



Cornell University
ILR School

Labor Research Review

Volume 1 | Number 6
Workers as Owners

Article 6

1985

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Why We Opposed the Buyout at Weirton Steel

Abstract

[Excerpt] On March 2, 1982, the National Steel conglomerate announced that it would make no further investments in its Weirton Steel division because a higher rate of profit could be made elsewhere. In the same press release the conglomerate suggested that the 11,000 employees of Weirton Steel buy the mill themselves.

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Keywords

Weirton Steel, National Steel, Independent Steelworkers Union

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Why We Opposed the Buy-Out at Weirton Steel

■ Staughton Lynd

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National's desire to transfer ownership, rather than to close the mill stemmed not from any wish to help the workers and their families, but from the high costs of shutdown. A consultant for National estimated shutdown costs of \$280 million made up of severance pay, operating losses, impact on upstream operations, and underabsorption of corporate overhead. After offsetting tax credits that could be claimed in the event of a shutdown, the consultant told National that its net loss from closing the mill would be \$70 million. The consultant accordingly advised that a shutdown scenario was unattractive, and that a far better option for National was to sell the plant to employees and the community, "if they perceive that shutdown is the only alternative."

The *Wall Street Journal* suggested other motivations for a company-sponsored buyout:

• Staughton Lynd, a lawyer at Northeast Ohio Legal Services in Youngstown, Ohio, was a legal consultant for the Weirton Rank-and-File Committee. He is the author of several books, including *The Fight Against Shutdowns* (Singlejack Books, 1982).

"National isn't offering to sell to the workers just because it wants to be a good neighbor; employee ownership is certainly the most attractive alternative," says an attorney. Weirton Steel's pension liabilities, he suggests, probably would discourage many private buyers.

National Steel's unfunded pension liabilities—the gap between a pension fund's assets and the estimated value of pension benefits accrued by employees—totaled \$209 million last year. Weirton's portion of that is thought to be sizable because the facility accounts for more than a third of National's total employment and because the average Weirton worker has been on the job 20 years, far longer than other National employees.

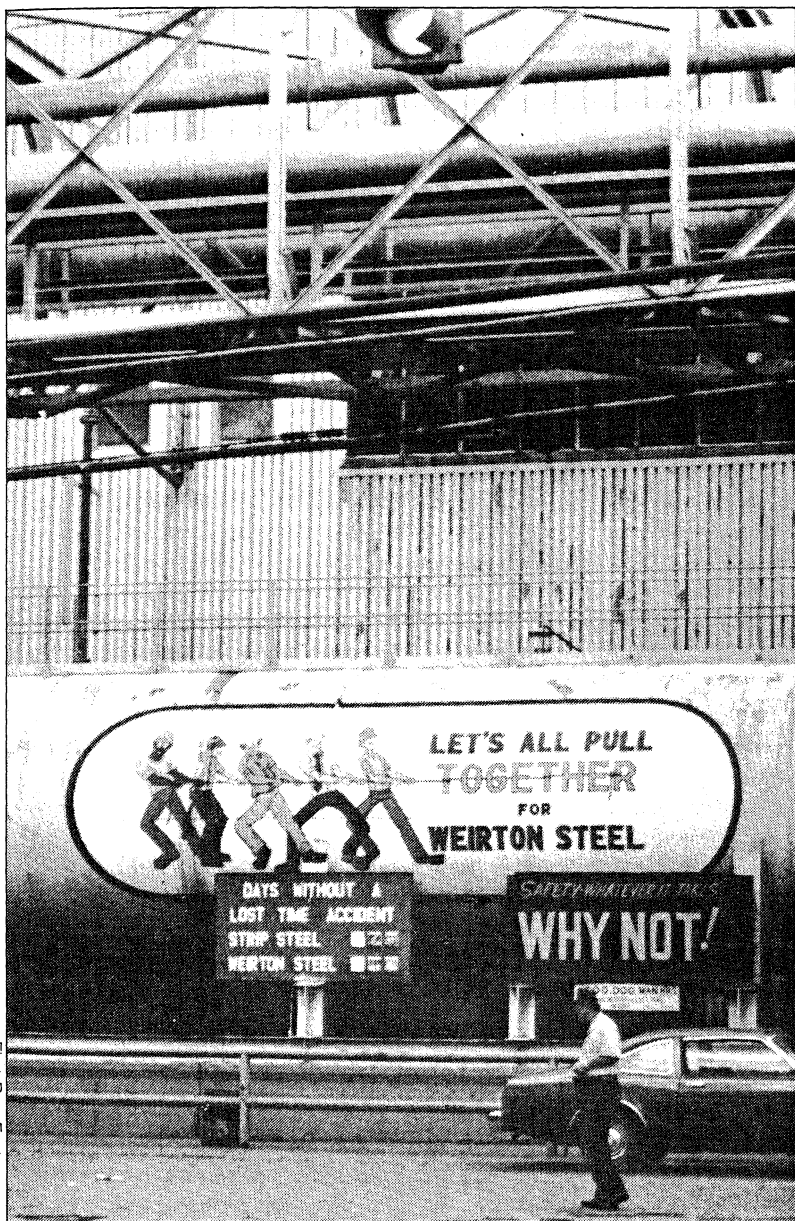
*Any owner of Weirton Steel also will face roughly \$500 million in capital-spending requirements over the next five years, including at least \$150 million to meet federal air-quality standards. Weirton's limited growth prospects—half its output is tin plate used by container makers, a mature market under assault by plastics and aluminum suppliers—also reduces its allure. . . ."*¹

