Industrial America'

Anyone who has surveyed America's economic landscape recently knows one thing all too well: it's littered with bodies. As of mid-September, 17,502 businesses had failed in 1982; at that clip, casualties by year's end will exceed 25,000. That's four times the number that failed in 1979 and 5,000 more than the toll during the worst year of the Great Depression. What this number doesn't include is even more important: the thousands of mills, factories, and assembly lines that large corporations have closed during the recession—and which will never reopen even if flush times return for America's economy.

High interest rates, a deepening worldwide recession, and fierce international competition have given many of these failures a certain, albeit grim, logic. But anyone who's taken the trouble to perform autopsies will discover that a distressing number of these victims died of unnatural causes: namely, the greed, selfishness, and inflexibility of those who both owned and worked in them.

Consider just two cases. In March 1980 Champion International closed its 300-employee plywood mill in the small community of Willamina, Oregon. Champion, whose 1980 sales exceeded $4 billion, justified the closure by citing the declining fortunes of the lumber industry caused by high interest rates and a drop in housing starts. While the timber industry certainly is in a slump, several smaller, locally owned mills in the immediate area remain open to this day, having resorted to a variety of stratagems Champion never tried, such as shorter work weeks and reduced shifts.

What was most noteworthy about the Champion closure was a figure that inadvertently emerged when the company unsuccessfully tried to sell the mill: in its last full year, 1979, the mill showed a profit of $800,000. But that wasn't enough profit for the Michigan-based conglomerate, which was promising its shareholders an 11 percent rate of return. So rather than try to nurse the ailing mill back to health, Champion decided to pull the plug.

Phil Keisling is an editor of The Washington Monthly.

Quite a different reason lies behind the demise of Ford Motor Company's auto parts plant in Sheffield, Alabama. This June, Ford announced that it would close the facility, which had been losing money since 1974 and could no longer be carried in the face of Ford's $1 billion annual loss. But Ford gave Sheffield's workers plenty of advance notice and a choice: they could buy the plant themselves, with help from the company, or they could take a 50 percent cut in wages and benefits, which then averaged $21 an hour.

Officials of the United Auto Workers mulled over the choice—and decided to do neither. Rather than succumb to the demands of management, the UAW local decided the jobs were not worth saving. So during 1983 some 800 union members gradually will be laid off, and the small town of Sheffield will have lost one of its best paying—and biggest—employers.

The Champion and Ford examples illustrate a disturbing penchant among both business and union leaders for an economic version of mutually assured destruction. Healthy, often profitable businesses are being debilitated and even killed off by corporate managers bent on maximizing short-term return to please Wall Street investors. Their concern is not with profit but with *how much* profit; not with the long-term health of an enterprise but with its ability to contribute to a dazzling quarterly earnings report. Belden Daniels, a professor of urban planning at MIT who has studied more than a dozen plant closings in depth, observes: "Plants are closing that don't have to because we've trained our corporate managers to maximize their rate of return—not in ten years, not over one year, but over 90 days. Period. And it's killing us."

Unions unfortunately show similarly self-destructive tendencies. Rather than moderate wages and benefits that have priced their employers' products out of the market, unions too often are willing to sacrifice their members' jobs to preserve the "integrity" of contracts. The attitude

Suicide Pact

by Phil Keisling

is best summed up by Peter Kelley, a member of the UAW and founder of a group called Locals Opposed to Concessions, who recently told *The Wall Street Journal*: "It is our firm belief that it wasn't our wages or benefits that caused the auto industry's problems in the first place. It was management—the bean counters—that made bad decisions and bad investments." Think about that. Even if Kelley is correct, assigning the blame won't do a thing to save jobs, and saving jobs is what we need to do.

Blue-Collar Bourgeoisie

No one suggests that hard-working Americans return to the days when wages for a 12-hour work day were barely sufficient to cover the costs of living in a rented shack and when union members were roughed up regularly by company goons. Fortunately, America's working men and women have come a long way since then—so far, in fact, they've left most of the rest of us behind.

