings that European and Japanese producers were shipping goods into the United States at less than fair value. The merchandise sold at L.T.F.V. are such steel-related products as pig iron (West Germany), stainless steel wire rods (France), cold-rolled stainless steel sheet and strip (France), welded wire mesh (Belgium), and stainless steel plate (Sweden).⁸ The United States Steel Corporation in a booklet prepared by its legal staff, Anti-Dumping and the Trade Bill, hails the policies advocated by Rossides and repeats the Assistant Secretary's argument verbatim for tougher enforcement of anti-dumping legislation.⁹

The roster of lawyers with public service uncovers connections with almost every arm of the executive branch including the Departments of Labor, Interior and Housing and Urban Development. Steel officials also serve as White House counsels, on the Council of International

^{*}According to the Anti-Dumping Act of 1921, as amended, less than fair value sales (LTFV) are defined as those sales causing injury to U.S. industry and are sold at a foreign price less than their domestic sales prices. Until 1954, the Secretary of the Treasury had the responsibility for determining the question of injury and the margin of dumping (i.e., the difference between the foreign market value and the purchase price of exporter's sales price). The Customs Simplification Act of 1954 transferred the determination of injury to the U.S. Tariff Commission. Enforcement, however, is retained by the Treasury. See 19 U.S.C. 160.

⁹Anti-dumping and the Trade bill, prepared by U.S.S. Corp., Law Department, (June, 1974) esp. p. 6.

Economic Policy, in U.M.B., and as deputies on the recently created Council of Economic Policy. The regulatory and administrative agencies are also well represented and include the F.T.C., S.E.C., F.P.C. and the Agency for International Development. The A.I.D. has been significant in cushioning the impact of steel imports. Government procurement for foreign aid programs is responsible for a large proportion of exported steel and ensures the domestic producers with a foreign market at practically any price. In a 1966 speech, Charles S. Wakers, Administrative Vice-President of the U.S. Steel Corporation, emphasized the importance of the A.I.D. program in the following terms:

...it is largely due to the operation of our foreign aid program that the steel industry has managed to escape the full effects of the forces at work in the world marketplace. We estimate that AID procurement in the United States of steel mill products currently accounts for some 30% of the value of our steel exports, and for an even higher percent of the tonnage shipped - perhaps as much as 40%. Without this AID support it is highly probable that the deficit in steel trade might have been 1 million tons larger. 10

⁹ Trade Reform, Hearings before the Committee on Ways and Means, 93rd Congress, 1st session, Pt. 12 of 15, pp. 407-8.

¹⁰ Charles D. Hyson, Alan M. Strout, "Impact of Foreign Aid on U.S. Exports," Harvard Business Review, (Jan.-Feb., 1968) pp. 63-71.

II

Several of the important steel lobbyists also have had close ties with the executive branch. Charles Walker and James Collins are two lobbyists with extensive high-level government employment. Mr. Collins, a former Deputy Assistant Secretary of Commerce for Domestic Business Affairs, was hired to direct the American Iron and Steel Institute's lobbying drive on the problem of imported steel. The role of the institute with regard to the import problem was crucial. The A.I.S.I., in addition to its usual pressures on elected and executive personnel, headed a massive public relations campaign to influence Congress. As discussed earlier, included in this campaign were booklets ~~presenting~~ Big Steel's argument which were distributed to government officials and a pamphlet "telling steel officials how to prepare for TV appearances, how to write speeches and conduct aspects of a big grassroots campaign."¹¹ The pamphlet was distributed to key members of Congress and the executive but Mr. Collins, while acknowledging its existence, refused to show it to anyone suspected of being biased against the steel industry. The secretiveness of Collins'

¹¹"Import Quota Lobbying," Congressional Quarterly Weekly Report, p. 158.

A.I.S.I. campaign was demonstrated again when he denied having knowledge of the July, 1971 meeting between President Nixon and the leaders of the major steel producers. What is especially revealing about this lapse is the fact that in correspondence with officials of the Bethlehem Steel Corporation, questions concerning the meeting were referred to the American Iron and Steel Institute.

Charles E. Walker, who has among his clients Bethlehem and National Steel, is a twenty-year veteran of Washington politics. In addition to being on friendly terms with presidents and bureaucrats, Mr. Walker allegedly knows "everybody in both parties of Congress."¹² He served as Deputy Secretary of the Treasury during the first Nixon Administration and was a contemporary of Eugene Rossides. As Deputy Secretary, Walker managed a wide range of the administration's legislative activities¹³ - economic stabilization legislation, tax measures, and general revenue sharing. In addition, he played a leading role in Phase I, II, and III planning.¹⁴ Before serving as Nixon's number two man in the Treasury, he held other posts, thus giving him "intimate

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

knowledge of government affairs and a reservoir of important political connections throughout the highest government circles in Washington.¹⁵ In fact, this last experience leads the lobbyists to claim that when action is needed, "I know where to get it and who to call."¹⁶ When Walker left the Treasury to start his own consulting firm, he took with him three associates also having extensive executive branch service. The three are: Edward J. Gannon, his former Executive Assistant at the Treasury (1969-73); Roy T. Englert, Deputy General Counsel of the Treasury (1969-73); and Gene A. Knorr, Deputy Special Assistant to the Secretary of Treasury for Congressional Relations. A fourth past employee of the Treasury, Phillip H. Potter, Deputy Special Assistant to the Secretary from 1970-71, is also a senior associate of the consulting firm.¹⁷ The five officials are in most advantageous positions to provide their clients with intimate representation in all phases of government.

As noted earlier, registered lobbyists represent just one aspect of steel's multi-faceted drive to influence governmental trade policy. A related point of access is through the personal friendships cultivated between governmental officials and the leading steel executives. Given

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Ibid.

the importance of steel to the economy, leaders of the industry are often called upon to testify in Congress and present data to government administrators. Quite often, for a variety of reasons, personal friendships develop between the individuals involved. Indeed, according to Inland's J. Daniel Ray, the label of lobbyist distorts public understanding of how companies use friends and influence the right people,¹⁸ and, as attested to by the July, 1971 meeting, the captains of the steel firms do talk with the right people. Indeed, Roger S. Ahlbrandt, Chairman of Allegheny-Ludlum Industries, has stated that "the industries' leading executives personally spend much of their time meeting with agencies, senators, and congressmen to acquaint them with our feelings."¹⁹ The culmination of this interplay is seen in the close personal relationship between U.S. Steel's William Whyte and President Ford.

Mr. Whyte is United States Steel's Vice-President of Government Affairs and one of the most respected lobbyists in Washington. He is a leader in the industry's campaign against foreign imports. Over a period of more than 20 years, Whyte has become a very close friend of President Ford. Indeed, while Ford was Vice-President,

¹⁸ "Why the Corporate Lobbyist is Necessary," p. 62.

¹⁹ Ibid., p. 65.

he allegedly vacationed with Whyte, staying in Hawaii's fashionable Maunakea Beach Hotel. U.S. Steel's top man in Washington initially picked up the tab, but was later reimbursed by the Vice-President. A frequent golf companion of the new president, Whyte's relationship with Ford remains on a first name basis. "I try to go the formal route," he claims, "but on the golf course you may find me slipping."²⁰ The long time friendship between the two has placed Whyte in a potentially influential position, having direct access to the ear of the nation's Chief Executive. In fact, Whyte played an important role in preparing Ford's transition to the presidency when Mr. Nixon's resignation was thought to be imminent.

After President Nixon's Wednesday meeting with senior Republican senators seemed to indicate that the presidency was lost, Mr. Ford was advised to prepare for the transition. The initial moves, however, had already been taken. The evening before Mr. Ford had discussed transition with his old law partner, Mr. Phillip W. Buchen, during a previously scheduled meeting. Mr. Buchen, who was director of the Presidential Commission on the Rights of Privacy, was also a partner in the Michigan law firm of Law, Buchen, Withers, Richardson and Dutcher. Among

²⁰"Ford's old Friends Include Big Corporate Lobbyists," New York Times, (Aug. 19, 1974) p. 38.

the clients of President Ford's former law partner is the United States Steel Corporation. During the meeting, the Vice-President requested his former associate to take on the responsibility of calling some old friends to begin transition planning for the new Ford administration. Buchen, working closely with Whyte, invited Whyte and four others to attend a meeting to plan for Ford's ascension. In addition to the close steel industry connections of Buchen and Whyte, two of the other three also had direct steel ties, a third, former governor Scranton of Pennsylvania, had less direct steel interests. In attendance were Mr. John W. Byrnes, the former Representative from Wisconsin who upon retirement in 1973 had been the ranking Republican member of the House Ways and Means Committee. Mr. Byrnes was also on retainer as a lobbyist to influence pending tax legislation by four of the industry's leaders: the U.S. Steel Corporation, Bethlehem Steel, Inland and the Cleveland group's, Hanna Mining Company. Also in attendance were the Senate Republican Whip, Robert Griffin of Michigan, a recipient of considerable campaign contributions from the industry; William Scranton,* a former governor of the steel-making state of

*The Scranton family has derived its wealth from steel. At the turn of the century, Walter Scranton was first president of the Lackawanna Co. which eventually moved near Buffalo in what was to become Lackawanna, N.Y. See David Brody, Steelworkers in America: The Non-Union Era, (N.Y.: Harper & Row, 1960) p. 7.

Pennsylvania; and Mr. Clay Whitehead, who was just resigning as head of the White House Office of Telecommunications Policy.

The group met for seven hours just prior to President Nixon's resignation at the Washington home of U.S.S.'s Whyte and made several recommendations concerning immediate personnel problems confronting the new president and future transition questions. One immediate result of the discussion and a subsequent meeting at Buchen's office the following evening was the replacement of Press Secretary, Ron Ziegler, with Mr. J.F. terHorst of the Detroit News, and the creation of a transition team which included terHorst and Scranton.²¹ Later on, Mr. Buchen was to assume the position of White House Counsel.

The role played by steel officials, their lawyers and friends in the Ford transition is indicative of the possibilities open to the well-heeled corporate official. Since Ford's swearing-in, the steel industry has gained even greater access at key junctures of government with the appointment of Robert Gerard as the head of the newly created Capital Office, and Kenneth W. Dam, the Chief of Staff to the Chairman of the Council on Economic Policy. Prior to government service, Gerard had been with the law firm

²¹ For an account see, "The Last 17 Days of the Nixon Reign," The Washington Post, (Sept. 29, 1974) p. 1, 10a, 11a.

of Wilmer, Cutler & Pickering and Dam with Cravath, Swain and Moore. Wilmer, Cutler and Pickering is on retainer by the A.I.S.I. to lobby on trade policy; and Cravath, Swain and Moore is on retainer by the Bethlehem Steel Corporation. The increasing access steel attains through government service apparently cannot be attributed only to Mr. Ford's friendship with William Whyte and Phillip Buchen. But both officials, who have the confidence of the President and see him on almost a daily basis, do have long histories of steel-related interests.

III

It has been argued that whenever an industry's vested interests run counter to the public good - however vague the notion - the pinnacle of justification for gaining public acquiescence is the premise that national security demands that the industry's request be granted.²² The oil industry, for example, constantly "advises" government officials that a change in the depletion allowance would cripple its productive capacity and impair the military preparedness of the United States.²³ The steel industry makes the same claims regarding imported steel. For,

²²"The Political Economy of Steel Import Quotas," Journal of Economic Issues, pp. 67-69.

²³Robert Engler, The Politics of Oil.

the argument goes, without quota protection the steel industry "may be forced to dismantle the capacity to produce certain kinds of steel products,"²⁴ thereby endangering our national security. When the merits of the argument are examined, however, steel's role in the national defense appears to be grossly overstated.