Still other reasons that the nation's largest-ever worker ownership project happened at Weirton have to do with the history of that town and its labor force. Weirton is a company town, founded in 1909 by Ernest T. Weir. Its union, the Independent Steelworkers Union (ISU), is a company union that has never been on strike.

The "Joint Study Committee" and the Rank and File Committee

Within 24 hours of National's announcement, Weirton management met with officers of the ISU to establish a so-called Joint Study Committee (JSC). The JSC included the entire union executive committee, and for this reason, had a nominal union majority. But there was never any doubt that the JSC was inspired and controlled by management. Workers were informed of the JSC's existence by letter from J.G. Redline, president of the Weirton Steel division. Mr. Redline himself was the JSC's first chairperson. The JSC's address was the company's address.

On March 23 and 24, 1982, the ISU conducted meetings at St. Johns Arena in nearby Steubenville, Ohio, to inform union members about the proposed buyout. Richard Arrango, then president of the ISU, proposed at these meetings that \$500,000 from the union's Strike and Defense Fund be used to pay for a



feasibility study. The membership first voted the proposal down and then, in a second vote, approved it.

Using this half million dollars, the JSC hired a consultant, McKinsey & Company, to do a feasibility study. Other consultants were hired to develop other facets of the buyout proposal, notably the New York City investment firm, Lazard Freres.

Meantime, a Weirton Steel Rank and File Committee formed. Its nucleus was a group of black steelworkers who, with the help of local Legal Services lawyers, had resisted race discrimination both in the mill and in the community. This group included: Willie McKenzie, a foreman, who started a massive class action against Weirton's discriminatory employment practices; John Gregory, who protested the exclusion of laid-off workers from decisions about the future of the mill; and, Tony Gilliam, who became one of the Committee's co-chairpersons. White rank-and-filers active from the beginning included Steve Paesani, laid-off from nearby Wheeling-Pittsburgh Steel, and Steve Bauman, who became the other chairperson of the Committee. Gilliam and Bauman had each worked about ten years in the basic oxygen furnace. They are savvy, solid, articulate leaders. Assisting the steelworkers on the Committee were the Legal Services lawyers from Steubenville, myself, a graduate student in business administration, a law student, and two filmmakers.

It was obvious at all times that a majority of Weirton steelworkers would support *any* proposal to continue operation of the mill, no matter how undemocratic the buyout process, no matter how great or unnecessary the concessions demanded, and no matter how adverse these arrangements were to the interests of steelworkers nationwide. Moreover, the Rank and File Committee (unlike some of the older workers in the mill, who were mostly concerned about pensions, severance pay, and other benefits) wanted to see the mill keep running. The posture of the Rank and File Committee, therefore, was not to oppose the buyout outright, but to ask questions and to insist on a more democratic procedure.