Today, those who work in highly unionized industries such as automobile assembly, steel, rubber, and mining have attained a standard of living that is the envy of a vast majority of Americans. The average automobile or rubber worker earns

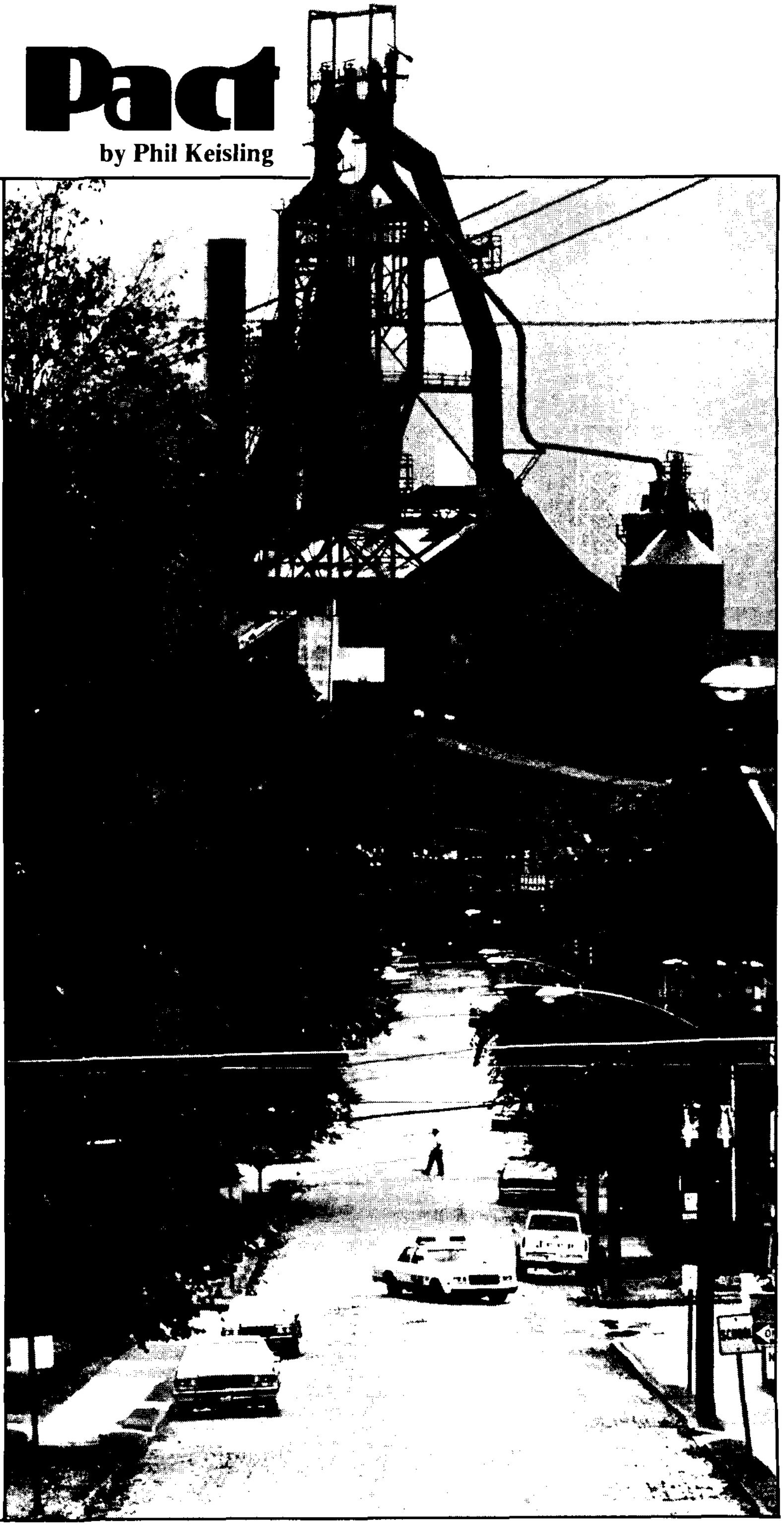

Photo by Earl Dotter/American Labor

Crucible Steel; Midland, Pa.

substantially more than $20,000 a year; steelworkers now get at least $16 an hour, or more than $30,000 a year.

Consider the circumstances of a 45-year-old steelworker making $30,000 a year with a wife who makes $15,000 (not an unusual case, since today half of all married women work). That household is better off than 85 percent of those in the rest of America. Auto and steelworkers who have jobs are hardly Marx's starving proletariat.

Clinging resolutely to the myth of degradation is a prescription for self-destruction. Take a close look at the steel industry. During most of the last decade the industry has been governed by something called the Experimental Negotiating Agreement. In return for labor's pledge not to strike, management promised to tie compensation to a welter of cost-of-living adjustments and escalator clauses that bore no relationship to productivity gains or other measures of the industry's basic health. As a result, compensation has increased far faster than inflation: since 1962 the Consumer Price Index has doubled while steel industry wages have tripled.

And don't forget the fringe benefits. During this same period their value more than quadrupled. Among those benefits: fully paid health and dental care; pensions that will give a 30-year veteran about $600 a month on top of social security; and 13-week vacations every five years for "senior employees," which usually means about half the work force in a given mill. Then there are the paid holidays the union negotiated for everyone. Last October 25, when more than 100,000 steelworkers were drawing unemployment, those still on the job had the day off with full pay—to celebrate United Nations Day.

