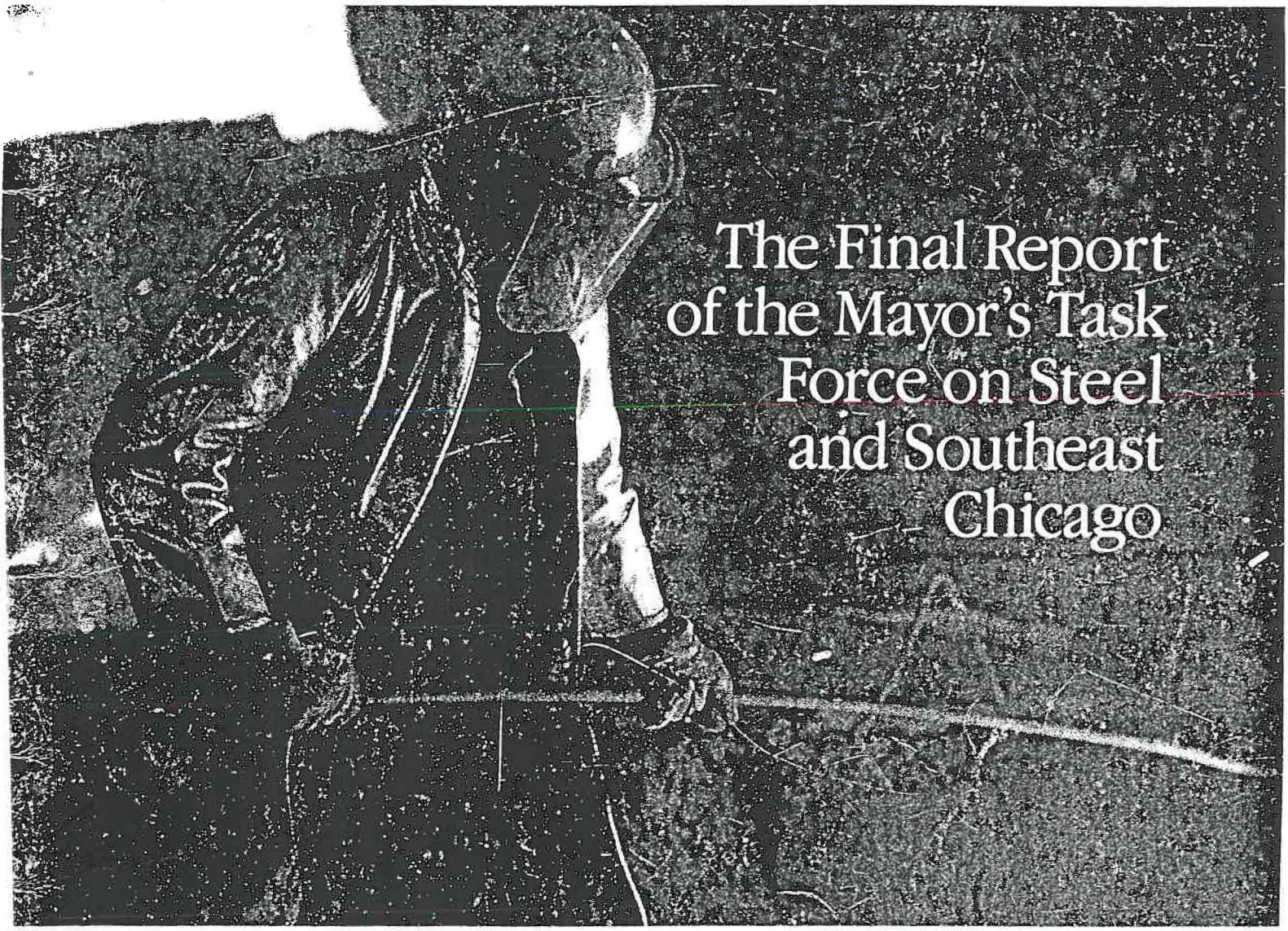
BUILDING ON THE BASICS



The Final Report of the Mayor's Task Force on Steel and Southeast Chicago

City of Chicago
Harold Washington, Mayor

Department of Economic Development
Robert Mier, Commissioner

M. Leanne Lachman
Task Force Chair

Dear Citizens:

It has been a hundred years now that our men and women have toiled in Chicago's steel mills. It has been difficult and back breaking work.

But steelworkers have built more than steel. They have built families and homes, churches and schools. They have built entire communities around the plants and union halls.