The following were the principal issues raised by the Rank and File Committee in the course of its 18-month agitation:

1. ***The Right to Know.*** In the words of the first plank in the Committee's April 1982 program: "Members of the community and all employees of Weirton Steel have the right to be informed of all current negotiations, so that the employees and the community may have responsible input into the decisions which will be made in their behalf."

2. ***The Right of All Affected Workers to Vote on the Buyout***

Plan. The April 1982 program of the Rank and File declared: "Weirton Steel employees must have the right to a final vote on the employee takeover plan before it is implemented. This includes laid-off Weirton Steel employees." At informational meetings in July 1982 representatives of the ISU and various JSC consultants stated that there would be no vote on the proposed buyout. Several speakers said that there couldn't be a vote because "it is a matter of individual rights." In early August the Rank and File Committee circulated fliers and petitions calling for a vote on the proposed wage and benefit cuts. Later that month the JSC and ISU reversed themselves and announced that there would be a vote on the proposed cuts. In the end, laid-off workers were allowed to take part in the vote.

3. The Right to an Equal Voice in Running the New Company. Rank and File Committee literature emphasized the need for employees to have voting rights over the stock of the new company whether that stock was directly owned by employees or held in a trust. The Committee also demanded decisionmaking on the basis of one person, one vote, regardless of the amount of stock owned.

These and other demands (particularly for a pension separate from the ESOP) were projected in a series of fliers. Billboards around town proclaimed, "We Can Do It!" The Rank and File raised the voting issue in a flier headed, "Who Is The 'We' In 'We Can Do It?'" When the McKinsey study proposed a 32% reduction in compensation, the Rank and File asked: "If A Doctor Wants to Cut Off 32% Of Your Arm, Wouldn't You Ask For A Second Opinion?" The Committee's last effort, demanding to see the six-year collective bargaining agreement that was part of the final buyout package, was captioned, "Oh, Say Can You See?"

Scabbing On the Class: The 32% Reduction

The much-heralded feasibility study by McKinsey & Company was released at the end of July 1982. It had one major recommendation. The study's "executive summary" read as follows (emphasis in original).

[T]o succeed Weirton must:

- *Reduce compensation for all employees—wages, salaries, incentives, and benefits paid to union and management personnel—by 20 percent.*

- *Further reduce compensation for all employees by an additional 12 percent for no more than 4 years to build the equity base that is required to obtain short-term financing for capital investments.*

... this total 32% reduction is *relative to current compensation of other steel workers*; should other steel workers agree to lower their compensation, Weirton must follow.

The union officers immediately announced that they supported the recommended 32% reduction. The Rank and File Committee raised the question, "On what data and calculations is the recommendation based?"

Close reading of the text of the feasibility study revealed that just at those points where the argument seemed to call for a full explanation of how the 32% was derived, the study invoked a mysterious, not-yet-released Confidential Appendix.

Not suprisingly, representatives of the Rank and File Committee asked to see this Confidential Appendix. They were contemptuously refused, and brought suit, alleging that the right to a vote under the Landrum-Griffin Act meant the right to an *informed* vote. This suit was a legal failure in that the Court denied access to the Confidential Appendix. Practically, however, the suit produced the following results:

1. At a hearing in November 1982, President Walter Bish of the Independent Steelworkers Union testified that, although the ISU had paid \$500,000 from its strike fund for the feasibility study, neither he nor any other officer of the union had ever seen the Confidential Appendix. The only copies of the Confidential Appendix turned out to be in New York City, at the offices of McKinsey & Company, who wrote it (and who may have wished to resell its contents as many times as possible); Lazard Freres, the investment bankers hired by the JSC as financial consultants; and Willkie Farr & Gallagher, the law firm hired by the JSC as legal consultants.