No wonder labor costs in the steel industry are nearly $25 an hour—double the average for all U.S. manufacturing jobs. And to a large extent, labor has consciously made a trade-off: higher wages at the expense of jobs. In 1965 the iron and steel industry directly employed more than 500,000 people. Last year the work force was 390,000, the lowest since records were started in 1933. The slow erosion of jobs over the past decade and a half now threatens to become a sudden, violent contraction. Many analysts estimate more than half of those laid off will never return to work. In a moment of candor, spokesman Gary Hubbard of the United Steelworkers is even more pessimistic. "Ten years from now there may be only three or four mills in America, rather than 300," he says.

The prediction may come true—partly because of the steelworkers themselves. For example, there was U.S. Steel's 1,200-employee fabricating plant in Gary, Indiana. After informing the union local that it could no longer compete with other companies that used cheaper, imported steel, the company asked for a deferral of a scheduled wage increase—not a wage cut, just a deferral. The local refused even to consider the proposal, and in 1979 the plant was closed for good.

This spring more than 7,000 steelworkers permanently lost their jobs when Wheelabrator-Frye Inc. closed its three railroad-car manufacturing plants. Wheelabrator-Frye acquired the plants in 1979 after a friendly takeover of Pullman-Standard. Though one certainly can question Wheelabrator's enthusiasm for keeping the business alive (the main object of its takeover bid was Pullman's engineering firm, whose acquisition has since put Wheelabrator into the same international class with Bechtel), there is little doubt the Pullman subsidiary was on the ropes.

So last fall the company asked the union for various contract changes in order to keep the plants open. Some concessions the union accepted, but changes in health benefits and seniority rights were angrily rejected. Wheelabrator wasn't bluffing; this spring it closed its Butler, Pennsylvania, and Hammond, Indiana, facilities for good, holding out hope it may reopen its Bessemer, Alabama, plant, but with no more than 400 employees.

Steel, auto, and railroad manufacturing are hardly alone. In the beleaguered meatpacking industry, there's the John Morrell Co., a subsidiary of United Brands Co. This spring it asked 800 employees at its Arkansas City, Kansas, meatpacking plant to take a 40 percent cut in wages and benefits that then averaged $19 an hour. The union rejected the demand as "outrageous" and stood by its insistence that all meatpackers, regardless of where they're located or their company's financial conditions, should receive identical compensation. In June Morrell closed the plant.

To be sure, there are some heartening cases where labor concessions have averted disaster, at least temporarily. In the automobile industry, the UAW's renegotiation of its contract with GM saved four plants, and in the case of the steel-

