WEIRTON STEEL:

Buying out the bosses

On March 2, 1982, a date the residents of Weir- ton, West Virginia, still enunciate with divorce-court exactness, the National Steel Company issued an ultimatum to the workers at its Weirton mill. Either they would have to buy the aging mill and operate it themselves, or else National would gradually shut it down.

Discerning eyes would have noticed the signs long before the announcement—the decline in new investment, the orders that increasingly were being funneled to other mills in National’s corral, the engineers from company headquarters who arrived to examine old equipment with the meticulousness of an appraiser preparing for an estate sale. The world beyond Weirton offered other, equally ominous signs—the foreign steel producers who were crowding into the American market, the soft drink and beer producers who were increasingly substituting aluminum cans for the steel ones made from tinplate, Weirton’s specialty. But the most obvious sign of all was the layoffs, only a few workers at first, but then a steady stream until only 7,500 people were working at the mill, which had employed 11,000 as recently as 1980. Still, when the ultimatum finally came, “It hit like a tornado,” the wife of a steelworker told me. “One day you were thinking about whether to have the windows fixed. The next day you didn’t know whether you would have a house.”

Not to mention whether the 25,000 inhabitants of Weirton would still have a community. It’s almost impossible to exaggerate how the 400-acre mill dominates the life of this Ohio River town situated on the sliver of West Virginia between Pennsylvania and Ohio. The mill’s smokestacks tower over Main Street with the authority of church spires, and the presence of Weirton Steel is felt at almost every turn, from the gleaming, eight-foot-tall tin can that greets visitors on the highway, to the wall decorations in the gym at the Millsop community center—a large “Support Our Steel Industry” on one side, a giant steel industry logo, like the one on the Pittsburgh Steeler helmets, on the other. Just about everybody in Weirton either works for the mill or has relatives who do, and the paychecks the company distributes provide the support system for every doctor and banker and business person in town. “What would this house be worth without the mill?” asked Eli Dragasich, an optometrist and former county commissioner, as he swept his hand across his cluttered den when I visited there in the fall.

It wasn’t that the mill was losing money, as people in Weirton are quick to tell you. Even in the previous year, a disastrous one for the steel industry, Weirton Steel had managed to eke out a 1 percent profit. The problem was that Weirton wasn’t profitable enough. National was now determined to make a 20 percent return on its investments, and to achieve this, it had been cutting back its commitment to steel and had expanded into banking, insurance, and real estate.

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BY JONATHAN ROWE

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ELECTRONIC REPRODUCTION PROHIBITED
in the next decade just to stay competitive and comply with the law, those who knew the company weren’t at all surprised at the conclusion. Weirton Steel, at least to National, was too expensive to keep.

But if Weirton was too expensive to keep, it was also too expensive to close down. Generous layoff, severance, and pension provisions in the existing union contract meant that a shutdown would ultimately cost National almost $800 million. The company had only $350 million in its reserves to cover these liabilities. On top of that, National wouldn’t get any of the juicy tax write-offs that normally accompany a plant closing: thanks to the generosity of the corporate tax laws, it wasn’t paying any taxes to take write-offs against. In fact, the Treasury owed National $264,000 in unused credits. Besides, National had little desire to be blamed for devastating the economy of an entire region just 30 miles west of its corporate headquarters in Pittsburgh.

National’s best option was to sell the plant. But if it’s difficult to sell a three-bedroom house in a community that’s suddenly half-way to becoming an industrial ghost town, it’s almost impossible in the depths of a recession to unload an aging steel mill on another corporation. That left only one alternative: offering Weirton Steel to its own employees.

So for the next 18 months, the citizens of Weirton argued and debated, enduring waves of rumors, hot and cold news flashes, and a seemingly endless state of limbo. Finally, on September 23, 1983, a date Weirton residents also enunciate but with a markedly different tone, the members of the Independent Steel Workers Union, which represents the workers at the plant, voted by an eight to one margin to become its new owners.

The Offensive ‘We’

There is, of course, nothing new about worker-owned companies; the Mom and Pop grocery store operates on precisely this principle. But if the Weirton deal is finally consummated—and all that stands in the way is a soon-to-be-resolved lawsuit over pension benefits—Weirton Steel will become the largest employee-owned company in the United States.

For that reason alone, what has happened in Weirton is worth closer examination. But there’s more. For one thing, the reaction to this buyout—and to the very idea of employee ownership—reveals a great deal about the ideological blinders with which many still approach these issues. Many conservatives, for example, would agree with Edgar Speer, the former president of U.S. Steel, who in 1978 called “nothing short of a communist takeover” the efforts of workers at Youngstown Sheet and Tube to buy the plant that the Lykes Corporation was abandoning. National Review recently dismissed employee ownership by snidely noting the difficulties of the employee-owned Rath packing plant in Waterloo, Iowa—as though free enterprise should be off limits to those who wear green khakis instead of three-piece suits.