And what we cannot accept–without a fight–is the fall of the steel industry and the decline of those communities.

Therefore, on behalf of the City of Chicago, I wish to express my deepest appreciation to the Task Force on Steel and Southeast Chicago and each of its working groups for their extraordinary contribution of time and effort over the past two years. Their dedication has produced this inventory of recommendations entitled *Building on the Basics*.

When I appointed the task force in October 1984, I challenged them to prepare a redevelopment plan that would ease the plight of displaced workers and stimulate growth in southeast Chicago. This area and the steel industry are of special concern to me. As a member of Congress, I represented southeast Chicago and served on the Congressional Steel Caucus. Indeed, I have long believed that manufacturing has rarely received the attention it deserves, especially as it is a prime source of quality jobs.

I am now reviewing the Task Force's recommendations. My initial impression is of the great task we have before us as a community: addressing the opportunities of steel and southeast Chicago will demand the combined energies of the public and private sectors, labor, business and community groups. But at the same time, Chicago has always been a City That Works Together. Great obstacles have been faced before, and overcome.

We have begun to implement these recommendations. But we have many more to complete. As I said before it will be difficult, back breaking work. But anything less would be a disservice to the thousands of steelworkers who have given us their all.

Sincerely,

Harold Washington

Harold Washington
Mayor

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Introduction I.

If steel producers and users and southeast Chicago are to prosper again, further cooperation from local steel and steel-related firms is necessary.

After over a year's study of local steel and steel-related industries, the fundamental conclusion of the Task Force on Steel and Southeast Chicago is that Chicago's basic industrial sector remains crucial to the economy of southeast Chicago, the city, and the entire region. Basic industry is neither dead nor dying, but it is undergoing fundamental changes in market position, production methods, distribution patterns, and product emphasis. Both the public and private sectors have important roles to play in facilitating these changes and to maximize opportunities for the Chicago labor force.

The task force recognizes that this optimistic conclusion differs sharply from those of other recent studies. Nonetheless, the City, State, and other government bodies in the region are urged to build on–not to neglect–the existing industrial base. The Chicago region has assumed a greater significance as the center of steel production and consumption. The Chicago area's major steel producers have close links to thousands of firms across the midwest, including metal distributors, capital goods manufacturers, and other steel users. Although southeast Chicago–where three major steel producers and a great number of steel-related enterprises are located–has suffered severe economic hardship, it retains many comparative advantages. Among these are access to transportation, availability of large tracts of industrial land at reasonable prices, and an experienced workforce.

Recent times have been difficult for Chicago-area steel producers, steel users, and especially steel workers–with more than 13,000 layoffs from Chicago mills since 1979. The fact that steel and steel-related companies worldwide have been forced to close plants and lay off workers has not eased the pain of Chicago's displaced industrial workers, their families, and entire blue-collar communities.

Mayor Harold Washington appointed the Task Force on Steel and Southeast Chicago to develop a strategic plan in response to these conditions. Despite the economic and social problems caused by the troubles of the steel industry in southeast Chicago, this task force believes that a local effort *can* make a difference: working with private companies and the community, the City and State can alleviate some of the hardships afflicting the steel industry and plant seeds of industrial renewal. To accomplish this, the task force:

- Encourages development of a comprehensive program of technology application and research that contributes to the economic vitality and leadership of Chicago's steel producing and consuming industries (pp. 24-25);
- Proposes a regional summit, hosted by Argonne National Laboratory in conjunction with the University of Illinois at Chicago, to bring together midwestern steel producers and users as a first step in the rejuvenation of the area's basic industries (p. 24);
- Recommends actions and studies that will respond to the competitive problems that high energy costs pose for southeast Chicago businesses, particularly the steel industry (pp. 29-31);
- Specifies steps necessary to strengthen industrial retention efforts in southeast Chicago, including a business outreach program (pp. 28-29);
- Recommends short-range and long-range steps that will mobilize resources to better respond to the needs of displaced industrial workers (pp. 26-27);