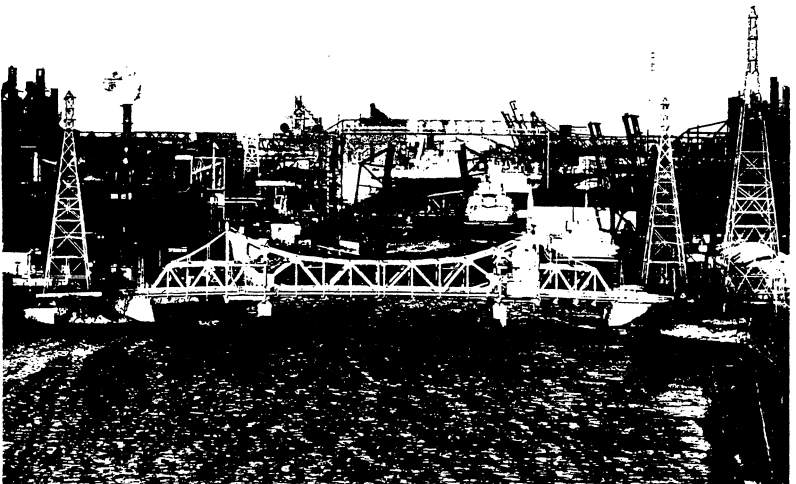
2. Following the November 1982 hearing, several documents conceded by President Bish at the hearing to be in the union's possession were released to the membership. These included: an analysis of the assets and liabilities of the National Steel pension fund; an analysis of labor costs by the union's accountant and a description of the proposed ESOP structure.

3. In March 1983, two things happened. The United Steelworkers of America agreed to massive concessions in their Basic Steel Contract amounting to a reduction in compensation of approx-

imately 9%. According to the express terms of the McKinsey recommendation, the reduction in compensation required of Weirton employees should have become 32 plus 9, or 41%. But the very opposite occurred. Following negotiations with National Steel for the purchase of the plant, the ISU and its consultants announced that it would only be necessary to reduce the compensation of Weirton workers by approximately 20%.

This announcement revealed the spurious character of the original proposed 32% reduction in compensation. The figure appears to have been, not a financial estimate, but a political judgement of how much the traffic would bear, of how much could be extracted from Weirton workers. Thanks to the agitation of the Rank and File Committee, the proposed reduction was itself reduced by more than a third.

Was any reduction justified, and if so, how much? Weirton had historically paid its workers about 10% more than the compensation provided by the Basic Steel Contract, in order to avoid unionization by the USWA. The union's accountant estimated the hourly employment cost of Weirton steelworkers on April 1, 1982 as \$24.91 an hour. The American Iron and Steel Institute publishes a monthly report which provides the hourly employment cost of all steelworkers. In April 1982 that figure was



Bill Carey

\$22.63 an hour. In April 1982 the Weirton steelworker was paid about 9% more than his/her counterpart in basic steel.

Accordingly, the Rank and File Committee took the position that a 10% reduction in compensation was acceptable, but any further reduction would be scabbing on brothers and sisters covered by the Basic Steel Contract.

David Moberg of *In These Times* reported the reaction of Weirton union leaders. Moberg asked them whether they were not concerned "to stop the immense wage cuts which have an effect on all steelworkers."

"No," David Robertson, attorney for the union, answers. "It's an independent union and I think you find there's no such feeling of solidarity." Besides, he notes, nearby Wheeling-Pittsburgh Steel with USW representation, has taken large wage cuts in exchange for stock.

"If there is going to be one domestic steel company alive in this country, we intend it to be Weirton," union president Bish said. "I don't feel bad about undercutting them," union officer and Joint Study Committee member Emil Morelli said, "if that's what we're doing. We're stockholders. That's the way big business is. I'll be an equal owner of a big business."²

The End Of Equal Voting Rights

From the beginning, the Rank and File Committee demanded that each employee of the new company have an equal say in running it. The Rank and File Committee program of April 1982 stated:

To insure democracy in the operation of the new company and participation on the part of all employees in the decision making process, both on the shop floor and in the board rooms, we propose that all employees have an equal vote. That is, one person, one vote, regardless of the amount of stock one can afford.