From the left have come similarly reflexive dismissals. The Nation worried in a recent article that the Weirton buy-out might inspire a “continuing deterioration of wages, hours, and working conditions”—as though workers should ride an escalator that rises ever upwards towards “more,” on which “sacrifice” is unknown and others take all the risks. Staughton Lynd, an historian and labor attorney who challenged the need for concessions by the workers at Weirton, raised some good questions about the buy-out process. But in harping on the concessions, he missed a fundamental point. “I was offended,” he told me, “by the use of the word ‘we’ on all those billboards” that went up around town—“We Can Do It,” “Let’s Save Weirton,” and the like. For Lynd, and many others, the idea that there can be a sense of community that rises above the “Us” vs. “Them” mindset of traditional industrial relations apparently is hard to accept.

But such ideological debates really are not central. The motivation in Weirton was not ideology but survival. In the 18 months between National’s ultimatum and the vote this September, the people there had to grapple with some of the fundamental flaws of modern American capitalism: the consequences of corporate managers obsessed with short-term profits, tacit complicity of many organized workers, and the disastrous consequences of the separation of ownership and responsibility that is endemic in the American corporation. Their response—the buy-out—is hardly the only possible solution to these problems. It would be naive, moreover, to dismiss the possibility that this particular experiment may not itself succeed. But in trying to fashion a new way in which Weirton Steel may once again succeed, the citizens of Weirton have provided an instructive tale of where American enterprise has gone wrong, and what steps we can take to help set it right.
Class Warriors

The rescue effort began virtually the day National announced its ultimatum. Unlike most buy-outs, which have been initiated by the union, in Weirton it was the mill's local managers who took the lead, establishing a joint committee of labor and management representatives—20 and six respectively—to coordinate the effort. Their first step was to determine whether an employee-owned Weirton could survive. This was by no means to be assumed. In 1982, major U.S. steel companies lost more than $3 billion; fewer steelworkers were employed than at any time since the industry began keeping records. Low-wage steel producers, such as Brazil and South Korea, were continuing to expand their capacity in an already glutted market.

Enter the consultants. Down to Weirton trooped representatives of the nation's most prestigious firms—Booz Allen, Arthur D. Little, McKinsey and Company—to offer their services to the cause of employee ownership. In April 1982 the committee finally chose McKinsey, largely on the strength of its recent study of the European steel industry for Belgian Steel.

The committee had reasons for selecting such an established, and expensive, firm. Miles Dean, who represented West Virginia Governor Jay Rockefeller in the negotiations, said, “It was the blue-chip aspect. We felt that to be successful, we would have to market the output.” The new company would have to borrow heavily, and banks are apt to be cautious regarding an employee-owned company, especially one the size of Weirton. If the buy-out went through, Weirton Steel would be a $1 billion-a-year company and a member of the Fortune 500. Hence the committee wanted a report that would be unimpeachable on Wall Street. The union representatives on the joint committee concurred with this assessment. “We saw what had happened in Youngstown, and we didn't want to let that happen here,” a union official recalled.
In May, with preliminary findings in hand, the joint committee started to line up the legal and financial talent they would need to negotiate with the heavies from National. In keeping with their blue-chip strategy, they chose the New York City firm of Wilkie, Farr, and Gallagher, a prominent name in mergers and acquisitions. On Wilkie Farr’s advice, they retained as well an investment banker to help line up the financing the new company would need. After interviewing yet more blue chips—Merrill Lynch, Goldman Sachs, Oppenheimer, and Lazard Freres—the Weirton committee settled on Lazard, which is probably best known for its work on the New York City bailout. “They like the hard ones, and they are close to labor,” Dave Robertson, the union attorney, explained.

The team the committee assembled was hardly your typical cast of characters for the class war, and the abundance of talent—and billable hours—raises eyebrows to this day. But more than a desire to please Wall Street was behind the strategy. In a subtle yet important way, the joint committee was putting more distance between itself and National Steel. The choice of Wilkie Farr, for example, meant the dismissal of Alan Lowenstein, an attorney who had helped negotiate another famous employee buy-out—General Motors’ Hyatt-Clark bearing plant in Clark, New Jersey. But Lowenstein had been hand-picked by National and presented to the joint committee, and they weren’t about to accept. (“He was doomed the day National recommended him,” explained William Doepken, a division manager and member of the joint committee.) Whether National had intended to or not, it now found itself negotiating for real, in the big leagues.