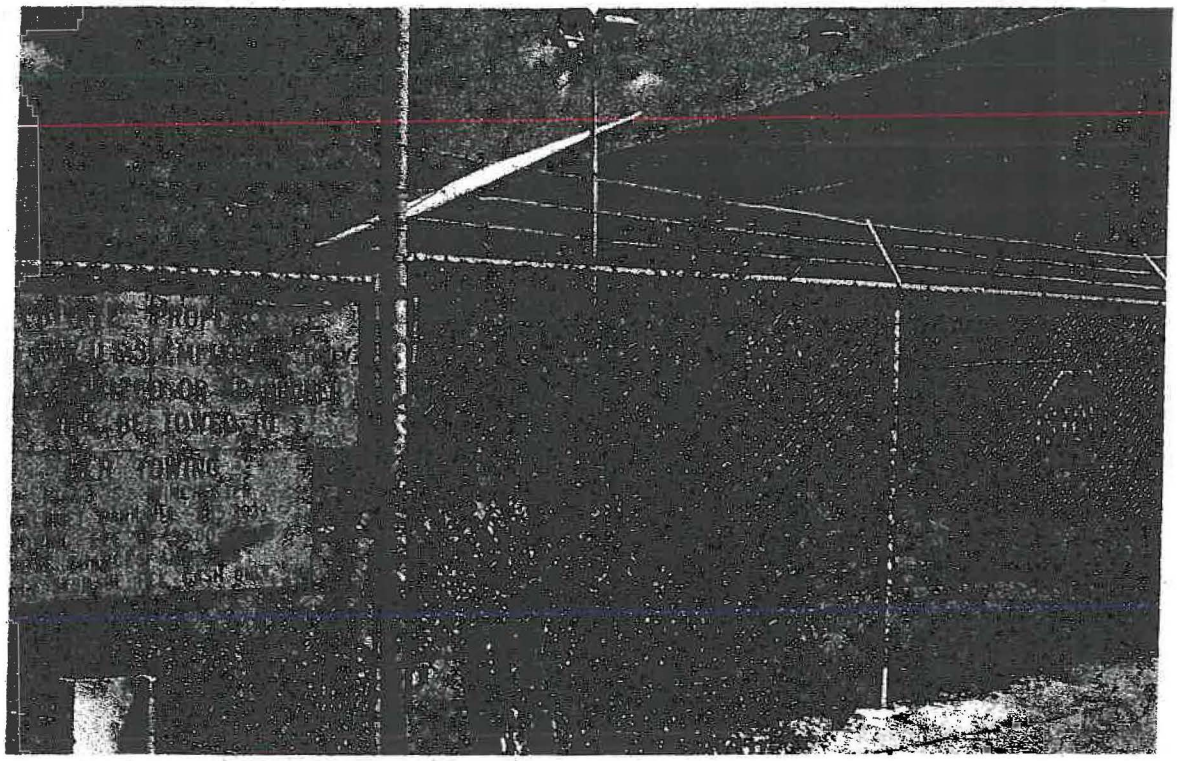
- Recommends establishment of clear principles of cooperation to guide future government interactions with steel producers, distributors, and users, as well as with labor and the southeast Chicago community (pp. 21-22);
- Proposes an approach that the Chicago Commercial District Development Commission can take to revitalize real estate activity in southeast Chicago (pp. 31-32);
- Recommends analysis of the feasibility of a cargo airport near Lake Calumet, in conjunction with other approaches to integrated transportation development; as a catalyst for long-range industrial growth (pp. 33-34);
- Suggests that a committee of the Chicago Economic Development Commission take the responsibility for overseeing implementation of these recommendations (pp. 34-35).

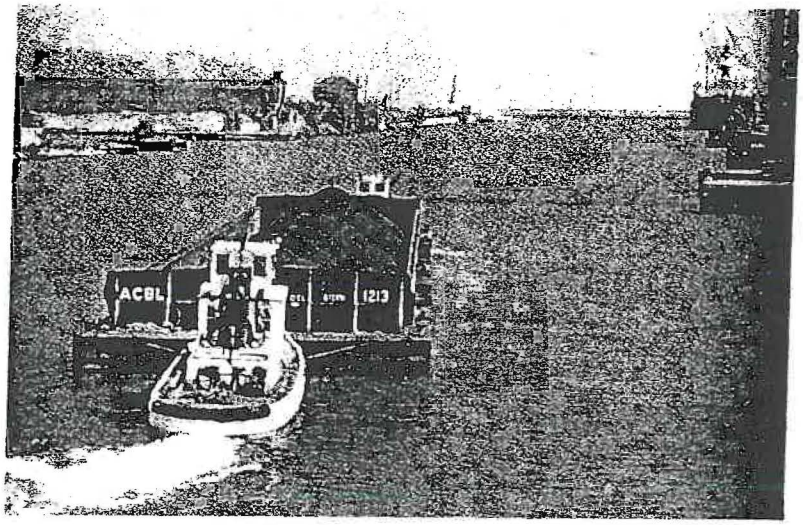
The task force recognizes that many of the current difficulties of the steel industry and southeast Chicago stem from national and international forces far beyond the reach of the City or State. Therefore, local governments, businesses, labor, religious leaders, and other citizens must become informed and involved in national policy debates and demand federal policies that are fairer to the midwestern and northeastern states and their critical basic industries.

