SHUTDOWN!

Shuttered Factories, Shattered Communities

BY DAVID MOBERG

LEN BALLUCK WAS DISCOURaged, bitterly discouraged. A few months ago he had hopes that the old Campbell steel mill of Youngstown Sheet and Tube would reopen again under worker-community ownership. He and his fellow workers might have their jobs again.

From his own experience of 20 years in the mill and from the studies made by various experts, he was convinced they could make the mill an economic success and prove that their factory had been scuttled by the exploitative mismanagement of the Lykes conglomerate, not by inevitable forces of the market, nor by Japanese competitors, nor by environmental regulations.

Sitting in the Isaly's ice cream shop in Struthers, where he regularly shares the news of the community with other steelworkers and local leaders over his morning cup of Sanka, Balluck condemned the recent federal government rejection of the request by the Ecumenical Coalition of the Mahoning Valley for a $27 million grant and guarantees of $245 million in loans to reopen the mill.

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"We had high hopes of getting 1,600 jobs back," he said, referring to the first phase of the reopening. "Then we got turned down by Washington. Jimmy Carter will have to bear the burden of that. The people at Isaly's say he hasn't done enough for this valley. Don't even come around here talking to me about Jimmy Carter."

Balluck had organized several hundred of the 4,100 laid-off steelworkers into Steelworkers United for Employment (SUE) after complaining last fall that the Ecumenical Coalition, which has led the fight to reopen the mill, failed to mobilize the steelworkers for the project. It hadn't been easy. Many of the former workers were skeptical about the plan and its clerical sponsors. Others were just listless and depressed. Nobody wanted to get his hopes up only to have them crushed again. Balluck knew how precarious many of their lives had been since the sudden September 19, 1977, shutdown.

"I can tell you about the drinking, the suicides, the psychiatric wards," he said. "I can tell you all these things."

One friend who was making $24,000 a year as a skilled worker now works as a laborer for $11,000 a year. He's comparatively lucky. While calling for support for SUE, Balluck heard the mother of one young worker explain that her son's benefits had run out last December. The pressure of still having no job got to him. Now he's in a mental hospital. Two people Balluck knew killed themselves. Nearly a quarter of those laid off had retired early with reduced benefits.

Few of them are willing to talk about their hardships. They're the sort of people, according to a survey taken by a team from the local university, who find it hard to ask other people for help. They're the sort of people who, despite their anger at the Lykes Corporation and at Jimmy Carter, still blame themselves somewhat for not having a job.

It's tough finding a job in the Mahoning Valley now. Over 9,000 people applied when the local General Motors assembly plant at Lordstown announced it would accept applications. As of late last summer, 80 to 90 percent of the laid-off workers were still in the Youngstown area and only 35 to 40 percent of them had found jobs. Some still have benefits coming, but by now nearly all of the financial cushion has vanished.

That financial aid—unemployment compensation, supplementary unemployment benefits and Trade Readjustment Assistance—"was a pacifier, welfare," Balluck says. Although it made life almost comfortable for a while, it also undermined the workers' sense of urgency and thus hurt the movement to reopen the mill.

But the shocks keep coming. By the end of this year, the Brier Hill steelworks, employing 1,100 people, will also close, according to the directors of the LTV Corporation, the new owners. Soon the U.S. Steel Ohio and Macdonald Works may also be abandoned, throwing 4,000 more workers on what Balluck calls, "the industrial garbage pile."

Across town, in the union hall of Local 1462 of Brier Hill, William Vaughan, a 35-year-old black steelworker who had been in the mill for 15 years, talked about what he would do when his job ended. "I want to find a half-way decent job, maybe go to college and get a B.A. degree so I'll have something to fall back on. I know one thing, I'm not gonna get another job like the mill, work 15-20 years and lose my job again.

"I thought about leaving Youngstown three or four times," he said. "But I've lived here nearly all my life." In theory, Vaughan is supposed to be as mobile as capital, shifting with the opportunities. But like so many workers faced with shutdowns, Vaughan saw Youngstown as not only a place of employment but above all as a home and a community to live in.

Although his wife's part-time job will help out in supporting the three kids, Vaughan's impending loss of his job will hit his family in more than its pocketbook. "My father was just getting to the point where he could do something with his life," Kenny, a top student and athlete in high school, said. "He had some extra money to take trips, pay for college. Now it means I have to get a scholarship. I never thought things like this could happen, that management could say, 'You've got 15 years in the mill. Now we're shutting it down.'"

The High Cost of Closings

MORE PEOPLE ARE DISCOVERING WHAT Kenny Vaughan has now learned at an early age. Business shutdowns can wreak havoc with the lives of individuals and the well-being of communities. Of course, businesses have failed in the past. Or they have shifted from one region to another. Because of lack of appropriate statistics, it's hard to say definitively whether the frequency of shutdowns has increased or not.

The awareness of the consequences of factory and other business "terminations" is changing, however. The Youngstown closing and the fight to keep the mill open, unsuccessful as it now appears to be, have heightened the sense of public urgency and of the possibilities for action. Similarly, there has been a growing interest in legislation to provide advance notice of shutdowns and to compensate workers and communities for the loss, stimulated by the work of the Ohio Public Interest Campaign (OPIC).

Although "runaway shops" and "disinvestment" have been on the lips of activists in northern industrial cities for many years now, there is a greater sense of urgency now as the scope of the issue widens. Partly that is a result of the steadily worsening impact of conglomerate and major corporate investment decisions on the economic vitality of hundreds of communities. Partly it is a result of a drearier general economic prospect. No longer is there the same faith that new industries will arise to replace those that have closed up shop, since the entire economy faces a period of uncertainty and slow growth.

"The broadest, most fundamental starting point is the clear assessment that the postwar boom is really over," says Gar Alperovitz, director of the National Center for Economic Alternatives, which supervised the development of the Youngstown community-worker ownership plan. "Second, no one believes there will be a 'return to normalcy.' Therefore, you can't simply allow short-term dislocation. People begin to say, 'What can we do?' The context has changed."