The lawyers and financiers made an odd match with the steelworkers for whom they were now working. One was Skip Spadafora, who’d started working on the casting line in 1969 after a stint in Vietnam. Spadafora had run for union office in the midst of the buy-out negotiations “to see what was going on in there,” he explained, and ended up a negotiator himself. Spadafora, who had some business experience, studied the Internal Revenue Code in the evening to make sure Lazard Freres was giving the workers the true picture; “I thought I caught them once, but it turned out that the library here didn’t have the most recent books,” he recalled. “I wasn’t awed by those people, but look, when you are paying someone $225 an hour, you have to respect them.” Another of the 20 union negotiators was Walter Bish, who in June 1982 defeated the incumbent ISWU president, Richard “Red” Arango, who by most accounts was not the ideal choice for navigating the complex issues involved. The 36-year-old Bish had gone to work as a brakeman on the mill railroad right out of high school—“Like everyone else,” he says—and with Robertson, the union attorney, and Carl Valdeserri, an executive vice president, Bish is cited by people in town as a key figure in holding this unlikely enterprise together.

It’s a Wonderful Life

In July 1982 McKinsey and Company issued its final report. The good news was that Weirton Steel could survive, even given worst-case assumptions about the economy. The plant was basically sound, its reputation as the nation’s highest quality producer of tinplate intact. The market for tinplate, though declining, was still the most stable of all steel products.

But some sweeping changes in the new company were necessary—changes that went to the root of where Weirton Steel, under National’s reign, had gone wrong. For example, National had locked Weirton Steel into contracts for ore and coal from mines that National itself owned, and these were costing Weirton an extra $20 million a year. The joint committee would have to convince National to cancel those contracts. McKinsey also discovered something that workers in the plant could have told them—that the plant was top-heavy with management. The team identified at least 400 management positions that could get the axe, which was hardly comforting news to the local managers who’d been so gung-ho for the buy-out.

The workers received their own share of bad news. For the mill to remain competitive and to generate the capital it needed for new equipment and repairs, McKinsey concluded that compensation would have to be pared by 32 percent. About 12 percent of that cut could be transformed into stock owned by the workers, so that over the first three years of operation each worker would invest up to $18,000. If the company prospered, that stock could be worth as much as $90,000 by the end of the decade, but there would be no guarantees. The workers would of course have to take a direct cut in pay and benefits of 20 percent. It was tough medicine, and deliberately so. Ron Bancroft, who headed the study for McKinsey, observes that when companies fail after a worker buy-out, it’s often because they “didn’t fundamentally change their economic
position.” He goes on to explain that “if they don’t ask for a large enough cut the first time around they have no credibility left when they have to go back a second time!” The strategy here was to pack as much of the pain as possible up front, when people were most prepared to accept it.

Meanwhile, the buy-out effort was becoming a civic crusade that often seemed scripted by Frank Capra. There were parades down Main Street, signs and posters everywhere, green ribbons on car doors and in shop windows as symbols of hope. A Share Our New Beginning Committee was formed to help defray the costs of all the lawyers and consultants, whose bill would eventually come to more than $5 million. Governor Rockefeller had put up an early $125,000 for the McKinsey study; in Weirton, the fund-raising began, by one account, with a $40 tupperware party, perhaps the first on record to be held for the benefit of Wilkie Farr and Lazard Freres. Checks for $500, $1,000, and even more came in from local merchants. The Starvaggi Company, the legacy of a rags-to-riches local millionaire named Michael Starvaggi, donated $20,000. Steve Mindzak, a local dry cleaner, offered to dry clean second garments for free to “show the mill workers in their hour of need.”

The contributions to the committee were duly recorded on a billboard in front of the Thomas Millsop community center (named, of course, for one of the mill’s former presidents). The climax was a telethon on the local cable television station. Expected to raise $40,000, it drew roughly $150,000 in pledges. Eli Dragasich, who answered phones at the studio, recalls three calls from retirees in Florida, one of them from a widow who pledged her entire pension check. “That was the high point for me,” Dragasich says.

Retirees proved to be the single most generous group, a fact that didn’t surprise Carl Swift, who headed up that part of the effort. “They’ve been through hard times before; they know what it takes,” he says. The “hard times” Swift referred to were during the Depression, when Swift started in the machine shop at the mill, and quickly worked his way up as an engineer and trouble-shooter. Today, those fortunate enough to be working are getting overtime as well, but back then people shared what work there was, as long as each man could get in at least two days. Carl Swift recalls spending hours on the telephone, trying to line up work for the men the mill had to turn away. “The times were hard,” Swift said. “But it helped eliminate greed, and it got the people to share.” Since then, Swift has seen a lot of changes, in the mill and in the community at large, and not all of them for the better. A gentle man, with clear eyes and short white hair, he is inclined to see a redeeming side to National’s ultimatum. “It was almost a godsend,” he says. “We had been drifting apart.”