The task force, which included representatives from the steel industry, labor, academia, business, and the community, spent more than eighteen months developing and refining these recommendations. Four working groups–Business Development, Real Estate, Steel in the Chicago Area Economy, and Technology–engaged in research, shaped proposals, and laid the foundation for the recommendations contained in this report. The staff of the Chicago Department of Economic Development, with support from other City and State offices, complemented the task force's efforts by researching issues as they emerged. The staff effort was greatly assisted by Dr. Ann Markusen, Professor of Education, Management, and Urban Affairs at Northwestern University and task force consultant.* The task force then refined the findings and proposals into the recommendations contained in this report.

The task force effort is thus both a first step in and an example of public/private cooperation aimed at addressing the problems of Chicago's basic industries. **If steel producers and users and southeast Chicago are to prosper again, further cooperation from local steel and steel-related firms is necessary.** Essentially, this report poses a challenge to government, to labor, to the business community, to local manufacturers, and to every citizen. The task force hopes–and expects–that these interests will respond and work alongside one another to rebuild basic industry that is crucial to the future of southeast Chicago, the midwestern economy, and all Chicagoans.

* *Markusen's research findings were compiled in* Steel and Southeast Chicago: Reasons and Opportunities for Industrial Renewal, *published by Northwestern University's Center for Urban Affairs and Policy Research in November 1985, in cooperation with the Chicago Department of Economic Development.*

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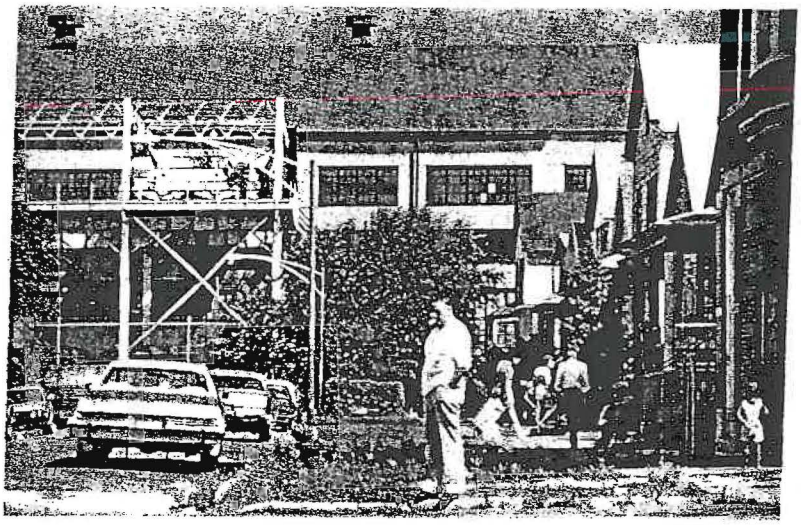
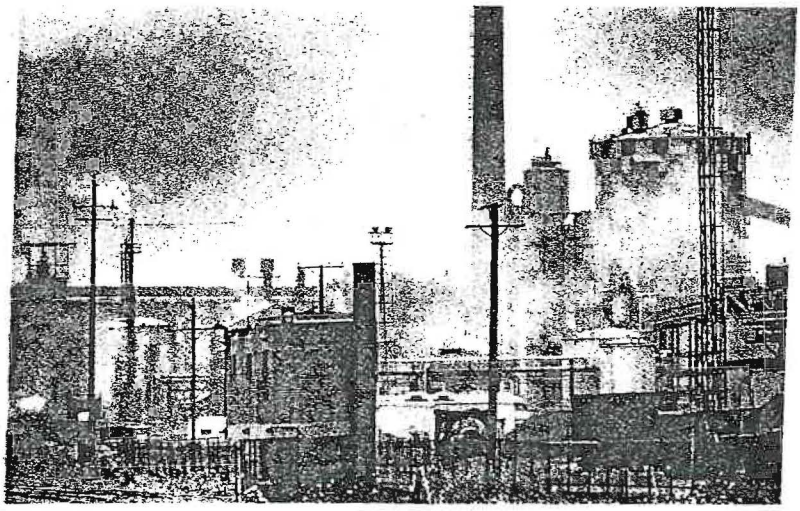




Background Information II.

