YOUNGSTOWN STATE UNIVERSITY

ORAL HISTORY PROGRAM

Youngstown Sheet & Tube Shutdown Project

Economist View

O. H. 240

J. J. KOSS

Interviewed

by

Philip Bracy

on

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YOUNGSTOWN STATE UNIVERSITY

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INTERVIEWEE: J. J. KOSS

INTERVIEWER: Philip Bracy

SUBJECT: Expected Shutdown, Views on Community-worker ownership

DATE: November 25, 1981

B: This is Philip Bracy for the Youngstown State University Oral History Program concerning the shutdown of the Youngstown Sheet & Tube and the various perspectives therein. Today, November 25, 1981, I am interviewing Dr. Koss from the Economic Department at 2:30 p.m.

First of all Dr. Koss, will you tell us a little bit about yourself?

K: I did my work at Pitt. I started out in Business Administration and later got an M.A. in Accounting. I did work in Economics at Ohio State. I didn't get my Ph.D. I later took an M.A. in counseling here at Youngstown State. I have been taking courses in the university in the areas of my interests.

I have been on the faculty here in Economics since we became a state university in 1967. I'm now interested in the development of a program that is pending. It should be, I hope, approved by the Ohio Board of Regents any day now. That is a program on labor relations which is broader than economics. It's a broad multi-disciplinary program.

B: You also worked in the steel industry?

K: Yes, after I graduated from Pitt I was hired as a management candidate with US Steel. For two years they sent me through a training program, various plants across the country and in the general office. I did some work before that while I was a student in the open hearth at Homestead

Steel. Then I was assigned to Homestead Steel for a number of years as a cost analyst.

Later I went into a staff position at US Steel in Central Operations. It was called Central Operations then, which is the management corporation of US Steel with headquarters in Pittsburgh. We did staff studies on new facilities, sales analysis, special cost studies, standard cost, defenses against litigation, and that kind of thing.

B: Do you remember where you were and what was going on at the time that they announced the shutdown of the Youngstown Sheet & Tube?

K: Yes, I remember the time that the shutdown of Youngstown Sheet & Tube was announced. I don't remember specifically where I was and when I first heard it. I had been anticipating something like that for years, but the plant continued to operate. It was apparently a shot out of the blue to many people here. They were surprised at that kind of action on the part of the management of Sheet & Tube.

I didn't see it that way because I had some knowledge of the steel industry. I could see that the facilities were not being upgraded, they were not reinvesting here. Generally, they were not reinvesting. Mostly, they were making expenditures for plant and equipment repair and some changes, but not very much.

I have since found that most of their investment was put into the Indiana Harbor plant in the Midwest. It didn't surprise me, I expected it before it came.

B: There was much discussion over whether the Mahoning Valley should continue with steel operation, or whether the economic advantages had moved someplace else and they should go into diversification, what was your reaction to that? Did you support those who said diversification because of the present state the Mahoning Valley should be moved out, or did you support those who were more in line with the economic development?

K: When this occurred the media from downtown came up to the university. They must have thought since we have an economic department, they ought to interview the professors on the staff there and see what they think of this. My response at that time was that I thought that this valley had lost basic steel just as surely as New England had lost the textile industry because the economic advantages for basic steel had left the valley. It wasn't a very popular response, it wasn't something that they or the steelworkers in the valley were very anxious to hear.

When I was back at US Steel in the Costs and Statistics Division doing the staff long-range study, the McDonald Works and the Ohio Works owned by US Steel and another company other than Sheet & Tube, were almost marginal then. We had called it the Youngstown District Works. I expected them to be shut down too, and of course, subsequently they were.

B: Usually in every industry there is a sign that something like that is going to transpire, either the transfer of personnel or some kind of other inside stuff that you could look at and say something must be going on. You mentioned there were indications prior to the shut-down that perhaps were going on. What signs did you see that led you to the idea that that was inevitable?

K: My experience in the steel industry was all with United States Steel Corporation. It was not related to Sheet & Tube except as they were part of the industry. I could see from the looks of the facilities when crossing over the Center Avenue bridge, or whatever it is, that they weren't being updated and upgraded. If they weren't marginal, they were approaching marginality. I was familiar enough with the steel industry. I had visited a lot of plants. I knew something about the steel industry. I knew enough, even though I had been away from it for some time, to know that those facilities were approaching obsolescence.