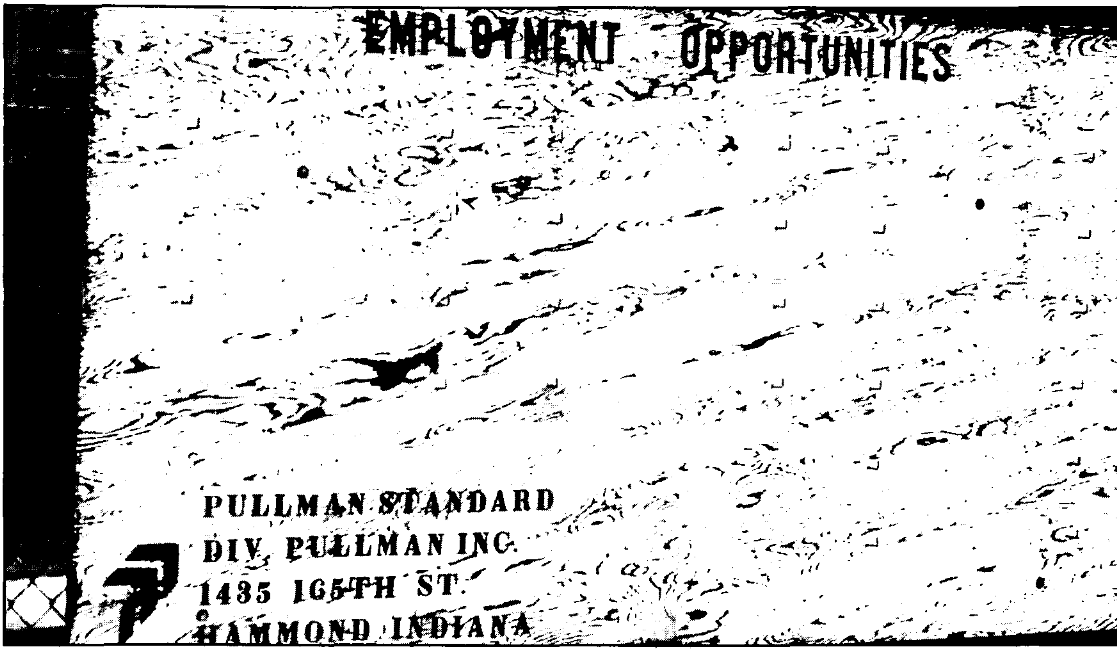

Photo courtesy of United Steelworkers of America

Pullman; Hammond, Indiana

workers, Wheeling-Pittsburgh's steel mill was kept open when the union agreed to accept stock in the company in lieu of a scheduled wage increase. Still, in neither case were actual wage *reductions* involved; in fact, such reductions still are quite rare.

The most common form of union concessions in these situations involves changes in work rules and job classifications. What's most interesting about these seemingly small changes is that they can make big differences in a plant's profitability—which is a sad commentary on how unions historically have demanded wage increases that bore no relation to productivity.

The case of Pullman-Standard's passenger-car plant in Hammond is instructive. For many years the union insisted that the plant's 1,800 employees be divided into no fewer than 150 job classifications. Carl Alessi, an official in the UAW local that represented workers at the plant, admits, "We'd have some guys who had to put in Phillips screws on the windows; another guy would have to put in the regular screws." Alessi estimates that reducing the number of job classifications to 25 would have improved productivity "100 percent." The union agreed to do so in eleventh-hour bargaining with Wheelabrator; but coming after past losses of several hundred million dollars, it was too little, too late.

The automobile industry has similar problems. At a former GM auto parts plant in Hyatt, New Jersey, the local UAW leader, Jim Zarello, admitted to one reporter, "It's no secret that the union helped create an atmosphere where people who were in the plant for eight hours did four hours of work." (Fortunately, there's a happy ending to this story: After purchasing the plant from GM, employees took a 25 percent pay cut and consolidated their job classifications. Productivity has improved 20 percent and the plant is still operating.)

Even in cases where labor and management agree on concessions, the difficulty suggests that relief may be only temporary. Last spring in Waco, Texas, United Rubber Workers Local 312 went out on a 119-day strike when General Tire proposed changes in their contract. In addition to small benefit reductions (rather than full hospitalization coverage, the company proposed that workers pay ten percent of their hospital bills, up to $400), the most controversial proposal was that 40 percent of the cost-of-living adjustments be disbursed according to the plant's performance. No reductions were asked in wage rates that average

$12 an hour. Only when the company was on the verge of closing the plant did the union end its strike and accept the changes.

"If things are really bad, once you're asked to make concessions it's usually too late to save the plant," union local president John Dawson told *The Wall Street Journal.* Dawson now looks back on the strike with evident pride: "It was so dog-gone effective we almost put them out of the bias ply [tire] business."

Unemployment Insulation

There are several explanations for the unions' reluctance to make substantial concessions, even when the failure to do so results in the complete loss of members' jobs. The most obvious is the traditional animus between the two parties, fueled by long memories and previous examples of bad-faith bargaining. Unions deeply suspect that companies are using the recession to break them or exact concessions they could not get otherwise. Union leaders also are understandably outraged at the extravagant salaries that corporate executives receive, most of which bear no relationship to actual performance.

But there's another, more personal reason union members often are willing to see jobs destroyed rather than make the concessions necessary to save them. Plant closings are traumatic experiences that leave both workers and communities devastated. Yet paradoxical as it may sound, in many industries there is surprisingly little urgency to agreeing to cutbacks. In fact, in the calculus of what individual workers stand to gain, what they must give up, and the hardships they must endure if they lose their jobs, the case for concessions often isn't compelling enough.

To illustrate this, consider those who worked at Ford's Sheffield, Alabama, plant. The average worker there was 48 and had 15 years' seniority. Sixty percent already were eligible for some kind of retirement benefits. After being laid off, workers are eligible for state unemployment benefits, supplemented by payments from Ford, which together will insure they take home 90 percent of their previous salaries. When state unemployment benefits expire after 39 weeks, they will be eligible for special trade readjustment assistance from the federal government. This money is targeted for employees who lose their jobs supposedly because of foreign imports and is equal to state unemployment benefits. With 15 years' seniority, all these benefits can last as long as two years.

Once the benefits expire, if the workers are 55 or older, they can opt for early retirement and begin to draw pensions. If they are younger than 55, the recent UAW pact hammered out with Ford and GM makes them eligible for something known as the "guaranteed income stream." Until they retire or turn 62, typical Sheffield workers with 15 years' experience will be guaranteed about $12,800 a year.