A. The Steel Industry

In addition to the major steel-producing facilities owned by Bethlehem, Inland, Acme, LTV, National, and USX (U.S. Steel) in the Chicago area, the steel industrial complex includes steel service centers and steel users that are located across the city, state, and midwest. (Three steel companies–Acme, LTV, and USX–have facilities in Chicago, while another major producer, Inland Steel, has its headquarters in the city.) This steel complex forms a major portion of U.S. steel production and a large part of the local economy. For generations, the steel industry has provided steady, middle-income jobs to Chicagoans, attracting them to the communities surrounding the major steel plants.

The linkages between steel producers and users continue today.

Chicago was never a single-industry "steel town" in the sense that East Chicago, Gary, Pittsburgh, or Youngstown were. Rather, this area's major steel mills grew up alongside industries that used the steel and distributed and processed it. Historically, several steel-using companies actually built major facilities: the Grand Crossing Track Company founded the mill now run by LTV, while International Harvester (Navistar) owned and operated Wisconsin Steel for many years.

The linkages between steel producers and users continue today. The three major mills in Chicago supply structural steel for downtown buildings and ship steel bar products to machinery builders in Rockford and sheet steel to Detroit automakers. Smaller specialty producers of steel in and around Chicago, such as A. Finkl and Sons north of Goose Island and Charter Electric in South Lawndale, produce products for sale to other local manufacturers. Significant consumers of Chicago-made steel include midwest manufacturers of agricultural machinery and machine tools, forgers, and service centers, which serve as intermediaries between large producers and small consumers of many steel products. These steel users range across a north-south ellipse stretching from Michigan to Tennessee, with Chicago near the center. Both steel producing and consuming firms have been moving westward from Pittsburgh to the midwest, following population movements and shifting markets.

Midwestern steel producers and users alike have faced competitive challenges, foreign and domestic, over the past decade.

Midwestern steel producers and users alike have faced competitive challenges, foreign and domestic, over the past decade. The growth of competitors has been aided by the diffusion of steelmaking technologies and the energetic efforts of third world nations to support their populations through industrial development. Low-cost raw steels are increasingly being produced in developing nations which have rich natural resources, cheap labor, and abundant energy. The United States is projected to import ever larger amounts of semi-finished slabs and billets, to be finished in domestic mills. Furthermore, several developing nations are improving the sophistication of the steels that they produce. Domestically, minimills–decentralized producers of low value-added steel products–have proliferated, often taking business away from major steelmakers. In addition, there has been extensive substitution of aluminum, plastic, and ceramics for steel in many products.

Thus, competition today occurs on a worldwide playing field. The parameters are cost, product quality, and responsiveness to users' needs. With a common, readily available technology, the variables are availability and commitment of

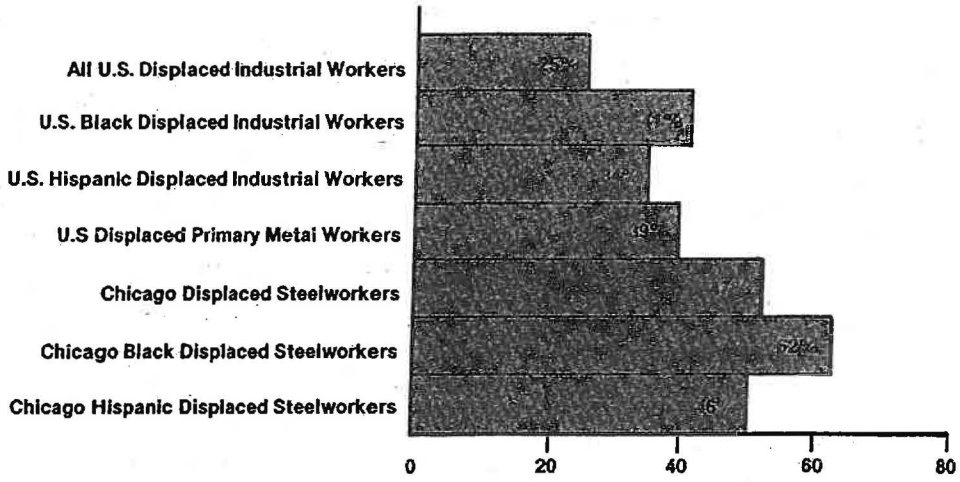
Still, the brunt of the suffering is borne by displaced industrial workers, their families, and their communities.