Over the years the steel industry has played a vital role in the national defense effort. When the United States began to rearm in preparation for World War II, the War Resources Board was headed by Edward Stettinus, President of the U.S. Steel Corporation.²⁵ The W.R.B., which was formed by Acting Secretary of War, Johnson, Acting Secretary of the Navy, Edison, Chief of Staff, George Marshall, Colonel J. H. Burns, Colonel H. K. Rutherford and Stettinus, the lone civilian founder, later was to recommend increases in domestic steel production of 13 million tons annually.²⁶ This decision was to bring the federal government into the steel business with the establishment of the Geneva Steel Plant at a cost of \$202.4 million to build. Subsequent to the war, the plant was sold to U.S. Steel for just \$47.5 million.²⁷

²⁴ Senate Staff Study, Steel Imports, p. 7.

²⁵ Richard J. Barnet, The Roots of War, (Baltimore: Penguin Books, 1971) p. 36.

²⁶ See Donald Nelson, Arsenal of Democracy.

²⁷ Barnet, The Roots of War.

Mr. Stettinus also had served as a member of the original National Defense Advisory Commission and headed a special committee to the Commission to study the relationship between the Treasury Department and its Procurement Division functions. Other members of the committee were leading military personnel including Rear Admiral Ray Spear of the Navy, Army General C.T. Harris, and, from the Army's Ordnance Department, General Weesen, who had the largest buying function in the Army.

Stettinus' role in the war effort was a continuation of Big Steel's cooperation with the military which first began when U.S. Steel's Elbert H. Gary pledged full cooperation with the War Industries Board in World War I.²⁸ The zenith of this cooperation was reached during the second war when some 42% of all steel produced domestically went for the construction of military items. With the change in military technology subsequent to World War II, however, steel began to play a far less important part in the defense effort. As the liberty ship, the tank, and heavy armaments were being replaced by atomic weapons and rockets, the military's need for steel declined proportionally. The atomic bomb raised the spectre of instant destruction and greatly diminished the likelihood of all-out conventional

²⁸ For a discussion see Ida Tarbell, The Life of Elbert H. Gary: A Story of Steel.

wars of the World War II variety. Thus, during the peak years of the Korean Conflict, the defense effort required just 12 million tons of steel or 15% of the total United States capacity.²⁹ This was just an adumbration of things to come. The maximum annual defense requirement for steel during the Vietnam War was about 4 million tons, or approximately 3% of U.S. capacity.³⁰ In light of the apparent decline in steel's role in the defense effort, in 1970 the Office of Emergency Preparedness reviewed the industry's position in the national security effort and concluded that there was no immediate threat justifying trade restrictions.³¹

Despite the apparent myth of the national security argument, the industry continues to rely on it and has been somewhat successful. This success might be attributed to a number of factors. Both U.S. Steel and the Bethlehem Steel Corporations are still ranked within the major contractors with the Defense Department, thus providing for a continuation of the close working relationship of the Stettinus era. There are many other points connecting the major steel corporations to the Defense Department. George Humphrey, father of Hanna's present chairman, Gilbert W. Humphrey, for instance, while still chairman of Hanna, served

²⁹ Essentiality of Specialty Steels to National Security, Hearings before the Subcommittee on General Legislation of the Committee on Armed Services, U.S. Senate, 92nd Congress, 2nd session, p. 149.

³⁰ Ibid., p. 150.

³¹ Ibid., p. 149.

on an advisory committee in the Commerce Department and became friendly with Mr. Paul Hoffman. Later on, Mr. Hoffman was appointed Chief of the E.C.A. and immediately recruited Mr. Humphrey to run an advisory committee to study the possibility of dismantling German heavy industry. As part of this task, Mr. Humphrey worked in close contact with leading military brass, including General Lucius Clay. Clay and Humphrey eventually became close friends and it was Clay who recommended Humphrey as Treasury Secretary to his good friend, President Eisenhower.³²

Robert B. Anderson, an oilman who has been associated with Republic's, H.C. Lumb and Charles Walker, a registered lobbyist for the steel industry, also served as Secretary of the Navy and Deputy Secretary of Defense before being appointed to head the Treasury Department in 1957.³³ Lewis L. Strauss, a late director of Inland Steel, for a period of time was head of the Atomic Energy Commission and upon his retirement in 1958 hand-picked his successor, John A. McCone. McCone had been a partner with the Bechtel construction interests. The Bechtel companies

³²Robert Coughlin, "Top Managers in Business Cabinet," Life (Jan. 19, 1953) pp. 105-112. According to Coughlin, the Hanna interest have long played a leading role in the American political scene. Marcus Hanna, for instance, the leading partner of the firm upon its establishment, went on to become a U.S. Senator and was influential in the political career of William McKinley.

³³For a discussion, see Robert Engler, The Politics of Oil, pp. 311-312.

are closely linked with the Hanna Mining Company through their consulting activities, procurement of materials from Hanna, and the activity of Stephen D. Bechtel, Jr. the senior director of the Bechtel group of companies who sits as a director on the board of the Hanna Mining Company. Thomas V. Jones, a director of U.S. Steel, has several ties with defense oriented organizations. Between 1947 and 1953, Mr. Jones was a technical advisor to the Brazilian Air Ministry and a member of the RAND Corporation. RAND originally was created after the second world war with Ford Foundation grants and government research money to "think" for the Air Force and subsequently was credited with many technical innovations. It was purposely set up as a private agency so that civil service restrictions might be circumvented thereby attracting the best talent available.³⁴ Jones presently stays in touch with his former colleagues through his membership on the Board of Visitors of the Air Force Systems of Command.* The Air Force

³⁴ G. William Domhoff, The Higher Circles, pp. 123-125.

* Mr. Jones is also an officer of Northrop Corp. and has been named in a suit filed in the U.S. District Court in Washington alleging that Northrop maintained a secret fund of \$30 million to be used for political and other purposes without disclosing the fund to its stockholders. "SEC Says Northrop Kept \$30 Million Secret Fund," N.Y. Times, (April 17, 1975). The case of Jones is intriguing in that it indicates a degree of integration among all large private firms and government. This tendency is enhanced by a mutual interest in the profit motive held by all private firms. The presence of this mutual interest has been expressed by Secretary of Commerce, Dent, a former textile official, in

Systems of Command handles major weapons procurement and development.

The tendency toward mergers and conglomeration has also helped bring the industry closer to the Defense Department. The L.T.V. Corporation, for example, which controls the large Jones and Laughlin Steel Corporation, is a leading defense contractor and employer of retired military men. Between July, 1967 and December, 1971, L.T.V. hired 43 military officials with the rank of major to lieutenant commander or above formerly of the Pentagon and sent seven of its number to top level (GS-13 or above) government posts at the Pentagon.³⁵ This mutual dependency strengthens the industry's already close nexus with the defense effort.

Not only does the industry place its personnel in important posts in the Defense Department, but the contemporary military effort is becoming highly dependent upon specialty steels. The importance of specialty steels to the defense effort has been associated with the buying up of specialty steel producers by high glamor conglomerates. Colt Industries and N.V.F. Corpora-

the following terms: "The steel industry has helped provide the U.S. with the strongest defense and highest standard of living in the world...so I very much appreciate the privilege of appearing before such an important group as the A.I.S.I., not only as a former member of industry, but also now as a member of government...It is gratifying to see your industry increasing sales and profits." Address by Secretary of Commerce, Frederick B. Dent, prepared for delivery before the A.I.S.I., New York, (May 24, 1973).

³⁵ "The Military Industrial Job Hoppers," Business Week, (Jan. 15, 1972) p. 51.

tion, important defense contractors, have swallowed two primarily specialty producers - the Crucible and Sharon Steel companies. L.T.V.'s swallowing of the larger, Jones and Laughlin Steel Corporation, might partially be explained from this perspective. Indeed, the role of specialty steels is important. With an upsurge in the military uses of specialty steels, the industry's giants, all of whom produce specialty products, have relied on the national security implications of these steels to obtain governmental assistance against foreign imports. One instance of their success is seen in the Senate Hearings on specialty steels and national security.

In response to a request by Pennsylvania Senator Richard A. Schweiker, the Subcommittee on General Legislation of the Senate Armed Services Committee held hearings on the **importance of** specialty steels to national security. Schweiker has been an advocate of steel's interests and the recipient of support from the industry. Other participants in the hearings consisted primarily of steel executives: Mr. John Dent, a representative from a steel-producing district in Pennsylvania; government bureaucrats with steel clientel and a representative from the Department of Defense, Admiral Reich. No interests critical of steel were invited to the hearings. They were held during the

early part of April of 1972 and coincided with the ~~conclusion~~ of negotiations between the State Department and foreign steel producers over the imposition of voluntary steel import quotas. The testimony of Admiral Reich of the Defense Department was instrumental in shaping the subcommittee's final report which concluded that specialty steel products were essential to national security and thereby justified further protectionist measures. Reich echoed the industry's position when he stated the following before the subcommittee:

It is a common misconception that military forces alone are the sole deterrent to war. However, all of us can readily appreciate the fact that a nation's industrial capability and industrial readiness in case of an emergency can either strengthen or weaken a nation's military capability. The steel industry as a whole and specialty steel in particular are a vital part of this industry capability. It is a national asset and a part of our military power that serves as a deterrent to would-be enemies.

35

Reich's statement directly contradicted the 1970 U.E.P. report which concluded that carbon steel products were somewhat at odds with the position of U.E.P. toward specialty steels. The Office of Emergency Preparedness re-

³⁶ Essentiality of Specialty Steels, p. 151.

cognized the use of specialty steels in aircraft, rocketry and electronics equipment, but concluded that the situation was not grave enough to warrant import restrictions. Edward Saunders, Deputy Assistant Director for Resource Evaluation, U.E.P., concluded that:

...based on information available to U.E.P., if present downward trends in the capacity to produce specific steel products continued, this situation could become a matter of concern on national security grounds. 37

The threat to close unprofitable plants combined with the support of a long-time friend of steel - the Defense Department - and the fact that the hearings were unattended by interests hostile to steel, predetermined the committee's recommendations which were released shortly after the announcement of extension of the V.R.A. and used to rebuke criticisms by consumers organizations. One immediate result was a 1973 law, supported by the White House, the Defense Department and such key members of Congress as Senator John Tower, giving the Defense Department the authority to buy only American produced steel alloys.

IV

The industry's success in obtaining protection

³⁷ Ibid., p. 150.

against imports cannot be separated from the intermovement of steel officials to and from top governmental circles. The shifting of steel personnel to defense and defense-related scientific positions in the executive branch appears to support the arguments of scholars who foresee the rise of a new scientific elite. The role played by Inland's Strauss as director of the Atomic Energy Commission is important in this respect. But the limitations of this position are revealed by the large declines in capital expenditures since the enactment of the first U.R.A. In this light, the intermovement of personnel is best understood as the means by which the major steel corporations attempt to convince government officials and the public of the **significance** of private steel to the economy and national defense effort. In the case of imports, government sanctioned quotas provide immediate relief from foreign competitors, but in the long run serve to reinforce the technological stagnation and lagging productive efficiency which made imports attractive to begin with. Governmental activity, **furthering** the concentration within the industry, is a long part of its history. After World War II, for instance, despite recommendations from the Attorney General to the effect that government disposal policies should favor the smaller producers to avoid monopolistic practices on the part of the major steel corporations, the United States Steel,

Bethlehem, and Republic Steel Corporations attained government owned steel facilities at a fraction of their initial cost. U.S. Steel's acquisition of the government's Geneva Plant for about 20% of cost increased that firm's proportion of steel-making capacity in the far west from 17.3 to 52.7%. Big Steel also purchased the third largest government-owned steel mill, the Homestead Works, for about 50% of cost. Republic Steel obtained the then largest electric steel mill in the world. The South Chicago plant was sold to Republic for slightly more than one-third of cost.³⁸

The role of defense procurement, despite its declining proportion of steel's total output,³⁹ and the AID program provide further governmental subsidies to the industry, thereby helping it avoid the full impact of imports. The guarantee of stable market through governmental procurement of steel further stifles the urge to innovate and reinforces the same tendencies rendering imported steel attractive. The shifting of top level steel personnel to government service and the public subsidization of the backbone of American heavy industry blurs the distinction between private power and public government and raises important questions concerning the alleged independence of government. As private steel is integrated into government, one primary check on its power is brought

³⁸For an analysis of governmental disposal policy, see John Blair, Economic Concentration, esp. pp. 380-384.