Other unions have similar arrangements. Idled steelworkers get up to $180 a week in addition to regular unemployment. Older workers, under a new contract provision called the "rule of 65," can retire if they worked in a mill that was closed and their age plus years of service totals 65 or more. A 45-year-old worker who started at age 25 would be eligible for a pension of about $400 a month, payable even if he finds a job elsewhere.

None of these provisions, of course, makes a worker financially better off losing his job than keeping it. Rather, they contribute to a deceptive sense of security, as workers decide to wait out what they prefer to think is a temporary downturn rather than consider concessions.

Most important, these provisions highlight the fact that within unions, members have widely divergent interests. Younger workers, many of whom will get nothing from their contributions to the pension and supplemental unemployment funds, have an obvious interest in preserving their jobs. The alternative very likely might be a minimum-wage job; reports from some Ohio and Pennsylvania towns are that McDonald's has 30 applicants for every new opening. Though older workers suffer special problems in finding new employment, those who choose an early retirement can expect a good pension, a lot of free time, and the satisfaction of having "stood up" to the bosses.

Union officials, understandably, are loathe to admit any such conflict between older and younger workers. But many on the other side of the bargaining table notice this phenomenon. "One reason I don't think the workers wanted to buy the Sheffield plant or take a pay cut," speculates Ford spokesman Ed Snyder, "is that so many were close to retiring they didn't figure it was worth all the trouble." U.S. Steel vice president Andrew Staursky offers the same explanation for why the local in Gary, Indiana, also declined to make concessions to keep a plant there open.

Corporate Punishment

If anything, the malfeasance of the other partner in this *danse macabre*—corporate executives—is even less excusable. The most egregious cases are like Champion's—the closure of profitable enterprises in a manner that jeopardized or destroyed existing jobs. In 1976, for example, Sperry Univac closed its library equipment manufacturing plant in Herkimer, New York, because its 12 percent rate of return compared unfavorably with a 22 percent profit "hurdle" the company had imposed on all its divisions. In 1979 U.S. Steel closed 14 mills, several of them marginally profitable; the resulting $850 million tax loss helped generate the cash flow that the company used to raise $7 billion to acquire Marathon Oil in 1982. Earlier this year the National Steel Corporation announced it would close its 8,000-employee mill at Weirton, West Virginia, because the mill's one-percent return on sales of more than $1 billion wasn't sufficient.

In other cases, companies jettison once-profitable plants at the first sign of trouble. In 1980, for example, Gulf Resources and Chemical Corporation, a $350 million Houston minerals firm, recorded $20 million in income from its Bunker Hill zinc, silver, and lead mining and smelting complex near Kellogg, Idaho. But in August 1981, after recording $7 million in losses for that year, Gulf decided to close the operation permanently rather than await the upturn in this highly cyclical business. "Additional investment required in the plant would severely limit the growth prospect of the other subsidiaries and the accomplishment of Gulf's overall goals," managers told shareholders. Gulf then took $83 million in losses that it wrote off against its other income.

More common are cases of corporate managers eviscerating profitable plants because they're not profitable enough—thereby assuring that they never will be. A classic case involves Youngstown Sheet and Tube's steel mill in Youngstown, Ohio. In 1969 the company was purchased by Lykes Brothers, a steamship company with visions of conglomerate grandeur. Lykes proceeded to siphon off Youngstown Sheet and Tube's large cash flow to repay the $150 million it borrowed to buy it and to finance other acquisitions. Investment in the mill plummeted just when modernization was critical in the steel industry; after missing out on the steel boom of 1970-74 because of antiquated