With that changed context and changing perception comes the possibility of a new political thrust that could radically transform the U.S. economy. There is a growing awareness of the life-and-death power that capital has over communities and individuals, and of how there is no democratic accountability for the exercise of that power.

The new movement beginning demands greater public control over investment decisions, financial capital and choices of business location. It demands that public needs be considered alongside the private balance sheet. It points in the direction of decentralized planning in the interest of local economic vitality.

"It is very narrow to look at the issue only as plant closings," Alperovitz argues. "The issue is community economic health. It's a much broader question. It's partly plant closings; it's partly new entrances; it's partly expansion.

"In order to give us a broad enough vision and a strong enough moral posture, the issue is the health of American communities, not just one plant closing. That's also the way people see it."

Yet it is usually a factory closing that jolts people into a new awareness, partly because manufacturing is often the center of community economic life, providing the "export" income that helps to stimulate other local businesses.

The community often feels diffusely that an implicit contract has been broken. Not only the suddenly jobless workers but other businesses, their employees, local government and other public institutions have relied on the bigger businesses. They pay dearly for the closings. Then some people realize that there was no need for the sudden shutdown. Even if the business died for "natural" reasons—such as inability to compete profitably—communities could plan for the death's effects with proper notice.

But often the community loss reflects a decision that is only rational from the viewpoint of a single corporation intent on expanding its profit, size and power, even if that means unnecessarily destroying factories and communities in the process. Especially with the growth of conglomerates and their special strategies there is an increasingly stark choice: win greater democratic control of capital or accept greater domination of society by capital.

When a factory dumps wastes in a nearby stream, other people pick up the tab: loss of clean water, destruction of fish and wildlife, decline of recreation areas, illness and even death, costs of cleaning up after the corporation. Thanks to the environmental movement, there is a growing recognition in the law and public opinion that the costs of maintaining a healthy environ-

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ment should be assumed by the firm and not treated as an "externality."

When a factory closes down after years of operation, there are also many costs to the workers, other local businesses and their employees, urban institutions and local government, and taxpayers throughout the state and nation. Taking all those costs into account can lead to a much different view of the economic rationality of a plant closing. Yet those costs are regarded, as environmental costs were in the past, as external to the business balance sheet.

The most immediate costs are borne by the laid-off workers. Because of their unusually high unemployment benefits—in large part a public cost—the workers at Youngstown suffered less than many workers would have. Yet especially because they were in a highly-paid, unionized industry, their long-term earning prospects for the future are grim.

Economist Louis Jacobson, in research for the Labor Department, estimates that workers in those industries with low turnover—usually those with high earnings, unions and predominantly male workforces as well, such as steel and auto—suffer most from plant closings.

On the average, workers in such industries will lose the equivalent of about two years' earnings—roughly $30-35,000—in the first five years after the shutdown. Over their working careers, they will lose 10 to 15 percent of what they might have earned. Although older workers may be severely hurt financially because they are forced to retire early, Jacobson finds that workers with three to eight years seniority lose most in the long run because their loss affects more working years.

Conglomerate vs. Community

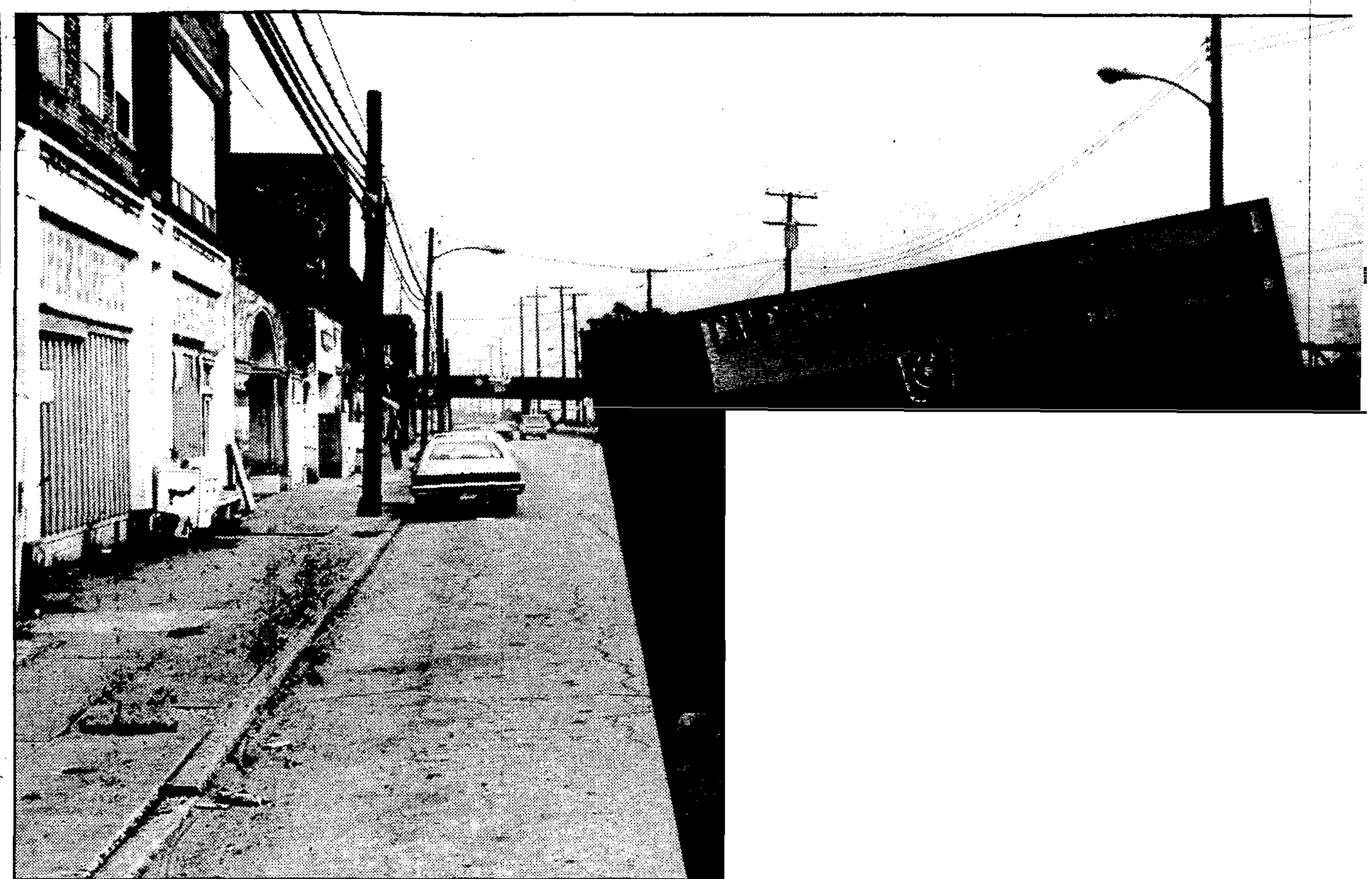
When the shutdown occurs in a labor market with high unemployment, or in a small labor market—typical of Youngstown and many other older industrial cities now facing repeated plant closings, the losses are even greater. If unemployment is one-third greater than the national average, the loss can double in a given year. Seeking jobs in a small labor market again boosts the loss. The figures worsen by half again if all the men who drop out of the labor market are included. So steelworkers in a small, depressed community might suffer earnings losses of 30 to 50 percent as a result of a shutdown if these effects are compounded, not counting loss of above average benefits.