³⁹100 Companies and their Subsidiaries listed According to Net Value of Military Prime Contract Awards. Dept. of Defense, n.d.

under question. This raises the further problem of the relationship between the major steel producers and the other alleged check on their powers - the labor movement. The proceeding chapter shall examine this question in depth.

CHAPTER VIII: COUNTERVAILING POWER: THE STEELWORKERS UNION

Whatever the deficiencies, the notion of countervailing power, as Bernard Nossiter points out, even today remains the cornerstone of conventional wisdom. In its most primitive form the theory contends that the economic power of Big Business is matched by the resources available to Big Labor with Big Government watching both.¹ There have been myriad versions of this theme with added complexities and sophistications, but one idea remains constant: the power of the corporations is held in check by competing interests so that no one group always prevails. The relationship between the major steel producers and the United Steelworkers of America, however, indicates that the union often cooperates with its "corporate antagonists" to prevent the emergence of alternatives deemed unsuitable to the economic interests of the steel producers. Cooperation usually takes one of two forms. On the most immediate level, the steelworkers union and the integrated producers

¹See especially John K. Galbraith, American Capitalism; also, Bernard D. Nossiter, The Mythmakers, (Boston: Houghton, Mifflin, 1964).

may form a coalition to attain mutually beneficial goals. This might be overt as well as covert. A clear example would be the wage-price spiral that characterizes labor negotiations in the industry. Generally, the United Steelworkers press for a large wage increase. The industry, after a big show of reluctance, often grants the package and then uses the bargain as a justification to make price increases greater than the wage settlements.

The practice of the industry tying steel prices with wages long has provided points of confrontation between the large steel corporations and government. Elbert H. Gary, U.S. Steel's first president promoted policies of harmony and cooperation with government to avoid trust-busting and other forms of federal meddling. Gary was so successful that President Theodore Roosevelt claimed that the U.S. Steel Corporation was a very rare institution - a good trust. Within a decade, however, the corporation found itself in court for violation of anti-trust legislation. Ultimately, the truth of Gary's policies were revealed when the world's largest steel producer was found by the federal courts not to be in conflict with the anti-trust laws.²

During the second term of Franklin D. Roosevelt, both the President and Congress investigated the pricing policies of the steel industry and found that the planned

²Tarbell, The Life of Elbert H. Gary: Man of Steel.

programs followed by the top steelmakers were often in conflict with the public interest. Still, the industry's prerogatives were not tampered with. After World War II, with the establishment of a more viable labor movement, the nexus between wages and prices was even more in the forefront of political conflict between the industry and government. The argument that high steel prices were needed to meet higher wage demands provided the justification for steel's resistance to war-time price controls. An immediate effect of the struggle was governmental acquiescence which saw the industry increase its prices beyond the higher cost of production. In 1952, the steel companies refused to accept government approved wage increases without further price jumps. This had the effect of inviting unions to strike so that the producers could realize their economic goals. President Truman's nationalization of the industry and the subsequent political mobilization against Truman's actions are the most memorable aspects of the 1952 confrontation. What tends to be overlooked is that the result greatly favored the steel corporations. During the remainder of the 1950's, for instance, the producers granted the union benefits approximating 18 to 19% while raising prices by 36%.³

A political struggle involving wages and prices where

³ Means, Pricing Power and the Public Interest.

steel appears not to have done as well in the well-publicized price roll-backs during the Kennedy Administration. After the steel settlement of 1962, which provided labor benefits well within governmental non-inflationary guidelines, the steel companies announced significant price increases to pay for the new labor agreement. A confrontation between President Kennedy and industry leaders culminated in steel's agreement not to raise prices. But, as Chapter V above describes, the price roll-back was only temporary. Within months, prices were increased and the industry was provided further relief in the form of new tax breaks.⁴

While the first form of collaboration between the companies and the union is revealed through the justification of higher steel prices to meet high labor costs, the second form of cooperation is closely related but analytically distinguishable. The second variety is based upon the ability of the firms to use their economic power to define the options available to the union and prevent the emergence of alternatives deemed unsuitable to the economic interests of the corporations. The Kennedy confrontation of 1962 could fit equally well under each category. It fits the first because of the wage-price spiral; it fits the second by virtue of the industry's ability to raise prices despite a union agreement providing limited pay increases well within government guidelines. The recent Experimental Negotiating Agreement whereby

⁴For a discussion of the problem see, Grant McConnell, Steel and the Presidency, (N.Y.: Norton, 1963); George Mannus, The Inside Story of Steel Wages and Prices, (Philadelphia: Chilton, 1967).

the steelworkers' union has agreed not to strike upon the expiration of the contract with the steel companies is a more clear example of the latter form of cooperation. The E.N.A. exemplifies an instance of the second case in that the corporations long have attempted to remove union leadership from rank and file control. To attain this end the steel companies have used their resources to further the bureaucratic and career interests of the union hierarchy while stifling the more radical demands of the workers.⁵ Indeed, while the Experimental Negotiating Agreement has been defended by both labor and management on the grounds that it protects jobs by discouraging steel users from stockpiling or relying on imported steel, the issue has never been brought before the rank and file for approval, despite a great deal of evidence indicating much resistance to the agreement. Instead, union and company officials alike have pooled their resources, at a time in violation of federal law, to resist discussion of rank and file alternatives.

I

The early history of the steelworkers' union might be characterized as a struggle between the workers' attempts to organize and the companies' efforts to restrict labor or-

⁵C. Wright Mills, "The Labor Leaders and the Power Elite," in C. Wright Mills, Power Politics and People: The Collected Essays, (N.Y.: Oxford University Press, 1963); also, C. Wright Mills, The New Men of Power, (N.Y.: Oxford University Press, 1948).

ganizations. From the first days, even prior to the formation of the union, the rank and file worker served as the vanguard for collective action against the steel firms. The mass of steelworkers directly participated in policy decisions through such practices as having the final say on the question of strike or no strike. In fact, in both attitude and practice, the workers themselves felt that they alone were empowered with the right to strike and often did so, even in light of less than full support by union organizers.

Rank and file participation in strike votes dates back to the Homestead Strike of 1892. At the Carnegie Homestead Works, 1,000 of the 3,800 workers were organized skilled employees facing additional severe pay cuts and lay offs. Before these skilled members of the Amalgamated Association of Iron, Steel and Tin Workers struck, they held a special meeting of all employees. Participants voted unanimously that all workers would strike and in case a strike did materialize, no worker would be permitted to leave town - lest his fellow workmen would refuse to work with him upon the strike's end.⁶ The company, however, with the assistance of Pinkertons crushed the strike and with it the union. Mr. H.C. Frick clearly stated the industry's position toward collective bargaining during the heart of the strike:

⁶ Affidavit of Staughton Lynd, presented before the United States District Court for the Western District of Pa. in the case of Willie Aikens et al., vs. I.W. Abel, et al. p. 14. Hereafter referred to as Affidavit.

The question at issue is a very grave one. It is whether the Carnegie Company or the Amalgamated Association shall have absolute control of our plant ...Under no circumstances will we have any further dealings with the Amalgamated Association as an organization. This is final. 7

The rank and file worker was largely responsible for the strike of 1919. During May of 1919, a Congress of 583 rank and file delegates pressured the union officials directing the steel organizing drive to call for a strike vote.⁸ Throughout the summer months thousands of steel workers used a multi-lingual strike vote to stop work if the company refused to concede to their demands. Just prior to the strike, President Wilson and Samuel Gompers pleaded for a delay. Gompers stressed "the strategic advantages which would accrue from complying with the request of the President, and the great disadvantage which would result if the President's request was flouted."⁹ The enraged workers, nevertheless, overrode the demands of their leadership and bombarded the strike committee with telegrams demanding the strike.¹⁰ Once, again, the companies resisted the workers' demands with full force. Management imported thirty to forty

per and Row, 1960) p. 56.

⁸ Lynd, Affidavit, p. 14.

⁹ David Brody, Labor in Crisis, (Philadelphia: J. Lippencott Co., 1965) p. 106.

⁹ David Brody, Labor in Crisis, (Philadelphia: J. Lippencott Co., 1965) p. 106.

¹⁰ Lynd, Affidavit, p. 10.

thousand black strikebreakers, local officials deputized loyal workers, and after a long and costly struggle the companies again prevailed.¹¹

The activist history of the rank and file steel worker continued into the 1930's. In 1934, for instance, a workers' movement of the Amalgamated Association of Iron, Steel, and Tin Workers gained control of the union's national convention and immediately made arrangements for a national strike. During the same convention the rank and file movement democratized the union constitution by making it easier for local unions to strike without national approval and by lowering dues. Management's position, however, even after the passage of New Deal labor legislation encouraging the right to organize, remained constant. Indeed, the first corporation to defy the N.I.R.A.'s National Labor Board was Weirton Steel. The Jones and Laughlin Steel Company provided the test case for the Wagner Act.¹² And the "Memorial Day Massacre" of 1937 in which ten unarmed steelworkers were shot in the back and killed by the deputies using arms paid for by the steel industry was provoked by Thomas Girdler, President of the Republic Steel Corporation. Girdler had stated that he would pick apples before he would sign a contract with the C.I.O. This further triggered rank and file

¹¹ Lynd, Affidavit. For detailed accounts of the strike of 1919, see also Brown, Steelworkers in America; William Foster, The Great Steel Strike, (N.Y.: Arno Press, 1969).

¹² National Labor Relations Board vs. Jones & Laughlin Steel Corp., 301 U.S. 1 (1936) at 45. For an account of union activities in the 30's, see Robert Brooks, As Steel Goes, (New Haven: Yale University Press, 1940) esp. Chpt. 6.

pressures which already had pushed the national leadership into the Little Steel Strike of 1937.¹³ A former worker at Inland's Chicago Works and union organizer, Mr. John Sargent, describes the role of the rank and file during the organizing drives of the 30's.

We talk of a rank and file movement; the beginning of union organization was the best kind of rank and file movement you could think of. John L. Lewis sent in a few organizers, but there were no organizers at Inland steel, and I'm sure there were no organizers at Youngstown Sheet and Tube. The union organizers were essentially workers in the mill who were so disgusted with their conditions and so ready for a change that they took the union into their own hands. 14

Rank and file activists helped bring action from the federal government with the passage of the National Industrial Recovery Act of 1933.¹⁵ Section 7a of the N.I.R.A. committed the national government to a course encouraging collective bargaining through representatives elected by their working peers.¹⁶ Steel management, however, maintained its basic policy of resistance but generally shifted its tactics. The industry which traditionally had rejected trade unions in any form, now participated in the development of an acceptable alternative - company unions. These company unions were distinguishable by the following four characteristics: first, they were formed on the initiative of the steel corporations;

¹³ See David J. McDonald, Union Man, (N.Y.: Dutton, 1969).