Perhaps one sign of those changes was something people like Bish and Robertson prefer not to talk about. The group that contributed least to the fund-raising drive were the workers themselves; less than 10 percent of them gave money. The explanations are varied: that the workers already were taking a big wage cut, that the union had given half a million dollars from its (unused) strike fund, and that a purpose of the fund raising was to get the rest of the community involved. “I don’t see the doctors and the grocery stores bringing down their prices,” one worker told me. Still, the seeming indifference of the workers to the fund-raising drive generated bad feelings that linger still. As one fund-raiser told me, “It became rather hard to ask a policeman making $18,000 a year for money to save the job of someone making $35,000 a year.”

Workers weren’t chomping at the bit to get involved in other ways, either. Granted, the negotiations were a top-down affair, as things in Weirton usually are, and in this case, somewhat by necessity. Still, when the union did hold plant meetings to discuss the issues, workers insisted it be on the company’s time, not their own. Jim Zarello, a leader in the UAW local that bought the Clark-Hyatt plant was invited to address the Weirton union early in the negotiations. “I got a very strong impression that there was minimal involvement in the buy-out process,” he recalls. Instead, something very different was happening in Weirton. “Everywhere I went,” he says, “to a bar, a restaurant, they’d have these ‘Let’s Save Weirton’ signs. This was a town movement, more than a union movement.”

All in the Family

A town movement. In a way, that’s why Weirton’s founder, E.T. Weir, brought his company here in the first place. One of those remarkable steelmen that the Pittsburgh area produced around the turn of the century, Weir had quit school at 15 to go to work at a wire company, and by the time he was 28 he had become a partner in a sheet and tinplate company in Clarksburg, West Virginia. Weir was beset by the
fear that U.S. Steel, an “integrated” producer that owned its own mines, would contrive to choke off its raw materials. To counter this, he would have to expand. At the same time, he feared organized labor, with its violence and strikes, and was convinced big cities bred these because they separated workers from management. He sought, therefore, a setting for his new plant where, as an associate recalled, “workers and managers lived near each other, they belonged to the same churches and fraternal organizations, and in many cases were family members, relatives, and friends.” He envisioned, in short, a benevolent company town, and the only way to have one was to start his own. In 1909 he began construction in what had been apple orchards and wheat fields on the Ohio River, and by the end of the year Weirton was born.

It was the profits from the Weirton mill that enabled Weir to build the fully integrated company of his dreams. In 1929, he combined the Hanna Mining Company, Great Lakes Steel, and Weirton into the National Steel Company, which before long was the fifth-largest producer in the United States.

The Depression didn’t hit Weirton as hard as it did many places, but times were hard nevertheless. During the war, there was more austerity still. But after that, prosperity returned, and the company was true to Weir’s belief that for industry to thrive, workers had to have money in their pockets. For this reason, and to keep labor peace, the company developed a tradition of giving members of the Independent Steel Workers Union, the company’s in-house union, the same deal as the United Steelworkers won in their national bargaining, with a few extras thrown in. By the end of the 1970s, Weirton employees were the highest-paid steel workers in the world, with average wages exceeding $30,000 a year and some employees making up to $70,000.

“Things were going good, and boy did we enjoy it,” Carl Swift recalls. Comfortable ranch homes began to sprout up in places like Weirton Heights, and driveways became crowded with four-wheel drives, Thunderbirds, and Camaros. One resident recalled a young man with two cars and a boat who went around to his neighbors looking for garage space for the third car he was planning to buy.

Weirton was enjoying the insular prosperity of a benevolent company town “shut off from the way much of the rest of America lives,” a local clergyman said.

But E.T. Weir’s legacy of community, paternalism, and prosperity was shaken by the trouble that rocked the steel industry in the late 1970s. At that time, moreover, National Steel put in place a number of policies that altered radically the chemistry of the community and the mill itself.

The first change concerned promotions. Weirton Steel had traditionally promoted from within its ranks. “Weirton offers you more than a job,” the cover of a 1964 employment brochure proclaimed. “There’s a FUTURE for you in STEEL.” There was a sense of opportunity in the mill; experience and skill were valued.