After a factory closing, many women typically drop out of the labor force. If we count their loss of earnings along with the loss of women who return to other jobs after a layoff, then women as a group suffer proportionately higher earnings losses than men. Men in high turnover industries are more likely to be out of work from time to time, to accumulate fewer seniority benefits and to work in less-skilled jobs than men in low-turnover industries. These men—in fields such as cotton weaving, television and electronic component manufacture, toys, clothes and shoemaking—lose proportionately less than men in autos, steel, meatpacking, aerospace or petroleum refining, Jacobson reports.

Workers can, of course, move at their own expense, often taking a loss on their investment in their home. Since young people are most likely to move, the community future is hurt also. But family and community ties hold many workers. A study of Youngstown Sheet and Tube workers by Policy Management Associates (PMA) indicated that only one-fifth were thinking of leaving. It's not surprising: 77 percent of them had lived in the area over 20 years and only 16 percent had been born more than 200 miles away.

When a factory shuts down, the effects quickly spread—to suppliers, to retail businesses, to wholesalers and transportation firms, and to various service agencies. The PMA study estimated that an additional 1,650 to 3,600 jobs would be lost in the Youngstown area as a result of the Campbell works shutdowns. Other studies have estimated the indirect job loss at 11,199 to 13,000. Using the PMA estimate, indirect job losses would cause a retail sales drop of $12.2 to $23 million each year, pushing the total sales lost to the range of $66 to $102 million a year.

These costs exact a collective public toll as well. The same PMA study estimated that in the first three-and-a quarter years after the shutdown, local communities around Youngstown would lose up to $7.8 million in taxes, the county would lose $1.1 million, the state up to $8 million and the federal government up to $15.1 million—a grand total of between $26.8 and $32 million.



Paul Schell

At the same time the cost of the various relief programs—mainly Trade Readjustment Assistance—would run between $34.2 and $37.9 million. By this accounting, the public loss from the shutdown could reach nearly $70 million in slightly over three years.

But even these sums of direct public and private expenses due to a plant closing are inadequate measures. A massive shutdown or a series of smaller closings can disrupt the fabric of the community, upsetting the network of local business transactions and precipitating failures, threatening the quality of public services such as schools, and undermining civic institutions (corporate and payroll contributions to the Youngstown United Appeal, for example, dropped by nearly half in the first year after the shutdown). Especially in a small town, a factory closing can destroy the focus and meaning of community life as a whole.

But the most tragic part of plant closings shows up in the stories traded by workers in the Isaly's of industrial America—the stories of depression and despair, of broken spirits, of broken marriages. They show up, too, as statistics in scientific studies and social work agencies. Yet even there they are understated. As Sidney Cobb and Stanislaw Kasl remarked in their conclusion of a study of physiological and psychological effects on two plant closings, "In the psychological sphere the personal anguish experienced by the men and their families does not seem adequately documented by the statistics of deprivation and change in affective state.... The numbers don't seem commensurate with the very real suffering that we observed."

Yet the statistics are bad enough. They found increased frequency of ulcers in the laid-off men and their wives, greater likelihood of future heart ailments and diabetes, greater hypertension and more swollen joints. Most of the men compared the experience of the factory closing with the stress of getting married (midway on a scale of life events where 10 equals a traffic ticket, 80 divorce and 100 death of a spouse), but over one-fourth found the experience as shattering as divorce or more so. It took most close to half a year to recover; but as time went on those who were still unemployed tended to blame themselves for their plight. Some became convinced that they couldn't hold a job. Others eventually turned to suicide—at a rate 30 times greater than the national norm.

Similar conclusions can be drawn by projecting the results of a study of the consequences of unemployment. Harvey Brenner, in a study for the Joint Economic Committee, concluded that a 1 percent increase in unemployment over six years has in recent decades been associated with an increase in 36,887 deaths, including 20,240 from heart ailments, 920 suicides, 648 homicides, 4,227 state mental hospital admissions and 3,340 state prison admissions. Counting only the workers in the Youngstown area directly dumped by the Lykes Corporation, Brenner's figures would suggest that the single plant closing will lead to over 130 additional deaths.

Plant shutdowns bring on more family quarrels and violence, mental health problems and alcoholism. In Youngstown, for example, the Help Hotline had twice as many calls the January after the Campbell shutdown as it had the January before, and the number continued to climb. Calls about battered women, child abuse and family or marital problems tripled in the year following the shutdown. The local Alcoholic Clinic in the number of steelworkers seeking treatment. Referrals to the Eastern Mental Health Clinic doubled in the year after the shutdown.