¹⁴ Alice and Staughton Lynd, Rank and File, (Boston: Beacon Press, 1973) p. 107.

¹⁵ See William E. Leuchtenberg, F.D. R. and the New Deal, (N.Y.: Harper and Row, 1963).

¹⁶ Ibid.

second, the industry financed the workers' organizations; third, the scope of the unions was limited to local issues; and, finally, the unions could not strike.¹⁷

The steelworkers overwhelmingly rejected the ineffectual company unions and attempted to build their own organizations. They did this at first through local industrial unions and later on through the national Steelworkers Organizing Committee of the Congress of Industrial Organizations. In pursuing the path of rank and file unionism, the workers were often involved in serious labor battles with the industry. Indeed, the 1930's were scarred with strikes and violence, such as the Memorial Day Massacre, as the steelworkers rejected company unions in their quest for the legitimacy of their own organizations. Excerpts from the "Steelworkers' Declaration of Independence," a document read to a meeting of thousands of steelworkers at Homestead, Pennsylvania in 1936, summarizes the struggles for the establishment of independent worker organizations. Concerning the steel companies, the document read in part:

They have interfered in every way with our right to organize in independent unions, discharging many who have joined them. They have set up company unions, forcing employees to vote in their so-called elections. They have sent among us swarms of stool pidgeons who have spied on us in the mills, in our meetings and even in our homes. They have kept among us armies of company gunmen with stores of machine guns, gas bombs and other weapons of warfare.

18

¹⁷ Lynd, Affidavit, p. 12.

¹⁸ Vincent D. Sweeney, The United Steelworkers of America, (n.p., 1956), p. 19.

The Wagner Act and the subsequent Taft-Hartley law finally recognized the workers' position by outlawing the company union. According to the Wagner Act "(1)t is an unfair labor practice for an employer to dominate or interfere with the formation or administration of any labor organization or contribute financial or other support to it."¹⁹ Given these criteria, the Secretary of Labor, Francis Perkins, announced that the unions formed by the steel corporations were indeed company unions and therefore illegal.²⁰

With the passage of the Wagner Act the steel industry again made tactical adjustments. After years of refusing to recognize employee collective bargaining organizations through the use of such tactics as overt violence, black-balling union organizers, the importation of strike breakers, company unions, etc., the United States Steel Corporation in March of 1937 signed a contract with the Steelworkers Organizing Committee of the Congress of Industrial Organization. The union recognized by "Big Steel," however, was somewhat divorced from rank and file control and removed many powers from locally elected union officials.. John Sargent, the first president of the largest

¹⁹ National Labor Relations Act, Sect. 8(a)2, 1935.

²⁰ For discussion, see Leon Keyserling, "The Wagner Act; Its Origin and Current Significance," George Washington Law Review, XXIX, (1960), pp. 200-208.

local in the steelworkers' union, comments that recognition of the United Steelworkers of America did not constitute a break with the industry's long tradition of resistance. Rather, according to Sargent, the steel companies would only recognize the union on their own terms - terms which eventually permitted them to dominate the new union.

The companies became smart and understood that in order to accommodate themselves to a labor organization, they could not oppose that labor organization. What they had to do was recognize that labor organization. And when they recognized the national and international leadership of that labor union and took the affairs of that labor union out of the hands of the ordinary elected officials on a local scale. 21

Whatever the particular biases of Mr. Sargent, the evidence does indicate that after years of struggle, the steel corporations accepted the USWA on conditions which removed union leadership from rank and file controls. Indeed, from the very beginning the membership of the steelworkers' union has never had the right to ratify or reject each proposed national contract. Unlike most other contemporary unions, the USWA officialdom is free to sign any agreement which they deem acceptable. The right to strike at a local level during the life of a national contract always has been explicitly forbidden since the first agreement with the United States Steel Corporation. This serves

²¹Lynd, Rank and File, p. 109.

to remove collective bargaining power from local to national union headquarters, thus further removing rank and file control over issues of the greatest relevance to union members. Finally, despite the active role played by the rank and file in organizing strikes to gain union recognition, the USWA as first recognized and subsequently throughout the years, has never given its membership the right to decide whether or not to call a strike.

II

From the founding of the USWA in 1942 until today, rank and file members of the union have attempted to enlarge the powers granted to them by the union constitution. Every union convention has witnessed rank and file demands giving membership the right to ratify each national contract; the right to strike at a local level during the life of the national contract; and the right to vote on whether or not to strike. In 1944, for instance, a rank and file movement headed by C.E. Jennings of Local 2860 introduced a resolution from his local calling for membership ratification of union contracts with the steel corporations. In 1946, delegate Kelly from Local 1924

brought up the same question, pointing to the right of the UAW to ratify a contract before returning to work after a strike. A third serious rank and file challenge was expressed by delegate Tim Smith of Local 2603 in 1950 who phrased the demand in the form it has assumed since that time. According to the Smith proposal, the negotiating committee would set aside two weeks to report their agreement to the locals and allow for rank and file acceptance or rejection.²²

Growing alongside the membership's demand for the right to ratify was the notion that only the rank and file should decide whether or not to vote. During the 1948 convention, delegate Nick Migas, after many futile attempts to gain recognition to speak, distributed a pamphlet which read in part:

No more two-year contracts! No
more no strike clauses! No more
free hands for the company and
bound hands for the union!...Either
we are a fighting union every inch
of the way or we go down the road
to company unionism! 23

For his efforts Mr. Migas was ejected from the convention and beaten outside the convention hall by a group of thugs.

The logic behind the growing schism between union leadership and the rank and file became more apparent as

²² Lynd, Affidavit, p. 23.

²³ Lynd, Rank and File, pp. 171-174.

the differences broadened with the ascension of David McDonald to the presidency upon the death of his predecessor, Phil Murray, in 1953. McDonald brought the USWA toward much closer cooperation with the steel corporations who now really began to reap the benefits of their original recognition of a union divorced from its membership. Indeed, McDonald developed his philosophy of labor-management relations based upon the notion of "mutual trusteeship." During the 1954 USWA convention he stated the idea to the assembled delegates:

We are engaged in the operation of an economy that is based on mutual trusteeship. What does this mean? It means that the days of Andrew Carnegie are gone. The corporations of our country are no longer owned by individuals or small family groups. They are owned by hundreds of thousands of stockholders, and this is particularly true in the steel industry. U.S. Steel has almost as many stockholders as employees. These stockholders, through a voting system, employ a group of managers. The managers are simply employees of the corporation. There is another group of employees known as the working force. Together, these two group have a mutual trusteeship to operate the steel company, and the same holds true for all steel companies. 24

To make certain that steelworkers understood the idea of mutual trusteeship, McDonald joined the president of U.S. Steel, Benjamin Fairless, in touring that corpor-

²⁴Lynd, Affidavit, p. 19.

ation's steel mills. At each plant the tour was followed by a party at which time management and union officials exchanged compliments and discussed how they would cooperate.²⁵ By isolating union leadership from the rank and file, corporate management was able to introduce union representatives to the privileges of wealth, thus giving them the feeling that they too had arrived, "just like the other big shots."²⁶ In the case of McDonald this assimilation was furthered through luncheons with the industrial elite at their exclusive dinner and country clubs. Indeed, the Fairless-McDonald trusteeship tours used chauffeur-driven limousines generously supplied by the company. Only after the publicity director of the steelworkers union advised Mr. McDonald that the ordinary steelworker was unfavorably disposed toward this practice, were the excursions made by bus.*

The offer of prestige, status, and wealth for cooperating with the companies has long been used but is not

²⁵ John Herling, The Right to Challenge, esp. pp. 96-101.

²⁶ Mills, "Labor Leaders and the Power Elite," p. 101.

*McDonald as the leader of a well-financed labor organization who associated daily with corporate leaders, soon picked up many of the characteristics of the industry's leaders. John Herling discusses McDonald's coterie in the following terms: "When McDonald arrived at an airport, reception committees were expected...Taxis were for peasants; chauffeured limousines were in. His chief bodyguard, Charles Barranco, who received the salary of a top level staff representative with expenses to match, often drove the presidential car." Herling, Right to Challenge, p. 28.

always accepted by the union officials. During the late 1940's, for instance, a union economist who had testified for the union on the pricing policy of the steel industry, was invited by Mr. Roger Blough for lunch at the exclusive Duquesne Club in Pittsburgh. Mr. Blough, who had just testified for the steel companies at the hearings, offered to create a job in United States Steel which the union economist could fill. After revealing intimate knowledge of the financial background of the union economist, Blough elaborated on the advantages of top level employment with a major steel corporation: an offer of twice the official's present salary and admission to the most exclusive clubs were held as bait. Indeed, although the economist, Utis Brubaker, rejected the offer, he did admit that "(t)he whole prospect of membership in the country club, in the establishment, and the chance of influence in the community" sounded interesting.²⁷ Union officials further removed from the rank and file who relate with corporate leaders on a personal level from day to day, are not as likely to resist as Mr. Brubaker.

McDonald's cooperation with the steel companies reached its zenith in 1960 when he set up the Human Relations Committee in an attempt to give the mutual trusteeship concept some substance. The committee was made up

²⁷ Herling, Right to Challenge, p. 12.

of top union leaders and their corporate counterparts and ostensibly was a research organization "to 'study and recommend solutions of mutual problems' and 'guides for the determination of equitable 'wage and benefit adjustments.'"²⁸ In fact, however, the committee soon became an informal negotiating organization which informally negotiated the steel contracts of 1962 and 1963 before the union's formal negotiators were allowed to participate. As industry representatives forcefully rejected all union-proposed criteria in determining wage and policy adjustments, the committee became dominated by the industry with very weak contracts for the steelworkers.²⁹ The steel settlement of 1962 which brought no wage increase but consisted of only fringe benefits, was estimated to have cost the companies a 2.5% increase in employment costs. This represents only about three-fourths of the 3.2% wage guidelines developed by the Council of Economic Advisors - a figure that the labor movement had scoffed at as inadequate. The industry publication, Iron Age, hailed the agreement finding it "closer to the company position than any recent settlement."³⁰

When the steel companies subsequently announced significant price increases thus triggering the confronta-

²⁸ Herling, p. 97.

²⁹ Ibid.

³⁰ Ibid.

tion between the industry and President Kennedy, many public officials attacked the steel corporations. President Kennedy scathingly chastised the corporations for not showing the same restraint as the union. Other union officials outside the U.S.W.A. attacked U.S.S. for price gouging. In spite of a meager contract and major price increases by the industry's representatives, Mr. McDonald let it be known that he hoped no one would use too strong language in condemning the steel price increases. "After all," he argued, "I have to live with these people."³¹

The contract of 1963 was even less desirable and further removed from rank and file control. The union's wage and policy negotiating committee was bypassed and completely replaced by the Human Relations Committee. In fact, no wage and policy committee meetings were called. As for the contract, once again there were no wage increases. Iron Age referred to it as "a triumph of Human Relations bargaining." and the Wall St. Journal hailed it as "the lowest cost settlement since 1944."³²

Otis Brubaker summarized the 1962 and 1963 contract settlements under the H.R.C. as follows:

1. Two of the cheapest settlements in our union's post-war history.
2. Real wage cuts for our members.
3. Secret dealings by a palace clique instead of

³¹ Ibid., p. 98.

³² Ibid., p. 31.

collective bargaining.