About five years ago, however, National began to change this long-standing policy; it started bringing managers in from the outside. Adding more salt still, the company began to hire recent college graduates and set them to managing mill veterans, at the same time it was laying off thousands of local boys. The bitterness reverberates through Weirton to this day. “We were looked down on as idiots,” a mill worker told me. “There’s a lot of smart people in this town,” the daughter of a mill worker told me, but clearly addressing the hated executives in Pittsburgh who seemed to think otherwise.

On top of these indignities was a sense of grievance regarding the way National was treating the mill itself. There was no new investment, and maintenance, some felt, was slipping. “When we needed parts for a machine,” Richard Palo, a 20-year veteran in the machine shop told me, “they’d tell you no. So we made the parts ourselves.” Until the last couple of years, when the whole industry took a dive, Weirton had been making profits. But where were these profits going? E.T. Weir had been committed to making steel; he shunned passive investments, even after he became wealthy, and scorned financiers as merely “shrewd and successful gamblers,” one of his assistants recalls. “What did they build?” he would ask. Yet the man who now occupied Weir’s position as president of National Steel, Howard Love, was taking profits that Weirton workers had sweated to produce and was paying $241 million for a California Savings and Loan. Love was also enjoying a $1.15 million golden parachute at the same time younger workers were told they could no longer receive supplemental unemployment benefits because the fund had run out of money.

Both the workers and townspeople of Weirton were beginning to feel like unwanted stepchildren in the National Steel conglomerate. National had taken away the plant’s sales force, and the mill was partially shut out of the automobile market,
which E.T. Weir himself had pioneered, because other divisions of the company were selling to Detroit. The good orders, workers said, were shifted to these other mills; and there is even talk of tinplate from these other mills being identified as made in Weirton. On top of all that, National had hedged its bets in the declining tinplate market by going into the aluminum business. Although it was not itself making the cans, the move did not convey to people in Weirton that the company’s future—let alone its heart—was with them.

So when National finally announced its intention to leave in 1982, many in Weirton were not shedding tears. The day after the ultimatum, one worker spoke for many when he told a reporter that “If it severs all ties with National Steel, it’ll be the best thing that ever happened.” The feeling in the community, according to Dragasich, was “Goddam it. We built this company. Let’s show those bastards we can do it.” But these feelings towards National Steel had a double edge. Many in the work force, younger workers in particular, were cynical regarding the buy-out. After all, National wasn’t doing this for charity, was it? Morale in the mill had reached rock bottom—“I’ve never seen it so bad,” Carl Swift said—and there was a feeling among older workers that many of their younger colleagues were not doing their share. “I’ve had deadheads like you wouldn’t believe,” one older worker told me. Then, too, there was the unpleasant reminder in the McKinsey report that while National’s management had been grabing, the workers were not completely innocent in this regard.

There was, for example, something called the “pyramiding” of overtime. If you worked two shifts in a 24-hour period, you got overtime. If, at the end of that week, your hours totalled more than 40, you got overtime again. In effect, you got it twice on the same hours. The rule added about 23 cents an hour to overall compensation costs of more than $27 an hour, a figure that also took into account health benefits and, for most workers, five annual weeks of vacation. In addition, there seems to have been something of an atmosphere at Weirton similar to what Jim Zarello describes at Clark-Hyatt before the workers there bought the company from G.M. “It was no secret,” the union leader said, “that the union helped create an atmosphere where people who were in the plant eight hours a day did four hours of work.”

Coming to terms with such excesses was not easy. On top of that, there is a natural inclination in a company town to let the authorities take care of things, to grumble privately but not step forward or too far out of line. One finds among Weirton’s workers a good deal of enthusiasm for the buy-out. But one finds a good deal of suspicion, and shrugging acceptance of it, as well.

Nothing for National

The McKinsey report merely said that the buy-out was possible; but there were literally hundreds of issues to be resolved before it could actually happen. There ensued months of exhausting negotiations, four or five meetings a week, often lasting all day. Wilkie Farr and Lazard were negotiating the buy-out from National on behalf of the joint committee, while the labor and management members of that committee were negotiating between themselves regarding what their new company would look like.

On March 16, 1983, the parties finally reached an “Agreement in Principle.” Though both sides made compromises, the joint committee’s “$225-an-hour lawyers” (as they are commonly called around town) had succeeded, in the words of National’s own Howard Love, in “driving a hard bargain.” The workers would pay National just $74.7 million in cash, financed from a $120 million line of revolving credit that Lazard Freres
had managed to secure from a consortium of banks headed by Citibank for just 1.5 percent over prime. The workers would also pay National another $120 million, but the mortgage would be held by National on terms even more favorable to the new owners. No payment on the principle was due for six years, and no interest payments would be due until Weirton reached a net worth of $100 million. Wilkie Farr and Lazard also bargained National into assuming certain pension obligations that in effect reduced by a third the cut in compensation the workers would have to take.