Adding up all these costs provides one side of what economist David Smith has labeled "the public balance sheet." Benefits of any action taken should be weighed in the same balance. The results are often surprising, and quite at odds with the private accounting. For example, Smith assumes that the government should expect a 9 percent return on its money invested in an attempt to save the Youngstown economy. Even the conservative estimates of the PMA study suggest that reopening the Campbell works would bring in enough tax money to justify a $75 million equity investment, far more than the Coalition's proposal for Community Steel would have required. If we figure in all of the other costs and benefits, an even larger public equity investment would be justified.

"What is at issue is the differing perspectives, and therefore cost-benefit calculations, that will be made by an analyst charged with investing on behalf of a public account," Smith writes in ***The Public Balance Sheet***, soon to be released by the National Center for Economic Alternatives. "Arguments over 'justification' miss the point that the public has a legitimate right to be concerned about the differential imposition of costs and benefits between the public and private sectors."

Life and Death Power

The need for a public reckoning of costs and benefits has never been greater. Communities are now faced with private factory shutdown decisions on an increasingly wide range of "justifications" in the private interest that have less and less to do with the public interest.

As always, many businesses go under that deserve to go, although good management could undoubtedly save vast numbers of them. Dun and Bradstreet reports on births, deaths and moves blame managerial incompetence for 40 percent of business closings. But with the growth of concentrated corporate power, especially in the diversified conglomerate form, and with the expansion of federal intervention in the economy that hastens many business shutdowns, the issue of democratic rights and power are posed more strikingly.

Much of the debate has centered on "runaway shops,"

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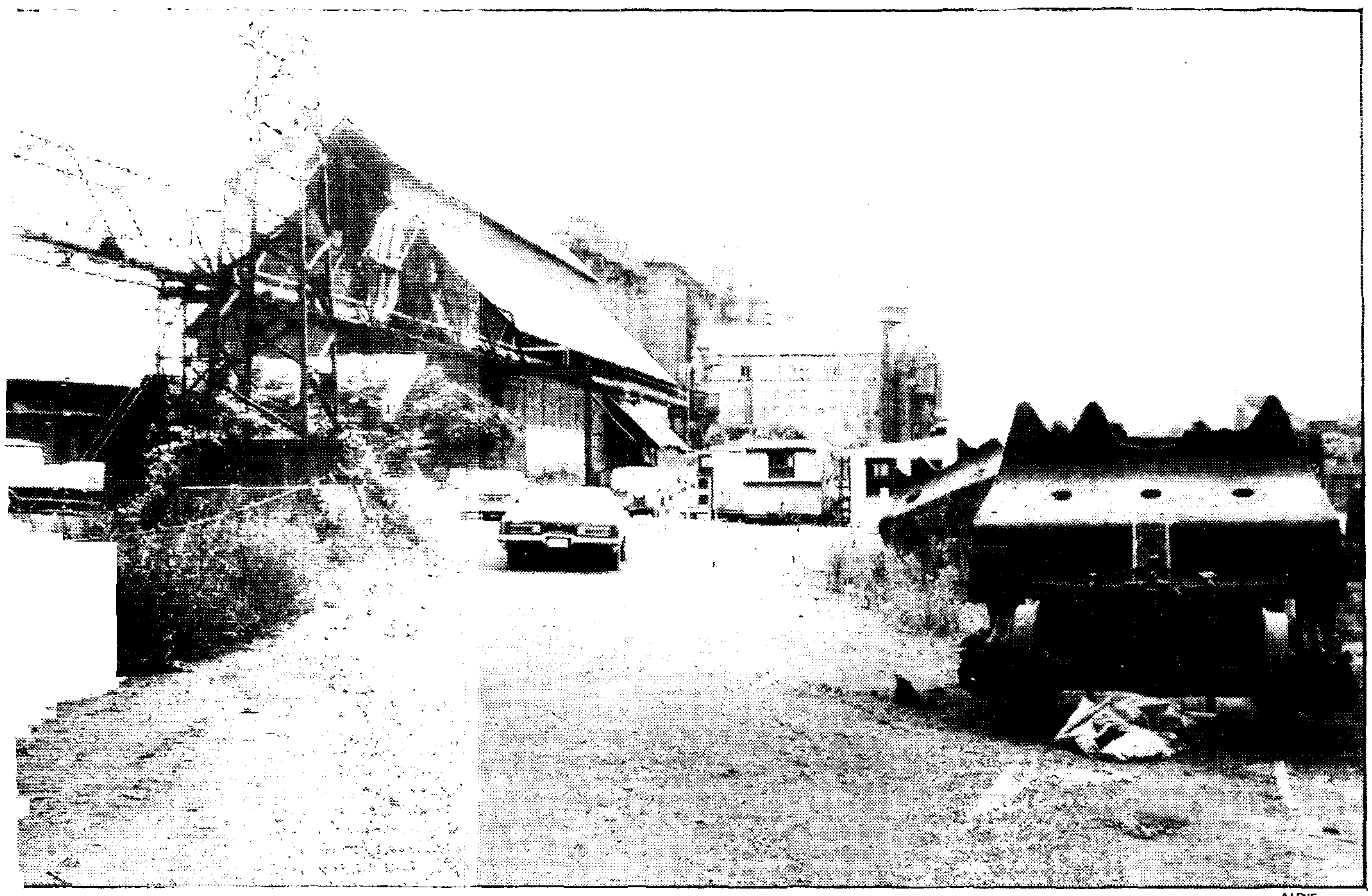

Al DiFranco

businesses that move to the South or overseas in order to pay lower wages, to avoid unions, or to find a highly favorable "business climate."