4. Bypassing of our union's policy body, the Wage Policy Committee.

5. Deliberate and determined non-usage of the union's only bargaining power - the threat to strike, if all other resources fail, in support of its demands.³³

Opposition to policies of McDonald's leadership of the union reached a climax in October of 1964 at a union meeting of the steering committee of basic steel called to discuss the steel contract to be negotiated in 1965. When one of the district directors present at the meeting asked McDonald when he was going to reopen the contract, the union president stated that he did not intend to do so. In effect, he was saying that he would not even use the threat of a strike. That evening an insurgency movement was organized to run against the McDonald leadership in the union election of 1965. The insurgent movement, headed by I.W. Abel, rejected the idea of mutual trusteeship and promised to move the union in the direction the rank and file had been demanding since its inception in 1942.³⁴ In his opening campaign speech, Abel revealed this as the theme of his campaign:

So long as management is primarily concerned with profits, the interests of management and labor cannot

³³ Herling, p. 99.

³⁴ Lynd, Affidavit, p. 22.

be identical. We have great faith in the ability of management to analyze its own problems and propose intelligent solutions, and while we will not be unsympathetic, we believe the primary function of the union must be to represent the membership. 35

In a carefully documented study of the Abel challenge to McDonald's leadership, John Herling demonstrates the many advantages open to the incumbent.³⁶ Indeed, unsuccessful resistance to McDonald in the past had resulted in the end of union careers for more than one official and worker being disbarred from the union, which in light of closed shop legislation is tantamount to being black-listed by the steel companies. Given this power, rank and file resistance was always confronted with the possibility of being characterized as dual unionism, an illegal practice under existing labor legislation. Despite these advantages, combined with the tacit support of the industry,* Abel was able to become the first insurgent ever to unseat an incumbent president in the history of

³⁵ Herling, p. 135.

*The steel industry supported McDonald in a number of ways. For instance, after McDonald lost the election, the former union president initiated a rumor indicating that Abel people had offered him the position of "president emeritus" with an attractive salary if he would forego certain election protests. According to McDonald the offer was made through the negotiator for U.S. Steel, Conrad Cooper. Later on, McDonald was to offer the Abel forces the same deal that he alleged had been suggested through Cooper. The veracity of falseness of the story is not as interesting as the alleged role played by Cooper. If false, Cooper's relative silence might be taken by some as tacit consent of his support for McDonald. If true, the fact that the message was delivered by McDonald's old friend Cooper rather than any one of dozens of union officials,

the steelworkers union. In his inaugural address, Abel reiterated the idea of militant rank and file control of the union:

While we are sure Steelworkers never welcome strike action; we are equally confident they know that there are times when the alternatives are worse. And under the ground rules of freedom, American workers revere and uphold the precious right to lay down their tools when it becomes necessary. We shall always seek the orderly, harmonious solution through peaceful negotiations; but we will never surrender our inherent right to withhold our labor when the events of time justify such action. 37

Subsequent to Abel's victory, R. Conrad Cooper of U.S. Steel and the chief negotiator for the industry bitterly attacked the new direction of the union and criticized Congress for its inability to "perform major surgery on the obese body of union power."³⁸ He then went on to praise McDonald as a true statesman of labor who was defeated by a revolt of the palace guard.³⁹ As events unfolded, however, the new leadership eventually was divorced further from rank and file control, thereby weakening the union as a force capable of resisting corporate prerogatives.

might indicate the significance of the role played by company representatives in the union election.

³⁶ Herling, Right to Challenge,

³⁷ U.S.W.A., A New Era: Installation of I.W. Abel, June 1, 1965, p. 18, Quoted in Lynd Affidavit, p. 23.

³⁸ Herling, p. 305.

³⁹ Ibid.

III

The question of imported steel has been utilized by the steel companies in their attempt to drive a wedge between members of the USWA and their leaders during the Abel regime. Almost immediately upon his ascension to the presidency, Mr. Abel was approached by representatives of the companies who argued that closer labor-management cooperation was necessary for the good of both the industry and the union. According to the corporations, unfair competition from Japanese and European producers was threatening the health of the industry and unless an immediate turn-around occurred, major plant closings were imminent. Therefore, it was argued, two things had to be done to save the industry. First, at the expiration of every steel contract the threat of strike causes some steel consumers to stockpile as a hedge and drives others to foreign suppliers, thus encouraging imported steel. The steel industry approached Abel before Labor Day of 1967 with the suggestion that negotiations be submitted to binding arbitration thereby avoiding the spectre of a strike. That this idea was first introduced by management subsequently was confirmed in a speech by William J. Stephens, president of Jones and Laughlin Steel Corporation.⁴⁰

⁴⁰Wall St. Journal, Jan. 17, 1968. Lynd, Affidavit, p. 40.

The second aspect of cooperation to meet foreign competition was the suggestion that union and management work together to achieve higher levels of productivity.

Abel's initial response to the alternatives suggested by the industry was favorable. In a Labor Day speech of 1967 he suggested an alternative to government intervention in labor-management struggles, "that even before negotiations begin, labor and management themselves 'might be able to agree on steps to be taken in the event of a stalemate in collective bargaining.'"⁴¹ In October of the same year, the USWA International Executive Board met to discuss a concrete no-strike proposal agreement between top-level union officers and R. Conrad Cooper. When the idea was discussed before the full board for the first time, there was much resistance. Among the dissidents were many of Abel's supporters during his 1965 election campaign, including his campaign manager. In December, amidst overwhelming membership resistance, the no-strike demand was dropped.

As the 1971 steel contract negotiations began, Abel again introduced the possibility of a no-strike agreement in an interview published in the Wall St. Journal. Again, rank and file reaction against the idea caused

⁴¹ Steel Labor, (Sept, 1967), p. 8.

the union hierarchy to backtrack. Rank and file pressure exerted through the Wage Policy Committee and the Basic Steel Industry Conference not only rejected the new no strike proposal, but tried to expand on the existing right to strike. The members of Local 6787, for instance, declared that no contract should be signed unless first approved by local organizations and included "the right to strike on grievances or health and safety," if 21 days of negotiating failed to produce a satisfactory settlement.⁴² The membership of Local 65 submitted to the international officers and negotiating committees a resolution stating: "The union should have the right to strike on important issues in the event they can not be resolved in any other way." In the Pittsburgh area, 27 delegates at a district conference took the floor in support of resolutions calling for a modified local right-to-strike clause in the new basic steel contract.*

⁴²Lynd, Affidavit, p. 34.

*As Lynd points out in his Affidavit, massive resistance to the no-strike proposal was forming in the rank and file demand to increase the right to strike. All three national rank and file caucuses in the USWA have demanded the right to ratify all contracts. Fifty-one local union resolutions to the 1970 International Conference demanded the right to ratify. Some 23 such resolutions to the 1972 International Union Convention called for separate local union ratification. See Lynd, Ibid., p. 27; also, Steel Labor, (April, 1971) p. 6.

By March of 1971 the Wall St. Journal reported that "a fierce internal union debate" was emerging over "the strident demands of local union chieftains who want the right to call strikes at their own plants over union grievances."⁴³ At the Basic Steel Industry Conference held in late March, the local right to strike was the main subject of debate. Outside the meeting hall rank and file dissidents picketed demanding a greater voice in union affairs. Inside, according to Steel Labor, Abel responded to the pressures. Steel Labor reported:

In reference to some leaflets, passed out to delegates as they arrived for the conference, calling for the elimination of the no-strike clause from Basic Steel contracts, Mr. Abel said he did not know of a trade unionist 'who doesn't cherish and defend the right to strike but I think there is a time and place for everything.' He told conference delegates, 'You are the boss. You will make this decision.'

44

Abel, however, was able to convince the delegates to hold their decision in abeyance until the group's following meeting just prior to the expiration of the basic steel contract. Granted this reprieve, the international union leadership drew up a document for the new contract

⁴³Wall St. Journal, (Mar. 2, 1971) p.

⁴⁴Steel Labor, (May, 1971) p. 13

which observed: "To avert the need to resort to the use of strike, a satisfactory solution must be secured by the union that (1) speeds up grievance resolutions; (2) keeps the problems and solutions close to the plants; and (3) is inexpensive, non-technical and fair."⁴⁵ This new procedure which became part of the 1971 agreement was hailed by the Wall St. Journal as a useful step to circumvent pressure for the local right to strike.⁴⁶ Although the new contractual provision obstructed fulfillment of rank and file demands, pressure from the union membership did bring about important alterations in the planned basic steel contract for 1971 concerning the right to strike, and, as Staughton Lynd argues, what started out as an attempt to restrict that right ended in a struggle to enlarge it. A plan to give up the national right to strike was abandoned, and inclusion of a clause permitting union locals to strike barely was averted.⁴⁷

While the basic steel contract of 1971 did not realize the industry's no-strike goal, it did contain a productivity clause which was instrumental in preparing the way for the no-strike agreement of 1973. The clause provides for greater cooperation between labor and manage-

⁴⁵ "1971 Basic Steel Industry Discussion Papers," Local 1014 Journal, June, 1971.

⁴⁶ Wall St. Journal, (July 2, 1971).

⁴⁷ Lynd, Affidavit, pp. 35-36.

ment regarding productivity and sets up a joint labor-management productivity committee at every mill.

The function of the committee shall be to advise with plant management concerning way and means of improving productivity and developing recommendations for stimulating its growth so far as to promote...orderly and peaceful relations with the employees, to achieve uninterrupted operation in the plants, to promote the use of domestic steel and to achieve the desired prosperity and progress of the company and its employees. 48

The productivity clause, by specifically encouraging orderly and peaceful labor-management relations, provided the psychological breakthrough for the future no-strike accord. More importantly, it also allowed the companies to significantly reduce the size of the labor force, thereby minimizing rank and file resistance by laying off "troublesome" workers. Indeed, in the months immediately following the conclusion of contract negotiations, there were huge layoffs in the basic steel industry, even before the joint productivity committees could be established. United States Steel laid off 70% of its 27,000 employees at the Gary Works; Republic Steel dropped 7,500 men; and Inland laid-off about 34% of its 24,000 employees.⁴⁹ Local union members deprived of the contractual right to wage a local strike could do nothing about the

⁴⁸"What the Productivity Clause Means to the Steelworker," An Address by Prof. Staughton Lynd, p. 4.

⁴⁹"Two Steel Contracts," by the Gary, Indiana Writers' Workshop, reprinted from Radical America (Sept.-Oct., 1971).

layoffs and the companies refused to comment on their duration. When international leaders weakly protested, they were told by the corporations to cooperate or entire steel mills would be closed. Top level union resistance, however, was not at all aggressive. In fact, I.W. Abel based his re-election campaign of 1973 on the success of the productivity clause - despite a drop in employment in the basic steel industry of about 40,000 workers.⁵⁰ That Abel and the international union hierarchy chose to pursue this course stems from the fact that a good number of the laid-off workers were among the union activists opposed to the president's basic policies. In fact, there was much rank and file dissident support for a relative unknown, Emil Warick, who challenged the incumbent, Abel, for the union presidency in 1969. Warick did considerably better than Donald Ranck's challenge to McDonald in the election prior to Abel's defeat of McDonald.⁵¹ The layoffs of the younger rank and file workers who tended to support opposition to union leadership served to strengthen and consolidate Abel's control over the union bureaucracy. Evidence that the layoffs not only helped pay for the wage gain of 1971 but might have been politically motivated is revealed in the fact that while

⁵⁰ Wall St. Journal, (April 2, 1973).