capital, research and development, costs of production, quality of management, and the ground rules (such as currency exchange rates, tax structure, and government subsidies). The closing of Wisconsin Steel in 1980, which idled approximately 3,500 employees, is an example of how competition has become more intense. Until its last three years of operation, Wisconsin Steel was owned and operated by International Harvester as a captive source of steel bars for its midwestern farm equipment and truck plants, but the mill was not kept modern. When Wisconsin Steel was sold, the mill as it stood could not compete against other steelmakers, foreign and domestic. A decline in steel bar demand, especially by agricultural equipment manufacturers, sent Wisconsin Steel into insolvency shortly thereafter.

At another plant, U.S. Steel's South Works, more than 6,000 workers have lost their jobs since 1979. At one point, USX intended to build a state-of-the-art rail mill there, which would have re-employed many displaced steel-workers. After investing more than $100 million in the plant, the company realized that the decline of U.S. railroad construction made the facility uneconomical, and the project was cancelled. Employment at South Works today is approximately 1,000, down from 10,000 one decade ago. A third plant, LTV's Chicago mill, has also drastically reduced its payroll as a result of the greatly diminished market for steel bar and tube.

Figure #1

Share of Industrial Workers Displaced Between 1979 and 1983 Who Were Still Unemployed in 1984 (%)*



*Note: Only includes unemployed workers; not those who are working part-time or who have dropped out the labor force.

Source: U.S. Bureau of Labor Statistics; Steelworkers Research Project.

These shutdowns and production cutbacks in turn have forced the manufacturers of steelmaking equipment, purveyors of raw materials, and suppliers of services for the steel industry to reduce their employment and, in some cases, close their enterprises entirely. The whole city suffers from these closings: tax

revenue is lost and, more importantly, so is the income that the laid-off industrial workforce once spent at businesses throughout the Chicago area. Still, the brunt of the suffering is borne by displaced industrial workers, their families, and their communities. Steelworkers are typically middle-income, blue-collar employees whose skills are not readily transferable to other industries. Recent national and local studies show that only one-half of displaced steelworkers have found new employment, even after several years of searching for work. Furthermore, over half of those who did find full-time work took pay cuts of at least 20 percent. The damage that accompanies such drops in income–loss of homes and cars, obsolescence of workers' specialized but nontransferable skills, termination of insurance benefits, reduction in the aspirations and opportunities of family members, not to mention the humiliation of no longer being able to provide for one's family–is incalculable.

Despite these losses, the local steel-based industrial complex remains critically important to Chicago and to the midwest.

Despite these losses, the local steel-based industrial complex remains critically important to Chicago and to the midwest. It still accounts for a major share of employment and production in the economy of the city and region and is a significant source of well-paying jobs. And the growth of some steel-related businesses is encouraging, especially the steel service centers that store, finish, and size steel. These facilities have grown steadily in capacity and employment since World War II and accounted for 11,183 jobs in Cook County in 1983; this represents nearly one-tenth of service center employment in the nation. Steel service centers today are scattered throughout the city. The two largest, Central Steel and Wire and Joseph T. Ryerson and Son, employ nearly 3,000 workers at their west and southwest side plants. The latter firm, a wholly owned subsidiary of Inland Steel, has been a marketing and technological leader for nearly 150 years. Metron Steel (with 250 workers) is the largest of many service centers in southeast Chicago. As "just-in-time" production methods are adopted by automakers and others, steel service centers can be expected to play an increasingly important role because they warehouse steel products for delivery on an as-needed basis.

B. Southeast Chicago

The Calumet area retains the advantages that first attracted heavy industry.

Southeast Chicago/northwestern Indiana is one of the world's great industrial districts. The Calumet area retains the advantages that first attracted heavy industry around the turn of the century: competitively priced land suitable for manufacturing, easy access to key railroad and river transportation arteries, and the proximity of Lake Michigan. Other advantages that have evolved over the years include several interstate highways (especially Interstates 57 and 65, which lead to auto-producing areas) and the exceptional variety of manufacturers, many of which are tightly linked together economically. The region is also home to a highly skilled industrial workforce that is expert in the trades and crafts required for complex manufacturing.