The shift is dramatic. From 1967 to 1976 the industrial Midwest and Northeast lost 13 percent of its manufacturing work (1.5 million jobs), while the South and Southwest gained 19 percent (900,000 jobs). Also, recent calculations by the economists Robert Frank and Richard Freeman indicate that the rate of direct foreign investment at the beginning of this decade yielded an overall employment loss in the U.S. of 160,000 jobs a year. (If there had been no overseas investment, they also figure that U.S. corporate profit would have dropped by roughly 6 to 18 percent and that U.S. wages would have increased by roughly 3 to 12 percent.)

Overwhelmingly, it is the largest corporations who extend themselves overseas and, disproportionately, it is also the largest corporations that account for the shifts in capital within the U.S. "The larger corporations, using their financial strength, are the first to redistribute their operations out of declining areas into growing ones," writes David Birch, director of the M.I.T. Program on Neighborhood and Regional Change, in *The Job Generation Process*. "They do not hesitate to locate branches in greener pastures, placing an ever greater burden on the smaller firms in struggling areas like the Northeast."

Using data collected by Dun and Bradstreet—since the federal government keeps no useful records on location of firms—Birch argues that the job losses in the North are very rarely the result of an employer picking up and moving the facility south, although that was certainly true in the past of some industries, such as shoes and textiles.

His study also shows that businesses die at about the same rate (5.6-6.7 percent each year in this decade) in the North and the South. But in the faster-growing states, nearly twice as many new firms are born each year and existing firms also expand much more rapidly.

Although the Dun and Bradstreet listings understate the actual migrations, these statistics suggest that the capital shift is often more subtle. Businesses expand and modernize in the South and are gradually allowed to die in the North, with nothing created to replace them. "It is differential branching, not physical migration, that causes many of the regional differences in job growth," Birch writes. "Also, branching seems to be growing in importance over time. Branching is more important in manufacturing than in other sectors of the economy."

Although some economists use Birch's data to argue that runaways are unimportant and that the proper response of the old industrial states would be to make business feel more loved, the statistics really don't erase the fundamental problem: corporate capital's power over the health of local communities. If anything, they highlight the problem. For example, Birch notes that between 1960 and 1976, small firms (under 20 employees) generated 66 percent of all new jobs in the U.S. What did the giants, with over 500 employees, do? They generated 13 percent of the total. Even worse, in the Northeast the biggest firms actually decreased jobs by 33 percent.

The Dun and Bradstreet data may overestimate job creation by small firms, as Hal Wolman of the Urban Institute argues, but the change from the past, when larger firms generated more jobs, is remarkable. What has happened? Birch isn't certain, but he suggests that when firms get to a certain size they become multinational and then they "may make all their differential investment overseas."

Why do the big corporations shift their investment? Certainly in many cases it has been to take advantage of cheaper labor—the notorious dollar or two a day for labor in Asia or the low wages in the rural South.

But a number of researchers point to what may be even more important than cheap labor: greater corporate control. Bob Goodman, author of the forthcoming book, *The Last Entrepreneurs*, argues, for example, that "the North-South shift is in some ways accurate, but it is also very misleading. Rates of growth have been increasing in some northern states, but those are the ones with the strongest anti-labor laws. If you group the anti-labor states, then the absolute number of expansions over the past eight years has been more than double the other states."

Boston University economist Barry Bluestone, who has been studying the New England aircraft industry, argues that some corporate shifts of capital are designed to construct dual lines of production, often including dual subcontractors, in different regions or different countries in order to avoid disruption by labor.

Others suggest that even anti-union right-to-work laws in the South are not as important to most big businesses in themselves as they are cherished as an indication of a favorable "business climate."

Birch points out as well that New England is no longer a high-wage area and that many of the most rapidly growing sunbelt cities—Houston, Dallas, Los Angeles, San Diego and others—are not low-wage areas. Avoiding unionization, he thinks, is one of the most important reasons for the capital shift, along with factors such as geographical preferences of executives and avoidance of high personal taxes for management (but not corporate tax abatements, which nearly everyone agrees have very little influence on business location decisions).

"Wages are not totally negligible as an influence," he acknowledges. "Going abroad they're quite important." Now some businesses, having shifted once to the South for low wages, are continuing their shift overseas.

If control is the name of the game—with wages still important in certain circumstances—then the emergence of the conglomerate fits into the picture even more appropriately. The large corporation, and especially the diversified multinational conglomerate, seeks to escape as much as possible from any interference with its control. It hopes to avoid or master competition, business cycles, labor disputes, shifting tastes, national boundaries and legislation. It can't of course, completely succeed, but it can—and does—try.

Partly because the conglomerate has such control, many of its business decisions are made on a basis that might otherwise seem peculiar to a small entrepreneur. These peculiar decisions are extremely important for the issue of community economic health and plant shutdowns. Many of the businesses now being abandoned —and their host communities with them—need not be scrapped by most conventional reckonings, certainly not by any comprehensive public accounting. Only the scramble for conglomerate power and accumulation dooms them.

Youngstown Sheet and Tube is a classic case, as Ohio Public Interest Campaign director Ed Kelly has convincingly demonstrated. The Lykes conglomerate took over Youngstown Sheet and Tube in 1969, borrowing heavily to buy the much larger steel firm. But rather than use its healthy cash flow to modernize the mills in Youngstown, Lykes made other acquisitions and added further debt as it built its empire. Having failed to modernize the Youngstown works sufficiently, it could not take full advantage of the steel boom in 1973-74. Then the heavy recession hit. Lykes still owed very heavy interest payments from its acquisitions. It could not raise the money to modernize at Youngstown, even though its mills there were performing more profitably than the modernized Indiana plant. It decided to abandon Youngstown, later merging with LTV Corporation. That merger gained the approval of Attorney General Griffin Bell, even though it was anti-competitive and worsened Youngstown's plight by precipitating the closing of Brier Hill and adding new obstacles to the reopening of the Campbell works.

Lykes' behavior was typically conglomerate. An acquired firm was raided as a "cashbox" to expand conglomerate control. It had long been true that large corporations, more than local capitalists, felt no attachment to a particular community, but with the conglomerates there is even little attachment to a particular industry. Capital in the abstract is everything. The result, however, is frequently very poor management of any one part of the conglomerate.