⁵¹ Herling, p. 379.

it has been estimated that the annual number of workers retiring in the steel industry exceeds the annual number of layoffs, the companies have not provided, nor has the international hierarchy demanded, any job security. Instead, they continued to layoff experienced steelworkers while arbitrarily replacing retired employees and paying overtime wages at a time when thousands of workers were out of jobs. This latter practice serves as another means in which the rank and file movement is splintered; for it gives a core of employed steelworkers a material interest in the continued unemployment of their union brethren and integrates their interests with that of the union leadership and the companies'.⁵²

The productivity breakthrough opened the doors for a no-strike agreement upon the expiration of the national basic steel contract. Despite a long tradition rejecting such a proposal and the rank and file rejection of binding arbitration in 1971, in March of 1973, Mr. Abel scheduled a two-day meeting of the Basic Steel Industry Conference limited only to the presidents of those locals who received a direct invitation, i.e., those who tended to support Abel.⁵³ The letter did not list the agenda and, therefore,

⁵² "What the Productivity Clause Means to the Steel-worker."

⁵³ Lynd, Affidavit, p. 48.

there was no clear warning to the rank and file or the invited participants that the conference was being held to ratify a no-strike agreement negotiated in secret by the leaders of the international union and steel industry negotiators. On March 29, 1973, the Experimental Negotiating Agreement was approved by the Basic Steel Industry Conference after rejecting proposals to submit it to the membership for approval. The agreement was not submitted to either the Wage Policy Committee or to a membership referendum.

The carefully contrived acceptance of the Experimental Negotiating Agreement represented the culmination of years of secret meetings between top labor leaders and company representatives and came as a severe jolt to an unfavorably disposed membership. Indeed, according to the Wall St. Journal, Mr. Abel had been meeting intermittently with R. Heath Larry, Vice-Chairman of U.S. Steel and the industry's Chief Negotiator (after the retirement of R. Conrad Cooper) to discuss the no-strike idea. After the membership rejected the no-strike proposal in 1971, Mr. Abel did not once publicly advocate the idea to the rank and file. The closest he came to interchange with the membership in the no-strike proposal was in his monthly column in Steel Labor for March, 1972, when he publicly invited union members to submit ideas to resolve bargaining issues that arise in steel without the stockpiling and

resultant layoffs. In his 12 columns written between the March, 1972 statement and the announcement of the Experimental Negotiating Agreement, Abel did not once mention the boom/bust cycle or the no-strike idea.⁵⁴

At the September, 1972 convention, the international officers did not seek support for negotiation of a no-strike agreement and carefully avoided the issue, even though negotiations with the industry were reaching their more intensive stage. According to Business Week, the talks reached high levels of activity between November, 1972 and March, 1973 when there were:

Ten to twenty meetings in various places: Pittsburgh, New York, Washington, Miami Beach. Only a few high staff people in the union knew that meetings were taking place, and the seven other companies in the industry coalition were apprised of progress 'in bits and pieces,' according to an insider. Even the USW executive board had no specifics until a day before the plan was submitted to the Basic Steel Industry Conference.⁵⁵

Despite the fact that the no-strike negotiations were hidden from union membership, the Wall St. Journal in February of 1973 reported on the clandestine meetings and announced the start of a jointly sponsored educational campaign to be initiated throughout the mills of the industry the following week with the release of a film entitled,

⁵⁴Lynd, Affidavit, p. 45.

⁵⁵"Why the USW Said Yes to No-Strike," Business Week, (April 7, 1973) pp. 64-65.

"Where's Joe?," which equates the threat of a strike with the loss of jobs. The message was also to be carried into the workers' homes through comic books, a comic strip, educational TV, and possibly even a game. The game was tentatively called, "Hedge," after the practice of "hedge buying" of steel in anticipation of a strike.⁵⁶

The film, "Where's Joe?," develops the theme that some 130 thousand "Joes" have lost their jobs to Adolphs and Yoshios of foreign steel centers. This is not a unique message. Indeed, the General Motors Corporation has a film, "The Bug and the Beetle," stressing the threat of foreign competition, which it shows to its employees. Other companies have films with similar messages.⁵⁷ The unique thing about "Where's Joe?," however, is that the industry and the USWA split the costs of the short movie and both sides encouraged as many people as possible to view it. The joint financing of the film is in apparent violation of Section 8(a)2 of the Labor Management Relations Act which renders it an unfair labor practice for an employer to "contribute financial or other support" to a labor union.⁵⁸ The film and the joint productivity effort, however, have been applauded by both Abel and the

⁵⁶ Wall St. Journal, (Feb. 16, 1973).

⁵⁷ "Steel's Troubles as Steel Sees Them," Business Week, (May 5, 1973) p. 94.

⁵⁸ National Labor Relations Act, Section 8(a)2. 1935.

business community. Business Week magazine, for instance, went so far as to hail the film as "...a masterful stroke in preparing the rank and file for a no-strike agreement,"⁵⁹

The joint productivity drive demonstrates how far the leadership of the United Steelworkers Union has been removed from the rank and file. Indeed, Mr. Abel's arrival into the higher circles of industry-wide society is revealed in his participation in a mass productivity advertising campaign conducted by America's largest steel producer. U.S. Steel sponsored two-page advertising spreads in a number of magazines having national circulation featuring prominent Americans and their ideas of productivity. The first prominent American to appear in the media was I.W. Abel who gave a direct warning to unproductive workers: "If we adopt a don't give a damn attitude, we risk becoming a second-class economic power."⁶⁰ After Abel's first appearance in the magazines, U.S. Steel announced that the advertisement would be used on TV and radio, thus giving Abel national video coverage as a prominent American. Not only does Mr. Abel reap the rewards of status and prestige by cooperating with the steel companies in the productivity drive, but just as these companies once supported his predecessor, they now work to protect

⁵⁹ "Steel's Troubles as Steel Sees Them," p. 94.

⁶⁰ "U.S. Steel Sponsors a Message from Abel," Business Week, (Oct. 20, 1973) p. 37.

Abel's position within the union. Indeed, a memo dated October 15, 1973 from J. Bruce Johnson, Vice-President of Labor Relations, U.S. Steel to R. Heath Larry, Chief Negotiator for the basic steel industry; Mr. R. O. Hawkanson, Vice-President of Public Relations, U.S. Steel; and G.A. Jedinoff and H.W. Fader, Western and Eastern Superintendants of U.S. Steel; discussed the fear of over-exposure of Mr. Abel by featuring copies of the U.S. Steel sponsored productivity ads on plant bulletin boards. It stated that such exposure of Abel on the ENA-productivity question was liable to result in political opposition and, therefore, should not be used in any steel plants with steelworker bargaining units. The very next day, a memo from G.A. Jedinoff ordered the withdrawal of the advertisement from all U.S. Steel plants.

IV

The no-strike accord guaranteed a wage increase of 3% and provided a one-time bonus of \$150.00 or about 96¢ a week for the three year period involved. In return the workers were required "not to engage in strikes, work stoppages or concerted refusals to work in support

of bargaining demands."⁶¹ As expected by the international union leadership, which made every effort to prevent rank and file participation in the arrangements, there has been massive resistance to the agreement. Indeed, critics point out the apparent fact that the Experimental Negotiating Agreement has the four characteristics of a company union as previously discussed:

1. Its formation was on the initiative of management.
2. Management financed propaganda for it.
3. The voice of the rank and file is restricted to local issues.
4. It gives up the right to strike.

It has been recognized that the right to strike is the basic weapon of a union against management. This has been an accepted fact by all parties involved in the struggle for unionism - the government, unions and management - and is the crucial factor in the industry's long resistance to unionism. The no-strike plan has been justified as the only alternative to prevent the boom/bust pattern of stockpiling prior to the expiration of a contract, followed by layoffs; the E.N.A. is also aimed at discouraging the attractiveness of imported steel by providing for the guaranteed continuity of supply. The rank

⁶¹ "Where's I.W. Abel?," Workers for Democracy, p. 1.

and file steelworkers movement, however, does offer an alternative path. First, they contend that stockpiling could be avoided if the duration of a contract was reduced from three years to one, or if the union did not notify the company when it was going to strike. This would not give the companies time to stockpile.⁶² The workers also contend that imports would not be a problem if the industry updated its technology to a level comparable to or above that of Japan.* If it were to do this while reducing prices and profits over the short run, the longterm threat of imports would ~~disappear~~⁶³. Instead, the workers argue, the no-strike clause is likely to be reflected in lower real wages for the workers and foreign competition might be met at the workers' expense.⁶³

The "rightness" or "wrongness" of the workers' alternatives are secondary to expressing their ideas as possible solutions rather than the no-strike answer provided by corporate management and union leadership. The extent of rank and file resistance to the E.N.A. was manifested in a challenge to Abel's policies by Ed Sadlowski, a reform candidate running on the above rank and file platform for district director of district 31, the largest district among the USWA with 130,000 workers. Sadlowski,

⁶² Ibid.

* See Chapter IV.

⁶³ Ibid.

strongly opposed by Abel, was beaten by a small margin of votes in 1973. The Labor Department, however, found irregularities in the election and in November of 1974 a re-election was held in which Sadlowski emerged as the winner with a 2:1 margin of victory.⁶⁴ As discussed above, it was during the climax of the Sadlowski campaign that the companies decided it might be politically beneficial for the Abel-backed drive against the reformist to withdraw the productivity advertisements flaunting the union president's cooperation with the steel industry.

V

The experience of the steelworkers union raises fundamental questions concerning the idea of the union as a check on the prerogatives of the steel corporations. In the early days of unionism in the industry, rank and file labor organizations posed a real threat to the companies. With governmental guarantees of the right to collective bargaining, the big producers repeatedly attempted to divorce union leadership from the rank and file. The first Basic Steel Contract did this by prohibiting local unions

⁶⁴For an account of the Sadlowski campaign, see N.Y. Times, (Nov. 18, 1974) p. 66,6. Also, "The New Republic," (Nov. 9, 1974) p. 9; "Voice of the Rank and File," The Nation, (Dec. 14, 1974); and "The USW's Search for a Leader," Business Week, (Oct. 5, 1974) pp. 80,82.

from striking. Given the long and costly struggle for unionism in steel, the first organizers were willing to accept U.S. Steel's terms. Over the years the separation of rank and file from the union bureaucracy continued.⁶⁵ McDonald's tenure as president of the U.S.W.A. was characterized by many as "pseudo Unionism."⁶⁶ He was admitted to the inner circles of the top industrialists, gaining all the status and prestige associated with this group. In fact, in the 1965 election he was given the tacit support of the companies and when it appeared that he had lost the U.S.W.A. presidency to Abel, McDonald expected his influential friends to land him a top-level government position.⁶⁷

The Abel regime carried the tendencies of the McDonald era to their logical conclusion - without rank and file approval - surrendering the union's right to strike. Analysis of the U.S.W.A. under the leadership of Abel indicates several forces working toward the integration of corporate and worker organizations. On the most immediate level, there was the leadership's perception of the need to maintain the stability and continuity of their organization through the continuation of their leadership. The premise that rank and file democracy would lead to open internal schism, thereby weakening the union in the eyes of the cor-

⁶⁵The agreement between union leadership and management to the "checkoff," which provides automatic reductions from the workers' paychecks is important. The "check-off" treats union dues as a sort of tax deduction which serves further to separate the worker from the leadership in that no one comes around for the dues. This closes the

porate negotiators, is of real significance in understanding such events as the layoffs of the joint productivity campaign. Cooperation, however, is also a function of personal ambition. By accepting the corporate definitions of problems, not only can internal discord be crushed, but in return the companies also develop a vested interest in the re-election and political success of the incumbent leadership. Layoffs, work scheduling, red-baiting, and on a more obvious level, outright political support such as the overexposure memo, all serve to support the electoral success of the union hierarchy. Neither can Mr. Abel's active support of the productivity drive be removed from the national exposure and its resultant prestige provided by the U.S. Steel advertisements featuring prominent Americans. The attractiveness of national exposure as the first among prominent Americans represents the culmination of the labor leader being swallowed by the corporate view. While many steelworkers are unemployed or earning annual wages considerably below \$10,000., Mr. Abel's high salary combined with his daily association with men of wealth is likely to create the psychology expressed in McDonald's rejoinder to critics of the U.S. Steel Corporation: "After all, I have to live with these people."⁶⁸

channels of communication while insuring the financial support of an unpopular union bureaucracy. For a discussion of this point see Stanley Aronowitz, False Promises, (N.Y.: McGraw Hill, 1973).