Now the joint committee had to sell this package to the people in the mill. The two potentially toughest issues were the pay cuts and pensions. The pay cuts, which would have been explosive in most other settings, proved not to be so here, and the reasons are instructive. First, of course, was necessity. "What was the alternative?" is the question you hear time and again; and indeed, 80 percent of $27.60 an hour is not all that bad. "When people complained about the cuts," Richard Palo told me, "I just told them to go tell their problems to the guys standing in the unemployment lines in Detroit!"

But there was another reason—whom they were taking the cuts for. "You don't squawk about the cuts as much if you feel you'll be working for yourself," said Patsy Fratto, a local barber who heard just about every side of the issue. The stock that workers would be getting for part of their pay cuts could be worth as much as $90,000 by the end of the decade. But economics wasn't the whole story. I asked Skip Spadafora why workers wouldn't have taken the kind of cut for National Steel that they were taking now. "Why should we give concessions to them, just so they can milk them?" he replied. With National out of the picture, there was much less feeling of being taken for a sucker. "We felt deep in our hearts," added Richard Palo, "that we didn't need National Steel, and if it takes a pay cut to rebuild this mill for ourselves and our community, we'll do it." Not for National Steel. For themselves.

The issue of pensions was far touchier. "Pensions are the priority here," said Carl Ferguson, a 49-year-old shop steward. "Pensions have always been the priority." It is hard to convey the extent of pension awareness in Weirton. The idiom of entitlement—Rule of 65 and 70-80s, "Work-To-Get"—is as familiar there as terms like "IRT" and "Eighth Avenue Line" are in New York. The issue was not the sanctity of the pensions. That was a given. The issue was the way existing pension arrangements might have divided the work force between younger workers who needed to keep the mill going, and older workers who, from a personal standpoint, didn't.

Behind this potential division are the two provisions mentioned above, the Rule of 65 and 70-80s. In essence, these enable certain groups of older workers to retire with full benefits plus an extra $400 per month, if the plant shuts down. So if National had simply closed the gates and sold the place for scrap, these workers could have retired early, perhaps to a sunny beach in Florida. But if the workers bought the plant, not only would these older workers have to keep working at lower pay. On top of that, there would be (after five years) no more umbilical cord to National's vast wealth, which had made the cushy retirement benefits so secure.

"I was worried," Spadafora said. "The issue was definitely there." There was much argument and discussion. One fellow told Richard Palo, "I got 35 years in the mill and I don't care" what happens to it. He had told the wrong man. "How would you feel if someone told that to you when you were just starting out?" Palo replied. Spadafora says he would just ask people what they would do with their house if the plant closed. The house again—an argument met with thoughtful silence. But what really diffused the pension issue was another of E.T. Weir's legacies to this company town, the way the mill serves as a link between generations. As shop steward Gaylord Miloy explained it to me, "I gotta look at this thing and say, 'Hey, what's best for me and my family?' I have nephews, brothers, brothers-in-law in that mill!" There were many, many others in that same situation.

Not everyone was convinced. Some 200 older workers filed suit to demand their extra $400-a-
month retirement benefit if the workers buy the mill. (This is the suit still pending at this writing.) But in late September, 6,064 hourly and 868 salaried employees finally voted on the buy-out plan. Though nearly half the union workers would have received a pension had the mill shut down, the vote wasn't even close. By an 8 to 1 margin, the former employees of Weirton Steel became its new owners.

Sweat Equity

So for the time being, at least, 7,000 workers still have their jobs and the citizens of Weirton still have their community. Obviously, it's too soon to know how worker ownership will affect this one mill, and workers caution against expecting great changes overnight. Still, there are signs. "I see a lot of men returning after the layoffs with significant changes in attitude," observes Ralph Bell, a 55-year-old mill worker. While Weirton apparently has never shared the enthusiasm of other unions for picky work rules—those that require, for example, that only an electrician can cut a piece of wire—there may be a different attitude towards the ones they have. Carl Swift relates a story of a craneman who was kept idle—at time and a half—while the shop steward insisted upon the old work rule that required a journeyman to perform some needed repairs. He thought better of it later; "that's my money," he realized. Though there's some grumbling about the $250,000-a-year (plus bonuses) salary of Weirton's new president, Robert Loughhead, the man himself has gotten some good reviews. Gone are the pronouncements from Pittsburgh. Though there's some grumbling about the "Loughhead's theory is, 'talk to the guy who does the work in this mill. (This is the suit still pending at this writing.)"