"People commonly assumed that a big company would not shut down a plant if that plant were making a profit and that, further, if a big company could not operate the local plant at a profit, then the plant was inevitably doomed to failure," Cornell University professor William Foote Whyte wrote in support of a bill aiding worker-community take-overs. "Furthermore, it was assumed that plant shutdowns were a painful but necessary part of the natural process of economic life." But the behavior of conglomerates makes a mockery of those assumptions.

Whyte, for example, found that the Saratoga Knitting Mill began losing money under conglomerate management because the dominant firm's sales force ignored the products of the acquired subsidiary. As an independent unit again, the mill thrived. In another case, Sperry Rand acquired the Herkimer plant, which made library furniture. Despite Herkimer's long history of profitability, Sperry Rand closed it because library furniture did not fit into their corporate strategy and because the plant was not making the very high target profit rate—22 percent return on invested capital.

"If Sperry Rand could make more money elsewhere by shifting its investment out of the Herkimer plant, then the shutdown made good economic sense to the top management of the conglomerate," Whyte wrote. "But it certainly did not make economic sense to the 270 employees, nor did it make sense to the rural people who earned $875,000 a year selling trees to the plant," or to local businessmen and politicians.

Belden Daniels, a city and regional planning professor at Harvard, argues that "the conglomerate almost invariably imposes costs on the local firm that are diseconomic." For example, the Esmark conglomerate forced its subsidiary, National Tanning and Trading Company, to buy skins for more than the market price. Frequently small firms gobbled up by a conglomerate are saddled with unneeded overhead and administrative costs that are part of a giant, centralized operation.

One of Daniels' students pointed out another conglomerate tactic that results in irrational plant closings—the calculated tax loss. In the case of National Tanning, "the unfavorable return on the plant was exaggerated on paper because the parent company apparently manipulated the accounts to produce even greater losses, presumably for tax shelter purposes. This was achieved by attributing various overhead and administrative costs incurred" by other plants to the one shut down.

Conglomerate apologists claim that the takeovers can bring new managerial skills to the small firms, but often conglomerate control lessens the needed flexibility of the local unit. Central managers also frequently lack the specialized knowledge to make good business decisions for the small unit.

Such mismanagement was a problem in the case of American Safety Razor, according to Daniels' Harvard study group project. Philip Morris, which had acquired American Safety Razor, later merged with Miller Brewing. Safety razors were a tiny part of the new conglomerate. They no longer fit into the conglomerate marketing strategy. The razor division was also less profitable, although not unprofitable.

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Philip Morris decided to sell it. But the sale was blocked by the Federal Trade Commission as anti-competitive. So Philip Morris decided to abandon the firm, even though it would be a hard blow to a community that had recently suffered four other plant closings. Eventually, as in the case of Herkimer, National Tanning and Saratoga Knitting, there was a management-employee buy-out and the firm prospered with a new marketing strategy under the immediate control of the local firm.

The American Safety Razor case is an example of a new shutdown problem. Increasingly, Federal Trade Commission officials say, corporations will threaten to shut down if they aren't allowed to merge. Corporations are continually trying to expand the "failing company" defense against antitrust charges. If a company is about to go bankrupt, judges have ruled, a merger can proceed even though it would otherwise be anti-competitive. LTV Corporation used this argument last year when it merged with Lykes Corporation, even though Lykes was not failing.

Now that we are in the midst of a new wave of corporate mergers, Ed Kelly of OPIC predicts that, "based on past experience, we'll see more plant closings in states like Ohio and Pennsylvania, but also in the South." There may even be a new rationale for closings. One of the hottest business consultant strategies of the moment argues that conglomerates should concentrate on dominance of particular markets. If they can't dominate, then they should close the division, even if it's profitable.

That would accelerate the irrational closings already caused by setting arbitrary, high-profit targets. Bennett Harrison, associate professor of economics and urban studies at M.I.T., points to numerous conglomerates that set extreme standards of profitability—such as 25 percent return on investment—or growth and then shut down every branch that could not meet the standards, even though they were several times above the rest of the industry. "There is nothing especially 'natural' about being unable to do three to four times better than your competition," he argues.

These unnatural deaths of otherwise perfectly healthy businesses are encouraged by federal policies: investment tax credits spur new construction at the expense of maintaining the old; high interest rates favor large corporations that internally generate capital; government procurement is biased toward the big companies; foreign tax credits support overseas direct investment; treating plant closings as regular business losses speeds shutdown; mergers are encouraged by tax policy; and many government expenditures and development of infrastructure, such as highways, often hasten shifts of capital.

Ultimately the question comes down to who's in control and whose account books count. The concentration of capital, especially in conglomerates, accentuates the conflict between social needs or social rationality and the dictates of private profit-making. Especially at a time when there is insufficient general economic growth to provide balm for the civic wounds, the contradiction between communities—and ultimately the whole nation—and capital finds an acute expression in the problem of plant closings. It is less and less possible to dismiss those shutdowns as representing the triumph of efficiency and the rationality of the market, for they are quite often neither.

Tim Nulty, a former economist for the UAW who worked on plant closing issues for the Federal Trade Commission, argues that a society-wide analysis of "inputs" and "outputs" would reveal that many of the shifts of capital that benefit the private corporation are inefficient. "Does it make sense to take an action with no net increase in national output [as many factory relocations represent] and $100 million cost that is imposed on society? When you net everything out—and that's the definition of efficiency—for many shutdowns there is a real loss of national efficiency."

Nobody makes that national accounting now. Nobody watches the public balance sheet. The conglomerates are accountable to nobody.

Who Will Save Their Valley?

ON MARCH 29 OF THIS YEAR, ROBERT T. Hall, assistant secretary for economic development at the Commerce Department, sent a letter to Bishop James Malone of the Ecumenical Coalition and Youngstown Mayor Phillip Richley. No, he wrote, the government would not provide the 90 percent guarantees for $245 million in loan guarantees that along with $27 million in grant money would be needed to reopen and modernize the Campbell mill.