⁶⁶Harling, pp. 26-32.

⁶⁷Ibid., p. 98.

⁶⁸Ibid.

Closely related to the bureaucratic and career interests of the U.S.W.A. leadership is the union's recognition of the changing structure of the industry, or what Abel calls, "the urge to merge." The merger movement, which has concentrated power in the industry, combined with the tendency toward diversification and conglomeratation, poses important questions concerning the effectiveness of the strike as a weapon. For not only do the corporations have great amounts of wealth to withstand a walk-out, but by producing products other than steel, cement, chemicals, real estate ventures, etc., the corporations would be in a position to offset somewhat their losses absorbed in a steel strike with their profits in other areas of operation. Levels of concentration, conglomeratation and diversification in the steel industry have been discussed in earlier chapters. The effect of this is the likelihood of long and less successful strikes. In his 1968 drive for the creation of a strike fund, the conglomeratation aspect was emphasized by President Abel:

For a time now industry has been caught up in what many call, 'an urge to merge.' Companies are now merging at a fantastic rate. Large companies are becoming larger, richer and more powerful as they absorb other companies and their resources.

This means that in the future we will be facing more powerful corporate combines capable of withstanding almost any kind of strike pressure we can bring to bear in our pursuit of justice in negotiations.

69

⁶⁹ U.S.W.A., 1968, Special Convention Proceedings, p. 7-8., Quoted in Lynd, Affidavit, p. 28.

The changing structure of the industry which places the corporation in a more favorable position against a strike renders the strike weapon an expensive and risky business which union leadership seeks to avoid. A long and relatively unsuccessful strike might represent a major defeat of officialdom's rule over the union and perhaps even the organization itself. In this respect, increased economic concentration and conglomeration tend to integrate further the workers' organizations toward the acceptance of corporate prerogatives; and, without the basic right to strike, the companies are given a freer hand in the attainment of their corporate ends. Yet, despite the important questions raised concerning the effectiveness of a strike, the international union leadership, disregarding a promise to submit the question to the rank and file,⁷⁰ closed debate on the issue by secretly negotiating the no-strike agreement. To the extent that the steel corporations are responsible for the estrangement of international union leaders from the rank and file, they are responsible for the demise of the steelworkers union as a major obstacle in the fulfillment of their goals.

⁷⁰ During the 1968 convention, the Abel forces quieted opposition to the suggested no-strike approach by promising that if any such deal was ever considered, it would be brought before the rank and file for ratification.

CHAPTER IX

CONCLUSION

On a daily basis the problems of the steel industry are in the forefront of the news. During the steel crisis of the mid 1980's, when steel capacity was under-utilized, the public was told of the need for quotas to protect domestic profits and jobs.¹ More recently, despite backlogs in steel orders, quotas have been advocated as necessary to allow the industry to expand.² The crisis over imported steel, however, must not be understood as an isolated event to be resolved by separate economic and political considerations. Indeed, the industry has attempted to connect quotas with the need for tax ~~breaks~~, less rigorous environmental standards, and more mergers and joint ventures. What ties all the issues together is not only the industry's rhetoric and policies, but fundamental structural changes creating higher degrees of concentration than previously recognized.

¹Inflationary Impact of Pricing by Concentrated Industries, Hearings before the Joint Economic Committee, 93rd Congress, 2nd session. p. 63.

²See statement of Stewart S. Cort, Trade Bill Hearings.

The data indicate that economic concentration in the steel industry has taken new and more subtle forms. American steel production is no longer dominated by a single firm, the United States Steel Corporation, as was the case at the turn of the century. Today the top nine producers are joined together through a complex system of joint subsidiaries and ventures, interlocking directorates and an increasing number of intra-industry mergers. The new structures provide numerous junctures where the competing steel companies can jointly plan their economic programs in pursuit of their individual goals of profit. That profit remains the primary mover of the steel corporations is revealed in several ways. The linking of managerial remuneration with corporate profits is an obvious example, and top level steel executives hold large shares of their firm's stock and stock options. The primacy of profit also is seen in the growth of overseas productive facilities amidst technological stagnation at home. Indeed, there is much evidence relating economic concentration in the industry with technological stagnation, planned scarcity and artificially high prices. In this light, overseas expansion could serve as a means to expand production without upsetting the highly controlled American market. The data on economic

concentration, technological stagnation, planned scarcity and the primacy of profits indicate that the steel industry does not fit the various academic models emphasizing the emerging social conscience of the corporation and the rise of scientific knowledge as the major source of power in American society.

The data suggest that restrictions against imported steel are crucial if the top American producers are to maintain their control over the domestic market and thus continue the economic policies which priced American steel out of the foreign market in the first place. To realize their private economic goals the large steel companies often turn to government for assistance. In seeking governmental protection against imported steel, the vast collective resources of the big producers provide virtually unlimited access to government channels to express their version of the problem. The economic resources of private steel are used on two levels. The first stems from the importance of steel to the American economy. The need for steel and the industry's employment of thousands of workers allows private steel to easily identify its version of problems with the "public interest." Hence, the need for import quotas not to protect the profits of a technologically backward and highly concentrated industry, but to save jobs and guard the national security.

The importance of the industry to the economy lends status and legitimacy" to its demands. The ownership of stock in private corporations, including steel, by lawmakers indicates that a good proportion of all representatives have a general vested interest in the economic well-being of the corporate economy, of which steel is a crucial component. This further enhances the legitimacy of the industry. But "Big Steel" does not gain political power merely by virtue of its importance to the economy. The private steel producers frequently utilize their economic resources more directly and overtly to influence public policy. In the case of steel imports, the large steel companies actively utilize their economic power to gain political power in a number of ways. The industry disperses millions of dollars annually to educate the public. To promote their private interests concerning imports, the large corporations retain the most powerful public relations firms in the United States. The public relations activities of steel exist on two levels. The first level of activity is revealed in strategies aimed directly at governmental policy-makers. This includes the printing and distribution of pamphlets and statistical reports to

governmental officials; the employment of experts to ensure that steel's position is presented as favorably as possible; and, elaborate training programs preparing executives for television appearances to publicly plead the case of steel.

On a second level, the public relations activities of steel attempt to increase its legitimacy by creating a spirit of "good will" among the American public. In 1971, for instance, the United States Steel Corporation, in addition to spending large amounts on advertising in all media, gave about six million dollars through the U.S. Steel Foundation to various charitable and educational institutions. The American Iron and Steel Institute in 1965 released a half-hour technicolor film made by Walt Disney Productions and starring Donald Duck entitled, "Steel and America."³ Within a decade some 100 million school children were to learn of the virtues of private steel through the pleasure of viewing the adventures of their favorite iron master - Donald Duck. The logical conclusion of the public relations campaign is the U.S. Steel productivity commercials featuring such leading Americans as I.W. Abel.

³"Release New Version of Disney Film," Steel Facts, (1/1975), No. 228, p. 15.

The use of large amounts of wealth associated with the control of capital is not limited to public relations activities. The industry's leaders often retain large and prestigious law firms. Many of the lawyers on retainer are affiliated with important government departments and agencies and provide significant links between the steel corporations and government. The lawyers not only serve as mediators between steel and government; they are also a major source through which the industry funnels hundreds of thousands of dollars to support the campaign activities of key elected officials.

The hundreds of thousands of dollars donated to the campaign coffers of aspiring public officials, although probably understated, are of great significance in that the bulk of all campaign contributions (90%) come from 1% of the population. These contributions create real political distinctions between the steel corporations and the general public.

Steel's ability to play the primary role in setting the boundaries of governmental intervention concerning imported steel is also related to its lobbying efforts. The lobbying conducted by the corporations is both formal and informal. Formal lobbying entails the hiring of high-powered law firms and former governmental officials who register

as lobbyists for the steel industry. The informal activities of steel are a function of the industry's key position in American society. The personal friendships between corporate and governmental officials highlight steel's informal or unregistered activities. The extreme example of this unofficial lobbying is realized in the role played by Gerald Ford's old friend, William Whyte, Vice-President for Governmental Relations of the U.S. Steel Corporation, in arranging for the ascension of Mr. Ford to the presidency.

The importance of private steel to the economy gives the industry further access to government by placing top level steel executives in important government posts, as well as on private advisory committees and presidential commissions. The Committee for Economic Development, various industrial advisory committees, and the President's Commission on Business Taxation are just a few of the more outstanding examples. The participation by steel company executives and managers in high level government circles puts private officials in temporary policy making posts. Without suggesting that officials of a steel company would be so crude as always to rule on behalf of their own companies, it does show how private steel's power is enhanced in an environment in which the distinction between public and private is unclear.

The above short summary of the steel corporations' political power is not intended to suggest that the industry always gets what it wants. As political power involves control over people, it is relational and not absolute. If it were absolute we would be studying the lack of power or the powerlessness of other social interests in American society. The case of imported steel indicates that however successful the industry has been in realizing its goals, steel officials still hope for more specific guarantees against foreign imports. Even so, the imported steel question reveals the industry's success in defining problems and providing public bodies with solutions favorable to the particular interests of the steel firms. This ability to use government to protect the private interests of steel is the result of the possession of economic resources associated with control of the means of production and an ideology which accepts the legitimacy of this central construct in American life. The corporation's capacity to attain political power, therefore, cannot be understood in terms of corrupt men, as the Muckrakers often assumed. It is rooted in the structure of American society where capital is privately owned and controlled by the small minority of people who determine corporate policy.

The economic power of the steel corporations is important for the industry's attainment of political power. It is also crucial in the corporation's ability to set the boundaries of debate in their struggle against organized labor. Through corporate efforts to remove union leadership from rank and file control, labor-management negotiations are now more accurately characterized by collaboration rather than conflict. The ability of the companies and union leadership to join in the suppression of rank-and-file alternatives reached its climax in the circumstances and content of the no-strike agreement. Questions must be raised concerning the role of a union which receives financial support from the industry while forfeiting the right to strike.

The collusion of the steel corporations with each other, with government institutions, and with labor, does not end here. As the data have suggested throughout, the steel firms have real material interests congruent with corporations in other industries. These interests are developed structurally through the tendency toward diversification and conglomeration. The increasing number of inter-industry joint subsidiaries in which major participants in the productive sector are knitted together is indicative of the changing structure of the economy. On the political level, the different sectors of industry are often in con-

flict as how best to strengthen their economic position, but are in agreement that the private firms should always maximize profits. The defeat of the consumer amendment to the Trade Bill of 1974 increasing the corporate tax indicates that the major corporations have the tendency to unite their formidable forces against efforts to restrict their profits.