One of the things that the Cost and Statistics Division did at US Steel, the division I worked in after I was called to the city office from Homestead District Works, was to make these long-range studies. I got there after they did most of the work in deciding to put a new steel plant in at Fairless. It was put in about 1951 or 1952. It went into operation. On that study there were fourteen locations where that plant could have been put. Most of the additional facilities in the steel industry have been what they call "add-on capacity," you have an existing plant and you add facilities to increase capacity.

In that case, they looked at those fourteen other possible locations where they had other facilities and they decided not to add on, but to build a new plant from the ground up. I had that kind of knowledge of the steel industry, having worked in it , having been in a staff position, and having had access to a lot of confidential cost data.

We had cost on making steel of all grades that these various plants could make from all our locations. We compared those costs. We had the economic basis to determine whether or not a plant was marginal, or at least whether or not it was marginal on certain products. The plant that Edgar Thompson worked in in Pittsburgh in North Braddock was just about completely shut down in 1957 or 1958, except for the new modern foundry they put in. I never could understand why they put in a new rail mill at a time when there was no market for rails. I still don't know why they did that.

Some kinds of products, like stuff coming out of that modern foundry, were highly competitive, but the rest of the faciltiy was obsolete, so it was shut down.

What happened in North Braddock I could see happening in Youngstown with regard to the fact that a lot of young people moved away from that area. The old people remained.

The community was so short of taxes. They had one case I remember of a police officer who was supplementing his income by directing traffic at a supermarket. It just so happened that he was injured by a car. The question arose as to whether or not he was covered for medical in his regular job as a police officer. The same thing has been happening here because of the reduction of the amount of this industrial property on the tax duplicate. They had a lot of controversy about that in the news. That's the very thing that's happening in Youngstown since these shutdowns.

The first thing US Steel tried to do was shut down their work and move out the equipment because they wanted to remove that equipment from the tax duplicate. The workers were able for a time to delay that kind of action.

B: What kind of lee time would you need for a decision or plan to say that you were going to phase this out of the operation within a given period of time? In other words, it couldn't happen as rapidly as what happened in the Youngstown situation that they announce it on Sunday and they decide to close it on Monday.

K: No, they knew ahead of that. If I were an executive in charge of a large company like that and I knew I had a facility that was marginal that I was planning to shut down, unless I was forced to notify the community and the workers and the union, I don't know whether I would tell them or not. What is going to happen if I tell a plant that I'm going to shut it down in three years? The first thing that is going to happen is my most productive workers there are going to leave. They're going to get another job. They're going to try to relocate, as any reasonable person would. That's going to give me nothing but problems, it seems to me. That might really hasten the shutdown of that plant.

Then too, economic conditions may be such that even though I have an estimated time for a shutdown, it's only based upon an estimatation, conditions can change that might extend it six months or a year or two. If I commit myself, I may have to shut down because of the statement I made even though I could otherwise possibly extend it somewhat.

B: I believe it was 1969 when the Youngstown Sheet & Tube and the LTV merged. Does a merger indicate or is that a precondition for a shutdown, or does that really have nothing to do with anything?

K: We heard here that LTV came in and they milked this subsidiary dry. They didn't reinvest back in that facility. When it was about ready to collapse they shut it down. People who have made that statement argued that if it had been locally run possibly those managers might have invested more if that was their sole facility. There may be some merit to that; however, I contend that if LTV did milk that facility dry, that's exactly what an intelligent management should have done. What do you do when you have various facilities and one of them is almost marginal? You work it as long as you can, and make the repairs that you need in order to keep it going. Since you know you're not going to reinvest there, you are reinvesting somewhere else. They were reinvesting out in Indiana Harbor in a plant where they had more economic advantages. When it is just about ready to collapse, you shut it down. I don't think that was a bad decision, I think that was smart management. It's unfortunate that the people in this community had to bear the brunt of that.

Then we get into the old argument as to whether or not these companies have a social responsibility. Friedman, for one, argues that they don't. Of course, there's a lot of controversy over that. On this kind of thing, I have a tendency to agree with Friedman, although on a lot of things I don't agree with him.

B: You mentioned earlier that the Economics Department was approached by someone, who approached the university and the Economics Department?