GREYHOUND:

On a chilly November evening, John G. Holmes, a Greyhound bus driver, walked a New Orleans picket line. Yes, he was worried about losing his job as a result of this strike by the Amalgamated Transit Union. But he was not about to accept the wage and benefit cuts that the Greyhound Corporation was demanding. "If the president of the company is willing to take a cut, then I'm willing," he told me. "This guy at Chrysler took a cut because Chrysler was in trouble. So why isn't [Greyhound chief executive John] Teets taking a cut?"

The strike by Greyhound's 12,000 workers, which may end soon if union leaders accept an agreement recommended by their leaders, has been bitter and often ugly. Workers were jailed and police hospitalized after several angry clashes on the picket line. Strike-breaking drivers pulled into the terminal with bullet holes in their buses. And a picketing employee in Ohio was killed after accidentally being run over by a driver-training bus.

How much money Greyhound was asking its workers to give up was somewhat difficult for the public to determine. The company took out full-page advertisements in about 200 newspapers, claiming that the average Greyhound driver made $35,000 and was being asked to take only a 9.5 percent cut. But the Greyhound ads were misleading; the company's proposed wage cuts actually ranged between 17 and 23 percent, and would have reduced the average driver's salary to about $24,000. Mechanics' wages would have dropped to $18,500, terminal workers' to $17,500, and office employees' to $14,000.

Of course, wage concessions often are necessary to help restore the health of a distressed company, and this may well have been the case at Greyhound's bus operations.
that it seems. Corey Rosen of the National Center for Employee Ownership observes that "most corporate boards work by consensus. It's not that crucial to control the board." Probably a greater threat to control of the company is a provision that will enable the employees to vote, after five years, to sell the company’s shares on the open market, to relieve the cash-scarce company of the need to buy back the shares of workers when they retire. If the workers do vote to "go public" they could end up losing control to outside investors—even to another National Steel—and be subject once again to the same relentless, profit-maximizing calculus that got them into so much trouble in the first place.

A New Calculus

A more immediate problem concerns the degree of worker participation in the day-to-day running of the mill. This is crucial. "There have to be procedures so it's really worker ownership,"

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When Sacrifices Aren't Shared

line. The bus line had sustained a $16.3 million loss last year, at least by Greyhound’s accounting. With bus deregulation bringing price wars and discount airlines cutting into the bus market, Greyhound was trying to face this new competition with wage and benefit levels that it claimed were from 30 to 50 percent higher than the industry average.

But convincing workers to agree to sacrifices depends largely on how the burden is shared. The behavior of Greyhound's executives provides a graphic illustration of how not to ask workers for cuts, and how the fears of unions about being played for suckers by greedy managers are sometimes all too valid.

But to members of the Amalgamated Transit Union, the issue of fairness was just as important as money. The workers knew that while they were being asked to take substantial cuts, John Teets, Greyhound's chief executive, was getting a salary of $614,000, 40 percent higher than the previous year, and he had not offered to take any cuts himself. Teets had also secured a golden parachute that guaranteed him more than $1 million in the event of his dismissal. Other Greyhound executives had recently received raises on top of their six-digit salaries, as had the bus line's supervisors. None of them offered to take any cuts, either.

That the employees were unable to respond effectively to management’s misleading ads only rubbed salt in their wounds. The employees also felt that Greyhound was using the prospect of hoards of potential strike-breakers standing in unemployment lines to bring them to heel. Perhaps most grating of all, the company refused to offer the workers a share in the company in exchange for their wage concessions—a stark contrast to Eastern Airlines’ recent agreement to give workers two seats on its board of directors and up to 25 percent of the company’s stock in exchange for an 18 percent cut in compensation.

Greyhound’s management dismisses any suggestion that the necessary sacrifices should be shared. “My response to that is, ‘So what?’ ” Don Behnke, a company spokesman, testily replied when I asked about management compensation. “The salaries of the corporate [management] have nothing to do with the bus line. The bus line didn’t contribute a goddamn thing to those salaries because the bus line didn’t make any money.”

To an accountant, that justification might seem reasonable. Greyhound is now a diversified corporation, owning everything from financial service companies to Dial soap, and these combined operations were netting $103 million in 1982 while the bus line was incurring its loss. But to Greyhound’s drivers and other workers, Teets is still their captain, and he was telling his crew that they would have to take reduced rations while he added to his own. Besides, the drivers are quick to point out, without years of bus line profits reaped from their labor, Greyhound never could have purchased the soap factories and food processing plants to begin with. “We raised Greyhound up from a puppy,” said Francis Lawrence, a Meraux, Louisiana, mechanic with 26 years’ service at the company. “Now she's trying to bite us!"