The steel corporations' ability to use government institutions to gain protection against imported steel raises profound questions which challenge the fundamental tenets of democratic pluralism and group theory. The still popular theory of countervailing powers sees competition between industries as a check upon corporate powers. Two representative examples are aluminum with steel and concrete and plastics with steel. Organized labor is said to provide another countervailing force to check organized business. Government stands aside as a strong independent entity to ensure that no one organized power dominates.⁴ Still, other observers see the political process as the amorphous aligning and re-aligning of competing pressure groups, all supposedly equal.⁵ Both versions of the pluralist position conclude that no one interest dominates or can dominate for long

⁴This was the early position of Galbraith in American Capitalism. He moves away from this stand in his later works, The New Industrial State and Economics and the Public Purpose.

⁵David Truman, The Governmental Process, (N.Y.: Alfred A. Knopf, 1955).

and sees political power in flux.

The problem with the "countervailing powers" approach, however, is that it ignores the extent to which competing blocs may share the same interest - an interest not necessarily identical with the so-called general good. If this study of imported steel is any indication, the steel corporations' access to government and domination of labor provides a real ground for suspecting the pluralist method. Competition from other industries has become minimal, given the diversification of the steel corporations into new areas. Today, the specialty steels are replacing aluminum; the major steel firms are entering the plastics business; and the steel corporations tend to pool resources to join with the competition in other industries, thereby attaining higher levels of concentration than the countervailing theory can explain.

The basic tenets of liberal ideology are rendered questionable by the concentration of power in the steel industry. The ability of the corporations to influence government strikes at the liberal concept of government as a neutral arbiter of conflict, and with it the liberal values of individualism, procedural democracy and the rule of law. The findings of the present study indicate that social inequalities are not dissolved by legal equality. Rather, the ability of the corporations to shape public policy gives a particular bias to the uni-

versality of law.* These are not new concerns of political science, but beginning with what C. Wright Mills called the "Great American Celebration," or what Daniel Bell called the "End of Ideology," they have been neglected ones. Indeed, the imported steel question reveals the extent to which the steel firms infiltrate traditional political institutions and channels to shape the law in their favor; and the vast public relations practices of the industry illustrate drastic steps to ensure the molding of a favorable community response. The problem of procedural democracy thus emerges as a problem of social and economic inequality rather than an intellectually neat question of institutional organizations.

One easy escape from the realities of power is through the acceptance of the notion of corporate paternalism. Acceptance of the doctrine of corporate conscience and the corporation as a social institution are likely to create a temporary happy consciousness. But corporate paternalism usually indicates that what is good for steel need not be good for all. As the imported steel question reveals, the cost of the integration of the steel industry with labor and government comes high. In purely economic terms, it has been estimated that restrictions against steel imports have cost consumers about \$2 billion. On a more subtle level,

*By the universality of law is meant the fact that it applies equally to all. It has a bias in that its effects favor some at the expense of others. The point here is that the economic power of the corporations give law and public policy in general a corporate bias.

the steel import issue reveals the efficiency with which a heavily concentrated, technologically sluggish industry is able to use the political apparatus to continue these practices of which imported steel is but a symptom. The economic price to the public, therefore, cannot be measured solely in terms of the difference in cost between domestic and foreign steel with or without import restrictions. The real price is seen only by comparing the costs of steel produced with the greatest available technological efficiency with steel produced by the technologically backward American industry. Indeed, as Chapters III and IV above indicate, when there is no competitive drive to innovate, higher costs of production are likely to go toward diversification into fields which do compete with steel. But this does not represent the full economic costs of the private steel industry to the public. Millions of dollars more must be added annually in the form of huge tax relief and write-offs which the large producers extract from government and pass on to the taxpayer.

In a limited sense, then, the taxpayer becomes an investor in the corporations, but deprived of such traditional ownership rights as having a say concerning the industry's policies and direction. The cost of steel's political activities and public relations behavior, which ensures such policies as large tax breaks and the minimization of

competition, are passed on to the consumer in the form of legitimate corporate expenses in the production and distribution of steel.

The costs of private steel cannot be measured wholly in economic terms. They must be understood in terms of the frequent adverse affect of the profit-maximization decisions of a handful of corporate executives on the general population. Without prodding from the public, for instance, pollution control devices might be even more ineffective than they are today. In reaction to government chastisement, minimal steps to protect the air and environment from sulphuric wastes are taken by the steelmakers. When further demands to channel investment capital into pollution control devices are made, it is not unusual for the corporations to close down the mill in question. The United States Steel Corporation took this action in its Gary, Indiana plant early in 1975. The results of the closing were seen in skyrocketing unemployment and cutbacks in steel production during a period of high demand. The productive cutback, however, can only serve to limit supply in light of high demand, thus promoting higher prices through a policy of planned scarcity. The problems of unemployment, a spoiled environment and scarcity in a materially abundant society become additional costs of a concentrated private steel industry where the standard of rationality for decisions is determined by the profit and loss statement.

Paternalism apparently is not the answer to the problems of corporate power in the United States. Indeed, as the current investigation suggests, steel's access to top level government posts is the result of its control of those assets associated with the control of the means of production and the same is likely to apply to other industrial sectors. The recent experience of the oil crisis and the machinations of the leading industrial corporations in the Watergate affair attest to the growing integration between public and private power. The fundamental problem, then, is not one of size of constituency or the proliferation of government agencies and the decline of law, as many political scientists contend,⁶ but rather a basic question of social structure rooted in the sanctity of private property. This is not to suggest that critiques of public policy grounded on constituency, size and the decline of law in society are not important. As Grant McConnell and others have perceptively argued,⁷ the smaller the constituency, the more likely it is to be dominated by a single interest. Indeed, this was the problem stated by Madison in Federalist #10. But the factors most likely to lead to political control are associated with control of capital. Thus, in many states and localities the individual steel companies avoid full payment of taxes and are accused of controlling local tax boards, i.e., their

⁶Grant McConnell, Private Power and American Democracy, (N.Y.: Random House, 1966); Lowi, The End of Liberalism, (N.Y.: W.W. Norton, 1969).

⁷McConnell, Private Power and American Democracy.

economic resources may be even more effective against the limited assets of small communities.⁸ Lowi's notion of the decline of law and the rise of arbitrary decisions by the ever-increasing number of administrative agencies points to a real problem of the infiltration of executive agencies by private interests. Lowi fails, however, in attempting to resolve the question through a legalistic approach without closely examining the relationship between economic concentration and the proliferation of the agencies in question. In other words, he does not examine the possibility that the growth of the administrative agencies is a function of corporate power.

The important role played by the steel corporations in the everyday lives of all Americans raises the need to discuss the possibility of socialism, the historical alternative to capitalism. In the late twentieth century, steel production based upon profit maximization is costly. It is expensive both by quantifiable economic standards and by a yardstick grounded upon the quality of life of the American public. Unduly expensive steel, planned scarcity with its resultant high unemployment, polluted and unhealthy air and water are part of the price of private steel production. Such costs, however, need not be accepted as inevitable. Indeed, a case might be made that the rationalization of production through a publicly planned economy would look significantly different. With regard to the question of

⁸ Property Taxes, Hearings before the Subcommittee on Intergovernmental Relations of the Committee on Government Operations, U.S. Senate, 92nd Congress, 2nd session.

steel imports and production, instead of funneling investment capital into diversified areas of production while steelmaking facilities decay, a system of publicly planned production would modernize and update existing steel producing facilities. More efficient production with lower rates of return should result in restoring the competitive position of American steel on the international market. Once this occurs, foreign imports are likely to lose their attractiveness to American steel consumers.

In a society where all heavy production is publicly planned, the demand for steel is likely to stabilize. Indeed, with the decline of the profit motive as prime mover, many steel-dependent industries would cut back their present practices of wasteful production. The automobile industry, for example, would no longer need to introduce its annual model changes as part of its marketing program. More durable autos and reduced sales resulting from the termination of planned obsolescence could cut drastically the demand for steel. A cleaner environment might be one consequence. Productive cutbacks could free workers for other socially useful products. Investment expenditures on such things as pollution control devices might employ a good proportion of the displaced labor force. Lower profit margins combined with the rationalization of the production of con-

sumer goods, i.e., constructing products for durability rather than replacement and future sales, as well as the introduction of more efficient forms of production, could result in a shorter work week, thus giving the workers the opportunity to develop himself outside of the office and factory.

While it is beyond the scope of this work to depict in detail a socialist economy, the brief outline presented above suggests that a socially responsible system of steel production could be capable of circumventing many of the problems revealed in the present imported steel issue. Undoubtedly, many new and complex problems are certain to arise, problems deriving from the fact that continued growth need not be an inherent part of a planned economy. But the case for planning is strengthened in that planning itself is a statement of recognition of the fact that the political and economic frameworks guiding our industrial system are a product of man's intelligence and volition and, therefore, always amenable to change.

Assuming that the argument of this work is correct, a basic question needs to be raised as to how such change could be attained. Indeed, the issue of imported steel suggests that such traditional political channels as the two-party system, Congress and the Executive are infiltrated and dominated by the steel corporations in areas of prime impor-

tance to the industry. This ability of the steelmakers to use political power to further their economic ends is accompanied by an ideology which supports the right of free enterprise and rejects the legitimacy of even the mildest forms of governmental regulation. Such ideology is espoused by corporate spokesmen - often the same spokesmen who make the case for governmental assistance to their companies. In a representative example, R. Heath Larry of the U.S. Steel Corporation in the first J. Howard Pew Memorial Lecture at Grove City College, cited the danger of the nation stumbling "backward into a kind of economic dark ages, while pursuing some form of socialism under which government oppressively intervenes in human life in an ever widening orbit."⁹

Given the ability of the corporate sector to use its vast economic resources to gain governmental assistance in various forms and the existence of an ideology sanctifying the right of private property, it is apparent that the struggle for some form of rationalized public planning is tedious, difficult, and not likely to succeed. In spite of this, however, there are today certain trends and opportunities for the development of a radical political movement.

Today, the various ideologies of private property are being challenged by the daily experience of the major

⁹R. Heath Larry, Journal of Commerce, (April 15, 1975).

part of the American public. The bald inflationary price increases of the steel companies during a period of growing unemployment casts suspicion toward the American corporation. This suspicion is furthered by the high profits of the oil industry extracted during the so-called "energy crisis." The experience of Watergate provides further uneasiness to the average citizen concerning the role of the corporation in American politics. To transform this uneasiness into a democratic political movement it is necessary to establish political organizations educating the public through the articulation of the problems of contemporary corporate society.

The smashing of old ideologies, however, is but the first step in a larger process to gain political control over private industry. What is needed are alternative political structures whereby power remains with the public. This raises questions concerning the variety and origins of the new structures. Beginning with the latter question, the new structures are likely to originate with the politically most aware segments of the population. The newly unemployed worker, the rank and file unionist, and the breadwinner who no longer can make ends meet, could join with the intellectual in providing the nucleus for a new kind of politics. Perhaps they might organize in pyramid fashion from the locality up in the form of a third national party whose program is found-

ed upon the real material and political inequalities of the present political system. The new party organization could be both educational and political, and is likely to provide the basis of a mass democratic movement capable of challenging the political power of the corporation.

Although both the potentiality and the need for alternative political structures exists, as the imported steel issue demonstrates, the extent to which the corporations are able to use government institutions to protect their economic interests suggests that power is on the side of the corporations. The probability of establishing a planned economy is small. In fact, the data presented here might lead some to conclude that any change regarding the position of the corporation in American society is likely to favor corporate interests at the expense of the interests of all. This position foresees the possible emergence of a corporate-dominated right wing political movement. Yet, despite the difficulties of the task, given the alternatives of the status quo or some form of corporate-statism, the proposed undertaking must be seen as a necessary step in the creation of a more democratic government and a qualitatively better way of life.

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