For a time, it seemed that the JSC consultants intended to embrace this proposal. On October 29, 1982, the three consultants—Lazard Freres & Company (financial), Willkie Farr & Gallagher (legal), and Ludwig & Curtis (ESOP structure)—wrote a joint letter "to the employees of Weirton Steel" enclosing an outline of the proposed ESOP structure. Because of its simplistic style this document came to be known in rank-and-file circles as

"the comic book." Nevertheless, the document was quite explicit in endorsing the principle of equal allocation of the new company's stock:

We recommend that each year every employee get an *equal* amount of the total stock allocated because:

- A 32% cut is just as rough for a laborer as it is for the highest paid person in the company, and
- Everyone's sacrifice is essential to make Weirton work.

Although other ESOPs allocate stock based on formulas involving compensation, seniority or other factors, we think equal allocation is fairest and best.

In summer 1983 this proposal was quietly abandoned. On July 5, the three consultants addressed a memorandum, *not* to each employee, but to the members of the JSC, entitled, "ESOP Structure: Allocation of Stock, Distribution of Stock, and Voting Rights." The memorandum stated in part:



We originally recommended that each year every employee should receive an equal amount of the total stock allocated. . . . [Now] we think Weirton should allocate stock in proportion to compensation.

This critical change was never highlighted for union members.

Decision making in the new Weirton Steel is further affected by the ESOP's provisions for distribution of stock, and voting. The ESOP provides that no distribution of stock (that is, of stock allocated to the accounts of individual employees as the ESOP loan is repaid) may take place for five years. According to the July 1983 memorandum the reason for this is "to preserve the independence of the Board of Directors." Moreover, the possibility of distribution after five years involves a Catch 22. According to the memorandum, "Weirton will not be able to afford full distribution. . . unless Weirton stock can be sold to people other than employees of the Weirton ESOP" by converting the stock of the new company to a public stock issue. But conversion of Weirton's stock to a public issue would inevitably dilute ownership of shares, and destroy the last vestige of worker control of the corporation. Accordingly it can be anticipated that in about 1988 workers at Weirton will face the following cruel choice: In order to obtain the stock allocated to their individual accounts, workers will have to agree to give up control; but if they insist on retaining control, they may not be able to exchange their shares for cash.

The consultants defend the presentation of this choice to employees because they provide that this particular vote (unlike routine decisions of the corporation) would be decided not by the Board of Directors, but on a "one man, one vote" basis.

I consider this rhetoric demagogic. It is inevitable that all but a handful of workers, if forced to choose between their economic interest and a very attenuated form of control of the company, will opt for ready cash. The Weirton consultants state in the July 1983 memorandum: "When Weirton employees vote on this issue [of whether to 'go public'], we would recommend that they approve public ownership." The fact is that the consultants have cynically structured the process so that employees will have little practical choice except to approve a public stock issue.

Worker Ownership à la Wall Street

On September 23, 1983, the proposed buyout was approved by an overwhelming majority of 89% of those voting. Voters also approved a six-year labor contract prohibiting strikes and wage adjustments for that period of time. (The Rank and File Committee

unsuccessfully sought to have the full text of the proposed contract made available to members before the vote.)

By the time the vote was taken, the leadership of the new company was in place. Robert L. Loughhead resigned as president of Copperweld Steel in Warren, Ohio, to become president of Weirton Steel at \$250,000 a year. Weirton Steel's Board of Directors included management representatives, labor representatives, and a majority of six so-called "independent" representatives.

The "independent" representatives are: Herbert Elish, a senior vice president of International Paper Co., formerly vice president of Citibank and executive director of New York City's Municipal Assistance Corporation; Gordon Hurlbert, a member of the management committee of Westinghouse Electric Company Power Systems, a Westinghouse subsidiary; Lawrence Isaacs, former chief financial officer of Federated Department Stores Inc. and Allis Chalmers Corporation; F. James Rechin, group vice president and general manager of the Aircraft Components Group of TRW Inc.; Richard F. Schubert, president of the American Red Cross and former vice chairman and president of Bethlehem Steel Corporation; and Phillip H. Smith, formerly chairman and chief executive of Copperweld Corporation.³

In July 1984, the Associated Press checked out the largest worker-owned firm in the United States and reported:

The nation's largest experiment in employee ownership hasn't erased the invisible line between labor and management at Weirton Steel, despite a public relations campaign depicting the workers as their own bosses.

