

KEY TO THE STEEL PROBLEM

The key to the problem of the American steel industry is summarized in Table 1.

TABLE 1.—STEEL, PRODUCTIVITY, WAGES, PRICES, AND OUTPUT

	1957-66 as percent per annum	
	Steel industry	All manufacturing
Output per man-hour.....	2.8	3.6
Compensation per man-hour.....	3.4	3.8
Unit labor costs.....	.6	.2
Prices.....	.7	.7
Output.....	3.4	5.0

Source: U.S. Senate, Public Finance Committee, Steel Imports (December 1967) pp. 466-468.

Labor productivity in the steel industry has risen more slowly than that of the manufacturing industry, in general—2.8 per cent per annum compared to 3.6 per cent per annum in the period 1957-1966. While average hourly labor compensation has grown more slowly—3.4 per cent compared to 3.6 per cent per annum—but not enough to offset the slower growth in productivity with the result that unit labor costs in the steel industry has risen on the average 0.6 per cent per annum compared to 0.2 per cent per annum for all U.S. manufacturing industry. While unit labor costs have risen faster than the average, for manufacturing industry, prices have risen on the average about the same, so that a profit squeeze has developed. Output has increased only 3.4 per cent per annum compared to 5.0 per cent per annum for all manufacturing industry.

The steel industry has focused all its attention on the second item, labor costs, in Table 1 as the cause of all its problems. I maintain that the first item, productivity, is of equal, if not greater, importance. If the steel industry had been able to maintain a growth in productivity equal to that of all U.S. manufacturing industry, its unit labor costs would have declined. If this was passed on to the consumer of steel, output would have risen faster and profits would have been higher since, as the steel producers have pointed out, most of their profit is in the marginal tons of steel sold and imports would not be the problem they are today.

The basic problem of the steel industry of lagging productivity has been compounded by an excessively rigid price policy in regard to imports which has made the U.S. market a "sitting duck" for foreign steel exporters.

In order to stop imports, the steel industry should embark on a three point program:

1. Increase expenditures on research and the development of new products in order to step up the rate of cost reducing innovations and expand its market. The steel industry spent only \$0.60 of every \$100 of sales on R&D compared to \$1.90 for all manufacturing. Only the textile and wood products industries spent less on R&D.

2. Maintain the present high level of investment over the next decade. This requires greater use of outside finance. The steel industry has self financed 85 per cent of its investment expenditures (almost 100 per cent if working capital is excluded) compared to the 61 per cent figure for all manufacturing companies.

3. The introduction of an aggressive and flexible price policy designed to expand steel's market position both at home and abroad. Our domestic steel prices have risen 51 per cent since 1952 compared to 19 per cent for Germany and a 30 per cent decline for Japan. While in the long run greater price competitiveness depends on cost reducing innovations and investment, even at present cost levels a great deal can be done to improve the competitive ability of the industry.

Any government assistance to the steel industry should support this self-help program. Steel quotas or increased tariffs do not. To the contrary, they eliminate most of the incentives to make any changes at all.

The government program should include:

1. Research grants to the steel industry and universities for research in steel and a stepped up program of the Bureau of Mines in steel research.