The people back in Youngstown who had supported the "Save Our Valley" campaign were furious. The principal reason offered for the rejection was that the Economic Development Administration had gone on record to Congress pledging not to grant loans to the steel industry of over $100 million. But, the Coalition replies, White House assistant Jack Watson had gone on record to them in a meeting, a press conference and a letter last fall that even $300 million was not an outlandish request and was "within the capabilities of the government."

Hall also offered some objections to the feasibility of the plan, but the Coalition was dumbfounded that his analysis did not seem to take into account any of the recent developments. For example, in arguing that they had not arranged sufficient equity funding, Hall did not even mention the $10 million that the State of Ohio would put into the project.

There was no acknowledgement that the United Steelworkers, who had been cool, then warm, and then cold toward the plan in the past, had recently come out forcefully for establishing Community Steel, Inc. They had also agreed that all steelworkers hired would start without accumulated seniority, since it was a new company. That move alone guaranteed the community-worker plan a 21.4 percent saving in labor cost over earlier estimates.

There had also been a new market study by a well-established consulting firm that demonstrated a strong market within 200 miles of the mill for the full output without any need for special government purchases. Steel industry officials are now admitting that there will be a steel shortage by the 1980s, which would further assure the success of and need for Community Steel. However, those same officials—according to a study of the industry by the Argus Corporation—want to cut back all of the older U.S. mills so that when the shortage arises, prices will be driven up rapidly. The Argus research indicates the plan is modeled on the oil industry: in the tight market, foreign imports will soar in price on the short-term market, providing a back capacity.

against the LTV decision to close the mill, offering counterproposals for reopening it under worker-community ownership and carrying their protests into the local country club meeting of steel executives. They battled an apparent plan to shut the mill this spring, but then agreed—mistakenly, many feel—to cooperate with an orderly shutdown of the mill later this year. They continue to press for alternatives and have helped to inspire the recent complete turnover of local union leadership—except for their own local—that may prepare the Youngstown labor movement for a stronger role in any future contest over closings of U.S. Steel.

"The community effort here was the best effort ever made," said John Barbero, retiring vice-president of Local 1462. "But I don't know where we're going now. I'm very pessimistic. A good part of the problem was that people were just not getting involved. The effort was never really made on the people to organize them." Despite the impressive Coalition effort, there was always this undercurrent of discouragement: why didn't people—especially the affected steelworkers—back the plan more forcefully?

Many point to the extensive benefits as having "bought off" the workers. Others suggest that many people felt that the project was impossible and found it hard to believe that a bunch of clergy knew anything about steel. The on-again, off-again lukewarm support from the district and international steel union officers hurt. The coalition had broad support, 80 percent of area residents showed a positive reaction to the Coalition in a poll last fall, compared with 18 percent positive about Carter. But it was shallow support, Coalition attorney Staughton Lynd says.

But there are other, deeper cultural problems that can only be overcome as a movement convinces people of their capacity to act and of their right to make demands. In that sense, it is a task similar to starting a labor movement or a civil rights movement. "The thing that people say so often: 'But it's *their* property,'" district union representative Marvin Weinstock said. "People don't think they can affect it, something so big. It's been pounded away that they have no control when it's someone else's property. People do not yet feel that their rights are on a par with—or superior to—the rights of property, even when they have been deeply hurt."

Likewise, people have so little experience in democracy and direct control of their lives and often have so

Al DiFranco

Ed Mann led his union into bosses' club to fight shutdowns.

That is part of the reason why the steel companies have fought the "socialistic" Community Steel proposal. Their direct pressure on the Commerce Department and indirect influence through a few traditional consultants was apparently sufficient to kill the plan last fall, before it was even completed.

Rev. Charles Rawlings, coordinator of the Coalition, says that his search of documents on the case provided through a Freedom of Information Act inquiry showed no sign that the new proposals were ever even read. One government development economist speaking off the record confirmed Rawlings' fears: the final proposal was never considered. A former skeptic about the viability of the original plan, this economist was now convinced that the revised version could have worked.

There is only one long-shot hope left for Community Steel. If Carter wants to get re-elected, he needs Ohio, and for that he needs the Mahoning Valley. He can't get it without doing something dramatic, like funding Community Steel. There are other proposals—such as a giant central coke oven or a sponge iron facility—but they provide few jobs and have other drawbacks.

Although many members of the Coalition are ready to throw in the towel on Community Steel, the movement started there is still developing. A Tri-State Commission on the steel industry involving labor, church and community groups has been formed. The Commission has filed objections to U.S. Steel's application with the Army Corps of Engineers to build a new-from-scratch "greenfield" steel mill on Lake Erie at Conneaut, Ohio. They demand that alternative sites, such as Youngstown and Pittsburgh, be considered. The new strategy emerging from the steel communities emphasizes "brownfield" development, rebuilding the steel industry in the communities where steelworkers live.

The local union at Brier Hill put up a spunky fight

little knowledge of the industries on which they depend, that they feel they have no capacity to act. Many of the steelworkers from Campbell, however, were anxious to use their skills to open up the mill. They knew how to run the mill better, how to save money, how to work together in a way that the old management had hindered with its authoritarian rule of the workplace—if only somebody could get the money to start the mill rolling again.

Top-down control in the labor movement denies workers the one major opportunity they have for exercise of democracy and building a sense of their capacity for self-management, too. "When the union took away our most powerful weapon—the strike—when they wouldn't give us the right to ratify our contract democratically, when we were told for years not to rock the boat, and then when all these pacifiers came in—that's why nobody took action," Len Balluck says.

Why was there so little action from other workers? "Suppose you're my neighbor," Balluck explains. "You have a good job. You don't give a damn. Too bad, but as long as money's coming into my pocket, I don't care. That's what it's come to. People don't care as long as their pockets are full."