The story continued:

"The relationships between management and the union have not changed," says union officer Craig Petrella. "Yes, they do listen. Yes, they do talk a lot. But all we're getting right now is lip service."

Few stories of the recession-ravaged U.S. steel industry have received as much national attention as the Weirton workers' Employee Stock Ownership Plan, which headed off near-certain closing of the massive mill.

Many of the accounts have conjured up images of sweat-drenched steelworkers occupying corporate boardrooms, taking control of the company that once controlled most of the lives in this company town.

But many of the "7,000 heroes" of Weirton Steel, as the

workers were described by one of the New York bankers who helped put the deal together, don't see any change in the traditional adversary relationship between labor and management.

The AP found that "most workers felt they had no choice—the original owner, National Steel Corp., was determined to unload the mill." Union officer Petrella commented that many laid-off workers had been rehired, but that even more should be working. "They're doing more work with fewer people," according to Petrella. "Where three people used to do a job, I think two people are doing it." Petrella also told the AP that workers were being told to do things "twice as fast as it's normally done," and that quality was suffering as a result.

Charles Cronin, the mill's public relations director (as he was for the old company), responded that combining jobs is a part of management's plan to "fine-tune" the plant and make it more profitable. But Christy Graziani, a 25-year employee, says that many employees don't feel like owners: "They think they've been asked to give too much already, with little in return."

Concluding Note

Readers who want more information about "worker ownership" at Weirton may be interested in:

- An article by Jonathan Prude entitled "ESOP's Fable," appearing in Number 78 of *Socialist Review* (3202 Adeline Street, Berkeley, California 94703).
- A new movie, *The Great Weirton Steel*^a by Robert Machover and Catherine Pozzo diBorgo, from First Run Features (153 Waverly Place, New York, New York 10014).

Both "ESOP's Fable" and *The Great Weirton Steel*^a share the fundamental point-of-view of this article.

A Pittsburgh-based group, the TriState Conference on Steel, has developed an alternative approach to the reindustrialization of the steel industry. Its critical features are: 1) reliance on government grants or government-guaranteed loans, 2) local management by workers or a combination of workers and community representatives, and 3) use of government's eminent domain power to acquire abandoned or under-utilized facilities. This program is set forth in a pamphlet, *Rebuild Steel: A Program to Reconstruct American Industry*, available for \$1 from the TriState Conference on Steel (Box 315, Homestead, Pennsylvania 15120).

The United Steelworkers of America has endorsed the TriState approach for the Monongahela Valley, where, at this writing, the struggle centers on whether United States Steel will be permitted to destroy a new Basic Oxygen Process shop and blast furnace at its Duquesne Works. ♦

Notes

¹ Thomas F. O'Boyle, "Planned Sale of Steel Plants Brings Hope to One Ohio River Town, Fear to Another," *Wall Street Journal*, April 6, 1982.

² David Moberg, "At Weirton Steel, It's Buy It Or Lose It," *In These Times*, December 15-21, 1982.

³ "6 Picked for ESOP," *Wheeling Intelligencer*, July 14, 1983.

The Great Weirton Steel^a

Produced by
Robert Machover

Directed by
Catherine Pozzo di Borgo

55 minutes, color
16 mm and video

Classroom rental: \$100
Purchase—16 mm: \$850
Video: \$500

*"The Great Weirton Steel^a
is unique among
documentaries about the
current depression in
America's heartland
because not only does it
let people speak for
themselves, but it shows
the human cost of
'miracle' remedies and
leaves us few illusions
that there are easy
answers."*

Stanley Aronowitz,
author of *Working Class Hero*

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