Even if Greyhound’s employees accept the company’s last offer—which provides for a pay cut averaging 7.8 percent—the deep bitterness between management and labor will no doubt remain long after the strikers return to work. The shame is, it probably didn’t have to happen. “I’ve been working here for 14 years and then this man Teets comes out of the sky and says, ‘This is it. Take it or leave it.’ ” George Anderson, a bus driver, told me. It was 4:30 a.m., and Anderson was the sole picket at the Greyhound terminal in Mobile, Alabama. “When you strip a man of his dignity and pride, he fights back!”

—Jason De Parle
says Zarello, “and not just a piece of paper.” Weirton’s new labor contract makes provision for labor-management councils. But there was little interest in the subject during the buy-out process—“Hardly anybody raised it,” one union leader said—and today workers will tell you that they will be “employees by day and owners by night,” which is exactly what you hear at Wilkie, Farr, and Gallagher.

Such problems, however, should not make us forget the large step the union and the workers of Weirton have taken, not only in preserving their mill and their community, but in offering the rest of us a way to reconcile the competing demands that are tearing many of our productive enterprises apart. In today’s corporation, there are employees, managers and workers alike, who are always pressing for higher wages and benefits. There are passive stockholders, whose sole interest in the company is to get the highest possible return on their investment. There is the need for new investments to keep the company competitive and to keep our nation’s productive base intact. There is the community at large, which often is not served by the profit-maximizing firm, economic romantics like Milton Friedman notwithstanding. More often than not, the pressure to produce profits—fast—is so overwhelming that other demands are given short shrift. This is especially so in an older industry like steel, where existing arrangements have led us to the brink.

Perhaps the fundamental importance of employee ownership is the way it can alter the calculus by which a company makes these choices. At Weirton, for example, Executive Vice President Carl Valdiserri is questioning whether a company the size of Weirton, in a basic enterprise like steel, can ever again accommodate all the competing claims. “In such a capital intensive business, facing hostile world competition, I am not sure how the U.S. market can be satisfied by a company paying U.S. workers U.S. wages and benefits and also satisfying the stockholders,” he said. Put another way, worker ownership is in the time-honored American tradition of eliminating the middleman; make workers and investors one person, and you eliminate a whole layer of claim on the company’s profits. “The new Weirton won’t need the frills of a far-flung corporation,” adds former President Jack Redline, who retired when the ESOP took over. “Our only mission will be to make good steel and keep our customers satisfied. Our return on equity doesn’t have to be as great.”

To be sure, any enterprise must produce a surplus. If it does not, it will eventually devour either itself or something else. The question is how the surplus is used. In the investor-owned company, there is unrelenting pressure to channel surplus into profits for shareholders. When employees own the company, on the other hand, there is greater freedom of choice. The company can hire more people, build new facilities, invest in the health, safety, or career advancement of its employees, give the employees raises, or commit some resources to the community at large. You don’t rob the employees to serve the shareholders or the community, because they are the same people.

You get suggestions from people in Weirton that they are thinking along these lines. “You have to think of jobs, the community, the human side,” says union head Walter Bish, now a member of the board. Eli Dragasich, whose father worked in the mill, warms quickly to the subject. “They talk about the ‘bottom line,’ ” he says. “Well, there are many bottom lines, not just the profit margin. That’s where the inanimate corporation has gone wrong.” Richard Palo may have put it best. “We aren’t a corporation, we’re a mill,” he exclaimed, capturing a distinction that the corporate lawyers and the MBAs seem unable to grasp.

Of course, some conventional corporations think somewhat along these lines as well, especially those still owned by the original founders. In this sense, the events in Weirton have been not something new, but a restoration—an updated version of E.T. Weir’s desire to unite capital and community. Only now, the company town has become a town company, and labor has been added, albeit imperfectly, to the equation.

It’s also a peculiarly American equation. “I don’t look on this as socialism,” says Skip Spadafora, who was the joint committee’s liaison to the New York banks. “There’s money to be made here. Our stocks will be worth something.” Indeed, this is, or at least can be, free enterprise at its best, for if freedom means anything, it means the freedom to choose what your enterprise will be for. The pressures will not go away. How will they use the profits? To recall laid-off workers? For raises? To help make better and cheaper products? But at least the citizens of Weirton are many steps closer to answering those questions for themselves—not for the faceless investors on Wall Street on whose scale a 20 percent return ranks higher than the survival of a community in distant West Virginia.