It may take good ideas, solid plans, technical expertise, access to money and sufficient clout to elect sympathetic politicians or to force other legislators to respond in order to turn the tide against conglomerate shutdowns, to assert the primacy of the public balance sheet and to defend the economic health of communities. Above all, however, it takes a dramatic cultural shift in favor of democratic initiative against the power of capital. That requires a powerful political movement. ■

***Next week:** Economist Gar Alperovitz discusses shutdowns, what to do about them and the step beyond—planning for community economic health.*

IN THESE TIMES

EDITORIAL

We're U.S. Inc.—Doing what we do best.

The rage for deregulation of business has enjoyed a short season before running into a growing public outrage against the public vices of "unfettered enterprise."

Deregulation was advertised as offering the public better products, higher efficiency, reduced costs and lower prices through the beneficence of competition for private gain. It would fight inflation by freeing business to do what it does best—make money. The shining accomplishment establishing Alfred E. Kahn's credentials as the President's chief inflation fighter was his role at the Civil Aeronautics Board (CAB) "deregulating" the airlines.

Amidst the deregulation din and all the inflation fighting, what public benefits have accrued?

•The Three Mile Island nuclear power plant breakdown revealed that the Nuclear Regulatory Commission and its predecessor, the Atomic Energy Commission, had been more solicitous of the industry's profitability and weapons development than of the public health and safety. The ultimate fallout will be rising prices for nuclear energy and higher utility bills in general.

•Decontrol of oil has yielded the benefits of soaring gasoline prices, withheld production, and more inflation.

•New York City subway trains have been found to have serious design faults in car undercarriages, in violation of established safety standards. The subway system bought them in full knowledge of the faults to avoid upsetting the manufacturers' profitability. This scandal of amiable regulation, now that it is known, will result in higher mass transit costs to New Yorkers.

•The aftermath of the DC-10 disaster at Chicago's O'Hare airfield last month publicized serious design faults—known for years to both the industry and the federal regulatory agencies. But again, solicitude for "competitive" profit-making took precedence over public safety. The result now has been the loss of millions of dollars in grounded flights and disrupted service—not to mention the cruel and needless loss of lives—and the ultimate result will be higher fares.

University of Pittsburgh Graduate School professor of public and international affairs, Frederick C. Thayer, author of *Air Transport Policy and National Security*, has pointed out that Kahn's triumph at the CAB in "deregulating" airlines shows, if anything, that in this case at least, "competition leads to higher, not lower, costs" (*New York Times*, June 18). The CAB moved to deregulation in the face of its own report giving reason to believe that there is a cause-effect relationship between intensified airline competition and reduced passenger safety. Besides that, as Thayer observed, "all-out airline competition simply wastes oil."

Those now suing American Airlines for criminal negligence may also think of suing the CAB and the Carter administration for foisting upon the public airline "competition" that undermines safety in pursuit of cutting maintenance and other costs. They might also, like the rest of us, recognize in "deregulation" and the competition craze, what C. Wright Mills once called the "crackpot realism" of business as usual.

Other examples of public benefits from "deregulation" abound: an inflation rate galloping healthily along at a 13 percent annual rate; rising costs ministered by a "self-regulating" medical industry; unsafe autos and tires—each reader can extend the list.

Deregulation is only half the issue. The other half is the *quality* of government regulation of business even at its strictest. Going back to the establishment of the Interstate Commerce Commission in 1887 and the Federal Trade Commission in 1914, the history of regulation has been one of the corporations' domination of the very agencies mandated to regulate them. The result has been, not government regulation of business for the public benefit, but business regulation of the public in service of private gain, clothed in the authority of government.

That historical record was monotonously corroborated one more time two short years ago (August 1977) by the Senate Governmental Affairs Committee. It had conducted a two-year study of over a dozen federal agencies responsible for regulating business in communications, transportation, energy, finance, nuclear power, foods and drugs, and consumer products. The Committee's unanimous findings (14-0)—unusual in an even less politically controversial matter—were that "At agency after agency, participation by the regulated industry predominates—often overwhelmingly." For example, 11 major airlines spent $2.8 million on representation before the CAB in 1976, as against $20,000 by the major consumer organization at that time, Aviation Consumer Action. AT&T alone spent $1.8 million in representation before the Federal Communications Commission in 1975, as against "a total absence of any public interest representation."

Deregulation and business as usual —the latest in "crackpot realism"— raise costs and reduce public safety.

The Senate Committee's recommendations included the need to establish a federal consumer protection agency and to provide for greater public and consumer input into regulatory agencies' work. It will be remembered that the bill introduced in Congress to implement these recommendations went down to defeat last year under the avalanche of the "deregulation" rage swamping Congress from business—and from the Carter administration.

The public and the economy suffer from both "deregulation" and regulation subservient to the corporations. There is no getting around the lesson of the long history of regulation in a capitalist society like the U.S.: Where "private enterprise" is *the* power in society, regulation will be in the interest of the corporations, not the public. As long as "competitive enterprise" for private gain is the sacred cow, regulation will lead more to the corruption of public trust than to the taming of profit-making on behalf of the public safety and a genuine economic proficiency.

Until enterprise for the public welfare becomes the highest good, the American people will continue to suffer the consequences of "deregulated" and "regulated" business alike. No amount of inculcating regulators with the virtues of civic duty or "impartial expertise," can serve as a real remedy. For in a society where "the dollar talks and everyone else walks," regulation must serve the cause of private profit-making or risk the disruption of investment, that *is* its civic duty. And the "experts" themselves are trained to accept profitability as an "impartial" requirement of healthy enterprise; they often come to the regulatory agency from the industry to be regulated, returning to the industry after their term of service to resume their family responsibility of making as high an income as they can, expertly representing their companies before the regulatory agency on the other side of the table.

In the last analysis, it is not the degree of government "meddling" that's the problem—any more than "deregulation" is a solution—but the capitalist ethic and capitalist power that dominates the corporate economy and the government alike.

It would be well to bear this in mind next time we are entertained by the TV commercial: "We're American Airlines, doing what we do best." It's a commercial that well represents all American "free enterprise." There is, after all, some truth in advertising. ■