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UNITED STATES GENERAL ACCOUNTING OFFICE  
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STATEMENT FOR THE RECORD

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FOR THE  
SUBCOMMITTEE ON ECONOMIC STABILIZATION  
HOUSE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ON AN INSTITUTIONAL MECHANISM  
FOR DEVELOPING STEEL POLICY

Mr. Chairman and Members of the Subcommittee:

In recent months your subcommittee has been concerned with, and has held hearings on, the general matter of U.S. industrial policy formulation. On September 20, 1983, the Comptroller General testified before this subcommittee on the federal government's experience with financial rescues. He emphasized that, because we have no contemporary experience with a coordinated federal assistance policy, it is very difficult to predict how well an industrial policy might ultimately work.

This statement, which is provided in response to your July 21, 1983, request contains our views on the need for an institutional mechanism to coordinate federal programs aimed at a steel policy, as well as the need to establish specific, quantifiable objectives and measures to evaluate the effectiveness of any steel policies initiated.



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In a January 8, 1981, report, New Strategy Required for Aiding Distressed Steel Industry (EMD-81-29), we addressed steel problems. At your request, we updated our earlier work and considered the possible role of the recently reestablished Steel Tripartite Advisory Committee in developing a more focused approach to federal policies affecting the steel industry. This committee has the potential, in our opinion, to serve as the institutional mechanism for (1) defining the specific national objective for steel, (2) coordinating the various components and initiatives of a steel policy, and (3) obtaining the needed commitment from the industry and its workforce to do their share in developing and implementing steel policy.

#### CURRENT STEEL INDUSTRY PROBLEMS

In general, many industry, labor, and government officials agree that the domestic steel industry is, and has for quite some time been, in difficulty. They also generally agree that steel is a basic industry essential to the economic well-being of the country and in particular to national security. Despite its importance, however, the U.S. steel industry and its relative world position have continued to steadily decline during the last decade.

The steel industry's problems are many and are not new. According to industry, labor, and/or government officials, the U.S. steel crisis is either reflected by or related to: (1) excess world steelmaking capacity; (2) increasing steel imports, some of which are priced less than home market prices or subsidized by foreign governments; (3) obsolescence of a significant proportion of domestic production equipment and facilities; (4) high expenditures by U.S. steel firms for pollution control and labor costs; (5) U.S. tax laws

affecting capital formation and reinvestment in the industry; and (6) failure or inability of industry to reinvest the needed capital for plant and equipment modernization.

PRIOR FEDERAL EFFORTS DIRECTED  
TOWARDS THE STEEL INDUSTRY

From World War II until 1977, steel, like other industries, was affected by general policies such as antitrust, environmental regulation, and taxation. Intermittently, the industry received particular government attention such as agreements to limit imports and efforts to control price. Each of the federal decisions affecting the industry was framed with its own purpose in mind; no effort was made to assess their total impact on the industry's health.

For the first time in 1977 the government attempted to develop an explicit, unified policy for the steel industry. This was reflected in a report entitled A Comprehensive Program for the Steel Industry, (the Solomon report), which established an overall objective for federal steel policy, "to assist the steel industry in a manner which will stimulate efficiency and enable the industry to compete fairly."

In a second attempt to address steel industry problems and as a partial result of the Solomon report, a Steel Tripartite Advisory Committee was established in July 1978. The main objective of the committee was to ensure that representatives of industry, labor, and government worked cooperatively on the problems and prospects of the U.S. steel industry. The committee concluded that the fundamental problems of the industry could best be addressed by focusing on five areas: capital formation, trade, environmental and regulatory matters, worker and community adjustment, and technology. Committee recommendations as adopted

by the government, were presented in the 1980 Program for the American Steel Industry Its Workers and Communities which included:

- Measures to assist the steel industry in making the investments necessary to modernize its plants and equipment.
- Initiatives to encourage research and development of new steelmaking technologies.
- Reinstatement of an "improved" import pricing control mechanism.
- A program for industry compliance with environmental requirements.
- Programs to help workers, their families and communities affected by changes in the industry.
- Renewed commitment to address the problems of the steel industry through the tripartite process.

The Steel Tripartite Advisory Committee did not however, obtain specific concessions from the industry and labor. For the most part the committee concentrated on determining how the government through various initiatives could assist the revitalization of the steel industry. Mr. Roger Altman, former Assistant Secretary for the U.S. Treasury for Domestic Finance, mentioned this same point in testimony before this subcommittee on September 20, 1983.