K: I forgot whether it was television and the newspapers, I don't remember exactly who it was. I think the Vindicator was out, but I don't remember, or at least they didn't interview me. I don't remember that the county commissioners or anybody like that came up. They may have been interested in what our views were.

I must say too, most of the economist's statements I heard were pretty much consistent with my own. They said that to have invested here in basic steel would have resulted in the misallocation of resources over a long period of time.

Our views have been vindicated. Had we been wrong and had LTV been wrong and had US Steel been wrong in shutting down these facilities, it seems to me by now some other steel producer would have recognized that mistake and would be back in here investing in their facilities in basic steel in this location. That to date hasn't occurred.

B: I would like to get your reaction to three different ideas that were put forth. Initially the Ecumenical Coalition had developed a process of community-worker ownership, did you agree with that kind of proposal?

K: Locally we built up a tremendous head of steam over these shutdowns. I think one of the reasons we did that was because Northeast Ohio, Youngstown specifically, was one of the hardest hit areas with so many shutdowns all at once certainly in that industry. We lost three plants within a very short period of time. We were oriented toward heavy steel, basic steel. I think it was interesting that the steelworkers in this area were able to build up that kind of following. They did get the attention of the press, and they marched on Washington.

It would have been interesting to see what would have happened had the workers been able to raise funds to operate that plant. I think they could have operated that plant. That is if we mean by operation to just run the production side of it because they've probably been doing it for thirty years. I don't think they would have been able to run the business side, not only just producing steel, but also doing all the planning, and selling the product at a profit. The facilities were too old and the costs were too high. It wasn't due to the workers inefficiency, the workers required on the line were determined by the kind of equipment you had. The equipment was old and you needed a whole lot more people on the line than you would have with a modern facility.

I don't think they could have sold their output profitably. Of course, they had an answer for that; let the government buy it, but then the other producers would say, "The government buys your stuff, and they don't buy some of the stuff that we're selling." You would have that kind of thing.

B: Were you familiar with Father Hogan's proposal?

K: Yes. Father Hogan, the "steel priest," was from Fordham, I think. He had a number of proposals, one of which was one, modern, blast furnace. Another was a possible coke facility. There is a shortage of coke.

He came out to either the Mahoning Country Club or somewhere out to the north. I went one time to some country club out towards Warren where he spoke. He talked about the possibility of putting in one, large, modern, low-cost, blast furnace. Who would utilize it? He asked US Steel how much they would take because the Ohio Works and McDonald at that time were still operating. US steel said, "None."

They asked Sharon how much they would take? Sharon said they would take a certain amount. I forget now what it was. It was a small percentage, maybe a fifth or a fourth at the most.

Of course, Youngstown Sheet & Tube was shut down already. They asked Copperweld, or else it was Republic in Warren, but they have electric furnaces and have no need for hot iron. They use scrap largely in that process.

The result was there was nobody to take the output for one, modern, big, economy-of-scale related, blast furnace. That was, for that reason, not feasible in this area.

He talked about a possible modern, coke battery, a big coke facility, because there is a shortage of coke. I think it was Sharon that bought the old coke facility down here in Struthers. They're operating them because of the shortage of coke. I think probably they're getting away with not observing pollution standards because of the pressure of employment in this area.

After his talk, I was finally able to get the ear of

Father Hogan. I asked him why in the world would you put a coke oven in this area? Why would you put it in Youngstown? Why not put it on the Ohio River? I was thinking of Clairton, which is probably the biggest coke oven facility in the world in a coke plant. They use a lot of coking coal and they transport it by barge.

He said, "That's probably where it should be." He was aware of that, but Youngstowners wanted to hear about something for Youngstown proper. There was a lot of problems with that. That hasn't been implemented in the valley. That is more feasible and has a greater probability of success, but I'm not sure it would be in Youngstown.

B: The third proposal that was put forth by Mayor Richley and the Mahoning Valley Economic Development Committee was for a steel research center located in the facility.

K: That might have some promise, but it seems to me if you're going to put something like that in it ought to be somewhere near where you have a lot of basic steel operations in progress. We no longer have them here. It might have been feasible and possible. It seems to me that that facility should have been nearer some airless or spiraless point where they have an operation like that going on.

Of course, we were searching for whatever we could to create some diversification in this valley and that effort is going on. It's good to think these things through.