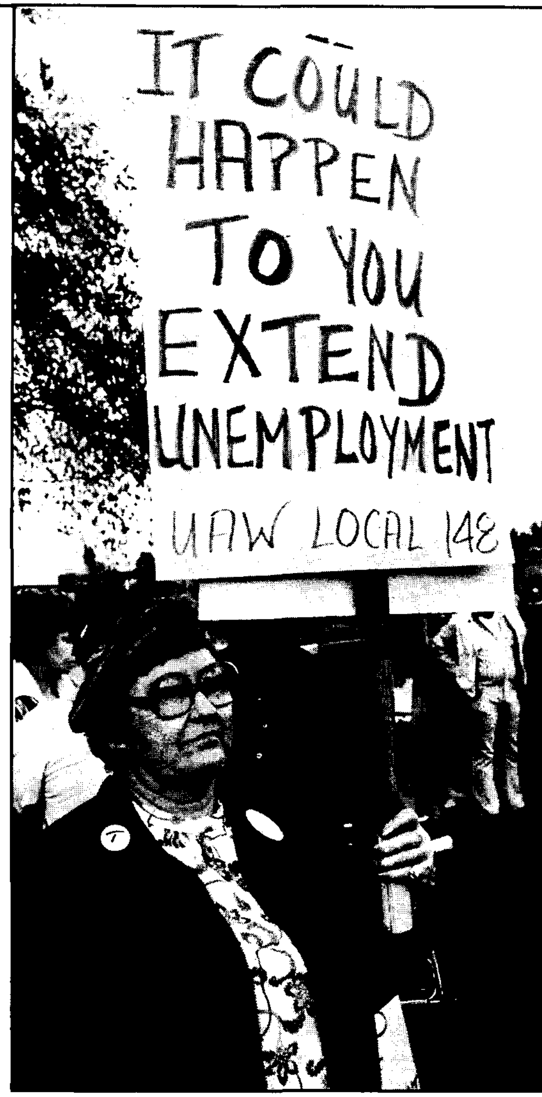

Photo by Cliff Kalick/UAW Solidarity Ford Motor Company; Pico Rivera

equipment, Lykes was unable to weather the subsequent downturn in the industry and finally closed the plant in 1977, idling over 4,000 employees. After destroying a once-prosperous steel company, Lykes also squelched any chance that the mill could reopen when it sold out to Jones and Laughlin, another steel company. Former employees and Youngstown investors wanted to buy the mill, but the new owner refused to sell to what would have been a potential competitor.

The same thing happened two years later when U.S. Steel closed its 3,500-employee Youngstown mill. U.S. Steel president David Roderick stopped a local effort to purchase the plant with a federal loan, declaring, "We are not interested in creating subsidized competition for ourselves at other locations." The same week Roderick made his ringing defense of the free market, he was in Washington lobbying for increased federal protection from foreign competition and more generous depreciation schedules for plant and equipment.

Unnecessary plant closures such as Youngstown Sheet and Tube illustrate a popular way of managing corporate assets. This "portfolio management" approach has even acquired its own special vocabulary—courtesy of one of the nation's most prestigious consulting firms, the Boston Consultancy Group. The firm's bread and butter has been in advising clients to divide their operations into a four-part matrix that looks at market shares and sales growth. Those divisions with low market shares and low sales growth, nicknamed "dogs," should be sold or closed, even if nominally profitable, because they will require constant reinvestment (like Bunker Hill). Operations with high market shares but low growth rates (like Youngstown Sheet and Tube) are "cash cows" that should be milked for large amounts of capital to divert into more profitable enterprises.

Robert Hayes of the Harvard Business School describes how this world view leads to the deaths of otherwise viable enterprises. "The same mentality of labeling a division a 'dog' applies to plants as well," he says. "And if you conceive of your role as a financial asset manager, when you're not personally involved in any of your operations, it's very, very easy to just say, 'let's pull our chips out of it.' " Michael M. Thomas, a former director of corporate finance of Lehman Brothers, who refused to handle the Lykes takeover because he foresaw correctly that it would result in the death of both firms, adds, "Everything now is done by the numbers. People sit down and have lunch at the 21 Club and make these decisions (about closing plants) and there's no human check, no thinking about the effect on the community. And what everyone forgets is that good business can't be done just by numbers."

This is not to suggest that plants should be maintained on artificial life-support systems if recovery is impossible. Some plants deserve to die; it made no sense, for example, to keep vacuum tube radio plants open once the transistor radio made their product obsolete. What's important is distinguishing those businesses that are doomed because of technical obsolescence or vanishing markets from those that can be profitable even

North Andover, Mass.

Photo by Earl Dotter/American Labor

though they promise only a small rate of return over the long-term.

Malefactories of Wealth

Indeed, this is the most glaring deficiency of American capitalism: its hostility to the marginally profitable firm. Just as unions insist on preserving higher-than-competitive wages even at the expense of jobs, so corporations insist that otherwise profitable enterprises be closed. If a plant can be expected to generate a two-percent rate of return on investment over the long term, while lending the money out to the government would reap a ten-percent return, the shareholders' verdict is unequivocal: the plant deserves summary execution.

By the dictates of Wall Street, this makes perfect sense; to workers and their communities, the logic is particularly perverse. Shutting such plants causes a litany of familiar repercussions: larger deficits resulting from swollen welfare rolls, strapped state and local relief efforts, increased health and emotional problems. These corporate decisions reverberate widely because the money that workers and their families once spent in the stricken area's retail shops, car dealerships, and other businesses dries up—generating additional unemployment.