After the Steel Tripartite Advisory Committee, the government returned to the ad hoc approach of dealing with steel industry problems. Examples of recent ad hoc initiatives include: (1) the European Coal and Steel Community and the European Economic Community, under two separate arrangements, have agreed to restrain through 1985 their exports of steel mill products to the United States, including pipe and tubular products; and (2) four years of relief to the domestic specialty steel industry in the form of increased tariffs on imports of flat-rolled products and global quotas on stainless steel rod, bar and alloy steels.

STEEL PROBLEMS CONTINUE TO EXIST

Despite the efforts of the Solomon Task Force, the Steel Tripartite Advisory Committee, and years of government initiatives, the U.S. steel industry continues to face most of the problems persisting over past years. In our January 8, 1981, report, we concluded that prior federal efforts to aid steel were not fully successful because

--The plans lacked specific national objectives making it impossible to determine whether the solutions proposed and implemented could adequately accomplish the task at hand.

--A meaningful attempt was not made to achieve coordination among the various components of the plans and the several federal agencies whose policies affect steel.

--The plans did not adequately recognize the need for appropriate concessions from both the industry and its workforce.

This set of conditions appears to require further attention.

We stated in our 1981 report that

"only an industry which can produce steel competitively will survive in the world environment in the long run. An explicit performance goal would help determine the appropriate federal means toward achieving the ultimate objective. We believe that a useful performance objective must involve some form of quantified goals."

Previous attempts under the Solomon Task Force and the Steel Tripartite Advisory Committee were, as discussed in our 1981 report, much too vague and did not relate to a clear, specific, consistent, and well-defined national interest for steel. For example, the objective of the Solomon effort was "to assist the steel industry in a manner which will stimulate efficiency and enable the industry to compete fairly." Just as vaguely the Steel Tripartite Advisory Committee's broad objective was "to assist the American steel industry in its efforts to modernize and regain competitive strength." Beyond vagueness of goal, neither effort defined a timeframe for goal accomplishment nor reflected adequate coordination of component policy proposals.

In testimony before your subcommittee on July 28, 1983, the Legislative Director of the United Steelworkers of America made the same essential point. In discussing six policy components common to the industrial policies of most other countries, he highlighted the need for defining specific goals for the steel industry. He subsequently told us that he considers this a necessary first step which would have to be addressed early in developing a steel policy.

After identifying the specific problems confronting the steel industry and the causes, the national interest in steel must be defined. In making this determination, the public as well as corporate interests must be considered in assessing the advantages and disadvantages to, at least, national security requirements, the industrial base economy, and steel users. As we pointed out in our 1981 report, the country faces a difficult choice between the advantages and disadvantages of foreign steel as it relates to national security, supply availability, and the price, service, and quality benefits which domestic steel users can realize in buying foreign steel products.

In determining how the national interest should be met, the following are examples of the types of questions which we believe must be addressed. Regarding domestic industry revitalization:

- Is the objective to establish a specified level of production capability and/or a specified level of capacity utilization?
  
- Is the objective to increase productivity and lower production costs making domestic steel prices more competitive with foreign prices?
  
- Is the objective to recapture a certain percentage of the domestic market captured by foreign import penetration?
  
- Is the objective to increase profitability and capital formation to a certain specified level in order to allow a specific level of capital reinvestment in plant and equipment modernization?

STEEL TRIPARTITE ADVISORY  
COMMITTEE COULD PROVIDE  
NEEDED INSTITUTIONAL LEADERSHIP

The Steel Tripartite Advisory Committee represented an important first step in developing a steel policy because it recognized that steel problems and issues can best be addressed through the collaborative effort of industry, labor, and the government. However, as noted earlier, the committee did not obtain specific concessions from the industry and labor. In August 1983, the President reestablished the committee to keep him advised of current trends and problems within the steel industry.

The reestablishment of the Steel Tripartite Advisory Committee has been viewed by both industry and labor as a positive step and having highly favorable potential for addressing steel issues. Based on the favorable reaction of both, we believe the Steel Tripartite Advisory Committee could be a vehicle for ensuring that the deficiencies in prior federal efforts to address steel problems are avoided.

As we pointed out in our 1981 report, we believe that to enhance the chances of success, future efforts to address steel industry problems must (1) identify a specific national objective; (2) make a meaningful attempt to coordinate the various policy components and the federal agencies whose policies affect steel; and (3) recognize and obtain the needed commitment from both the industry and its workforce. The Steel Tripartite Advisory Committee, by virtue of its collaborative makeup of industry, labor, and government officials, provides another opportunity to address these key elements.