If I were in charge and I were to make a recommendation for that kind of facility, it seems that I would not recommend that it be in the middle of the cornfields of Iowa. While Youngstown isn't quite the same situation, I don't think it ought to be in Youngstown either. It would probably be near a modern, steel producing facility where you have access to those kinds of facilities which you'll relate to as you go to this research.

B: Some of the research points to the fact that steel is going to need mini mills now rather than the old.

K: Mini mills, yes.

B: Do you thing that is correct? What would be the economic justification for that?

K: The mini mills are a different kind of operation. All they do is take the steel they process into a narrow product line. They are not completely integrated steel producers the way, for instance, the US Steel Corporation is. When we talk about an integrated producer, we talk about somebody who goes from the ore all the way to the customer. They make coke. They dig it out of the limestone. They have blast furnaces rolling. They'll convert it to anything. They also have warehouses and offices to sell internationally.

A mini mill is a modern, specialized, kind of facility that has a very narrow product line. They can buy some kind of semi-finished steel. They can transport it almost anywhere and convert it to a specific kind of narrow line of products very, very economically. We have a number of those working in the facility in the country now in these narrow areas. They are economically feasible. They are economically efficient and they can compete with the big company in that narrow line.

B: Would you still need your larger business?

K: Oh yes, because the larger integrated producers supply this mini mill with plates or slabs or whatever it may be, bars that they later reduce to the product line if they roll or process. Those mini mills are a relatively new development. They're very narrow, they're not a completely integrated steel producer.

B: There was one other proposal put forward for a community bond. It would be like an insurance policy. If a steel facility or something along that line employed a large number of people and would withdraw, that money would be used by the community. That's why they call it a community bond. Do you think that's a reasonable expectation, given the advantages a lot of communities will give to get a plant in their area?

K: I'm not sure of all the details and what specifically has been proposed in this regard. If the question is whether or not a community ought to underwrite industry in order to get industry in their area, there are some advantages and disadvantages to that.

One of the biggest disadvantages that economists would argue about is whether there would be misallocation of resources, meaning we would possibly have people come in and build plants in places where, in the absence of incentives, those plants would not be placed.

Once you put it in, you're sunk. When you put in a blast furance it's going to stay there. If the economic advantages for a certain kind of industry exist in an area, you really don't need much in the way of an incentive to get people to locate that industry there.

B: The basic argument was that the company should have to put up a bond because the community usually gives incentives as far as tax breaks. In other words, it would be like a deterrent from just yanking out of a community.

K: But it would place an additional cost on the company that would relocate in that community. As a result its costs would be higher. Because of that additional cost they would operate longer than they otherwise would. They would relocate somewhere else or produce somewhere else.

Maybe there would be some way you could increase the tax on the land, so that they could unload and sell the land. Maybe the cost of holding vacant land is too cheap. If that cost were increased with heavy taxes, it might be an incentive for that owner to sell it to somebody else who might develop it for the community.

B: Do you think a company will ultimately realize that it is now marginal, then announce two years ahead of time that they're going to close, rather than stay open even though they have reached their marginal point and they are going to start losing money for the next few quarters?

K: I've been involved with unions. I have taught labor collective bargaining and labor law. I have been on the management side also. As a manager in this kind of industry, it seems to me I would not announce a proposed shutdown unless I had to. Now if the union forces me to make a decision, which when that time is up I may not want to shut down, I may be forced to because of the other costs that the union levies on me with its power. Based on economics alone, I would rather not announce and play it by ear. I know I'm not going to rebuild or reinvest there. I've looked at that enough to know that I won't do that. I've made enough studies on that. But, I don't know when I'm going to shut down.

B: Is there anything I probably should have asked you related to this particular topic that I didn't ask you? Are there any statements that you would like to make that relates to what we've said that I haven't asked you directly?

K: I can't think of anything offhand other than to say what I've been saying, if not directly, in an implied way. That is that the economic advantages for these kinds of operations in this valley have either ceased or decreased.

That's the reason why management hasn't reinvested. To cause those managers, those executives, to invest here contrary to these views, contrary to these perceptions that they have based upon their studies, would result in a misallocation of resources and cause higher cost production in this area. This would operate to the detriment of the entire economy. It would be less sufficient than their locating elsewhere where cost would be lower.

B: Okay, I would like to thank you for taking time this afternoon for the interview.

END OF INTERVIEW