So what can be done? First it's important to look at the most frequently proposed device to keep marginal firms alive: plant closure legislation, the AFL-CIO-backed plan that would require major companies to give up to two years' notice before closures or large layoffs and to provide workers and their communities with large severance payments. "We have to slow the process of disinvestment," observes Bennett Harrison, an MIT professor who, along with Barry Bluestone, wrote *The De-Industrialization of America*. "Advance notice will give workers and their communities a chance to adjust, to restructure their jobs, and to do some economic planning," he adds. "Every other industrialized country we trade with has plant closure laws—why shouldn't we?"

The reason we shouldn't is that the ability to adjust quickly to changing circumstances and investment opportunities may be one of the few advantages America has right now over its foreign competitors. And while advance notice where possible is certainly desirable, requiring it won't prevent closures. Nor can it distinguish between those corporations whose decisions to close plants are motivated solely by greed, from the entrepreneur who makes heroic but unsuccessful efforts to keep a plant alive.

Plant closure legislation also doesn't address current problems; Harrison can convincingly document the sequence of corporate irresponsibility that results in plant closures—but ask him about what he would do if he worked at Sheffield and he doesn't have an answer.

The first way to help marginal firms is also the most obvious: wage and benefit concessions. Workers should be willing to take a temporary reduction in wages and benefits (insisting corporate executives do the same) while tying future raises to the company's performance. In return, corporations must open their corporate books; their argument that secrecy is necessary to protect their "competitive position" not only presumes workers want to help destroy their own jobs, but is silly since breaches of security are far more likely to come from corporate managers, who are as mobile these days as the capital they control. Finally, unions must begin negotiating on a company-by-company basis. Master contracts now in effect for the rubber, steel, and automobile industries help force marginal firms out of business by tying wages to the most profitable firms' ability to pay, thereby increasing the economic concentration unions themselves so often decry.

That last point is particularly ironic, because the evidence is overwhelmingly clear: the probability a marginal firm will close increases in direct proportion to the size of its parent. A conglomerate with headquarters in a distant city will be far more likely to shut such a plant than the local entrepreneur who lives in the community—and will probably continue to live there if he goes out of business.

Rather than let its marginal plants drop into the abyss, the nation should be creating a type of "social safety net" for them that will allow for their orderly transfer to the hands of those with a much greater stake in their survival: local investors and—even more so—their own workers (see "Give It to the Proles," page 47). Those that decry such local buyouts as "lemon socialism" are missing the point altogether: they actually represent the best aspect of entrepreneurship by letting those most affected by a business share in both the risks and the rewards of operating it.

The fate of Sperry Univac's former library

The fate of Sperry Univac's former library equipment plant in Herkimer, New York, is instructive. After Sperry announced the closure, a group of former employees and local investors borrowed $2 million from a special federal program run by the Economic Development Administration. The last loan was crucial. "Without EDA, we couldn't have made it," says company president John Ladd, who says other local financing depended on the loan. The company is not only profitable, but now employs more people.

Such loans promote the best of both worlds: local entrepreneurship that can keep the government from otherwise having to pay unemployment compensation, welfare, and the sundry other costs of plant closing. But such a program also threatens many interests. For example, companies like U.S. Steel don't want government-assisted competitors, even if they're tiny. This antipathy now has a sympathetic ear in the White House; the Reagan administration has effectively killed the EDA program despite the fact that almost all its beneficiaries, like Ladd's firm, are meeting their loan repayments.

A generous federal loan program to preserve low-return but otherwise healthy firms is only one step; changes in the tax code are also necessary. Workers and local investors wishing to buy an abandoned business are now at a disadvantage: they usually can offer only cash, on which the seller must pay income tax. Large corporations can offer a better deal: a tax-free exchange of stock. This motivation lay behind Lykes's decision to snub local investors and sell to Jones and Laughlin—which kept the Youngstown mill closed. These incentives should be reversed.

The new owners of these firms will need capital to keep their businesses modern and competitive. This is where union pension funds ($360 billion for AFL-CIO workers alone) can play an important role. Like Wall Street investors, trustees of these funds now are obliged to balance risk with expected return in pursuit of maximum gains. This means a firm promising "only" a four percent return will be passed over for safer and more profitable investments. The law should allow pension fund investment in such enterprises. After all, a union's priority should be preserving its members' jobs, not insisting on an extra $5 or $10 a month in pension checks.

Preventing premature deaths of healthy businesses also will require especially talented managers. Yet today the best graduates of our prestigious business schools usually shun "hands on" experience (particularly in "unglamourous" manufacturing industries) to become highly paid consultants who advise conglomerates to do such things as close low-return plants. Though the plush corporate headquarters of Stamford, Connecticut offer status and security, far more useful and challenging work lies in places like Youngstown, devising strategies that will save thousands of jobs, preserve community stability, and maintain consumer spending. Our corporate leaders shouldn't be throwing in the towel, but fighting back, and the effort to preserve low-return but profitable firms allows them to do just that.

Most important, the effort to resuscitate the nation's manufacturing base provides a perfect opportunity to promote the very essence of entrepreneurship: putting control of an enterprise in the hands of those with a real stake in its survival. However virtuous "public corporation" may sound, the notion is the bane of the low-return firm. Selling public stock subjects it to the dictates of outside investors, whose main purpose is not a factory's continued life but a sufficiently high return. Not so with privately held companies; to them, a one percent rate of return is perfectly tolerable if the owners know they're providing jobs and still making money. Encouraging private ownership should be the centerpiece of our efforts to save these businesses.

Those who doubt that saving them is worthwhile should pay a visit to any of the nation's industrial centers where unemployment is pushing 20 percent. More than just jobs are disappearing—so is a way of life. It's as if the post-World War II era were just an aberration in American history, a rare time when those whose "credentials" consisted mostly of a willingness to work hard could earn a decent wage. Today the choice such young adults face increasingly is between a high-paying manufacturing job they never can have and a $3.35-an-hour job cooking French fries.

Making the compromises necessary to prevent unnecessary business deaths will require a rare kind of leadership that won't be found among well-heeled corporate executives or politicians. It must come from the bottom up, from workers concerned about their children and the future of their communities, who believe that sacrificing some pay and benefits is worthwhile if it offers a better hope of keeping jobs that otherwise would disappear forever. And it will take leaders who, having known the assembly lines of Detroit, the blast furnaces of Pittsburgh, and the sawmills of the Pacific Northwest, believe there's something important in them that we can't afford to lose. ■

1929 & 1982: THE SIMILARITIES

BY LOWELL K. DYSON

When the stock market went on its roller-coaster ride this fall, lots of people began referring to the Crash of 1929, but the consensus seems to be that it can't happen again. This isn't going to be another Great Depression, we're told. The situation is different, very different indeed.

Well, the truth is that those differences might not be enough. There are also a lot of similarities to the 1920s and 1930s, and the similarities are scary as hell. Consider the following:

SUPPLY-SIDE ECONOMICS. The father of supply-side economics is not Arthur Laffer but Andrew Mellon, who served as secretary of the treasury under Harding, Coolidge, and Hoover. Mellon believed that "a decrease in taxes causes an inspiration to trade and commerce," and he achieved his goal with the Revenue Act of 1926, which trimmed both the surtax on income tax and the estate tax to 20 percent, and eliminated the gift tax.

Under the Economic Recovery Act of 1981 pushed through by Ronald Reagan, the maximum capital gains was reduced to 20 percent, top taxes on unearned income to 50 percent, and estate taxes virtually eliminated.

WHO BENEFITS FROM THE TAX CUTS. In 1926, the major beneficiaries of the tax cuts were those in the upper 20 percent of all taxpayers.

In 1982, the *National Journal* reported that the top 20 percent of the nation's taxpayers reaped $36 billion in net tax benefits and that the rest of the population netted no tax savings at all.

WHO SUFFERS ANYWAY. The 1920s witnessed a precipitous decline in the fortunes of the people who had been the backbone of the American economy—farmers. The tax cut gave them nothing to improve their dwindling buying power, and farm income dropped by half in the late 1920s and early 1930s.

Similarly, in the last decade there has been the same kind of decline among those who had been the most recent backbone of our consumer economy—industrial workers. The Reagan tax cut gave them nothing to improve their dwindling buying power, and unemployment in manufacturing now stands at 14.1 percent.

In both cases, an important group of customers capable of leading a retail-sales recovery (which most economists agree is the quickest and most effective kind) found themselves in a depression.

WHERE THE MONEY DIDN'T GO. 1926, the year of the tax cut, was also the last year of real economic growth before the Depression. Construction, employment, wages, and salaries all reached their peak that year, and then—at the same time the tax cuts were taking effect—began a steady decline. The Jazz Age tax-cut recipients certainly didn't put their money into job creation and economic growth.

Today's decline began before the tax cut, but it hardly needs to be said that the money from tax cuts has not gone into productive investment. Just about any dismal economic indicator from this year will prove that.

WHERE THE MONEY MAY HAVE GONE. It's impossible to know for sure where people put their money when they pay less in taxes, but the suggestive evidence is strong. In the 1920s, a lot went into raccoon-skin coats and Duesenbergs, but a tremendous amount also went into the stock market.

Lowell Dyson is a Washington-area historian.