The task force defined the boundaries of southeast Chicago as 79th Street on the north, Cottage Grove Avenue on the west, the city limits along the south and east, and Lake Michigan on the east. The Calumet River flows through the district, and at its center is Lake Calumet and the Port of Chicago. In addition to the three major steel producers and a large number of steel fabricators and service centers, southeast Chicago boasts an ultra-modern Ford assembly plant, food-processing facilities, chemical and paint companies, maritime construction

firms, and many other factories. Portions of the area have been sanctioned as a foreign trade zone–which allows imported products to be assembled or processed without the payment of customs duties–as well as a state-designated enterprise zone.

Southeast Chicago, with a population of about 144,000, is bigger than the second-largest city in Illinois. A rich variety of ethnic groups dwell in the eight Chicago community areas included in this district, with the racial and ethnic mixture differing widely from neighborhood to neighborhood. Overall, southeast Chicago in 1980 was about 51 percent black and 32 percent white, while the rapidly growing Latino population comprised 17 percent. Many of the residents are immigrants and second-generation Americans, including Poles, Mexicans, and Slavs. The income level in southeast Chicago as a whole is close to the city average, but the Riverdale community is extremely poor, with the highest proportion of subsidized housing in Chicago. Many southeast Chicago residents work in the factories not far from their homes, or cross the state line to work in Indiana factories. As a result, one-third of southeast Chicago residents have manufacturing jobs, a proportion considerably higher than in the city as a whole.

The decline in steel and steel-related industries has been paralleled by other economic troubles.

The deep recessions of the late 1970s and early 1980s had a severe impact on the southeast Chicago economy. One-tenth of all manufacturing establishments closed between 1977 and 1981, and many others experienced massive layoffs. As a result, the unemployment rate in southeast Chicago currently stands at between 20 and 25 percent, with most recent layoffs falling on unionized blue-collar men. **The decline in steel and steel-related industries has been paralleled by other economic troubles.** Consider, for instance, the recent fortunes of the Chicago Regional Port District, which administers 3,000 acres of southeast Chicago: 683 ships docked at the port in 1971, but only 144 in 1985 (a much steeper drop than at other Great Lakes ports). The Port Authority's own development plans for Lake Calumet Harbor–once a mainstay of the local manufacturing economy–now emphasize the creation of recreational facilities such as a marina and golf course.

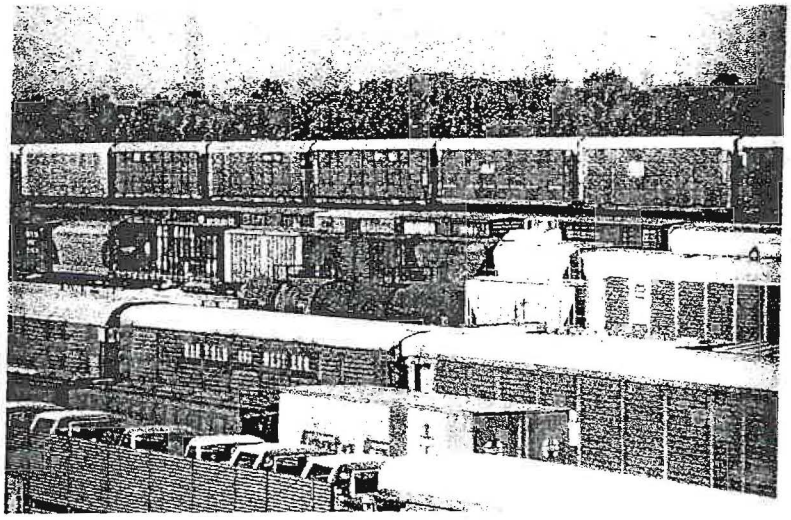
Revitalization of the southeast Chicago economy and the local real estate market will have to occur hand-in-hand. The decline in manufacturing activity has severely depressed the market for industrial land and buildings, and most industrial parks have large amounts of vacant land that cannot be sold or leased, despite reasonable prices. Finding new uses for abandoned factories (e.g., Wisconsin Steel, Falstaff Brewery) has also proven very difficult. Until the local market can be brought to life–probably beginning with the creation of a major industrial catalyst–developers' interest in the region will be minimal. At the same time, the district's comparative advantages–its productive workforce, industrial linkages, and transportation connections–remain vital.

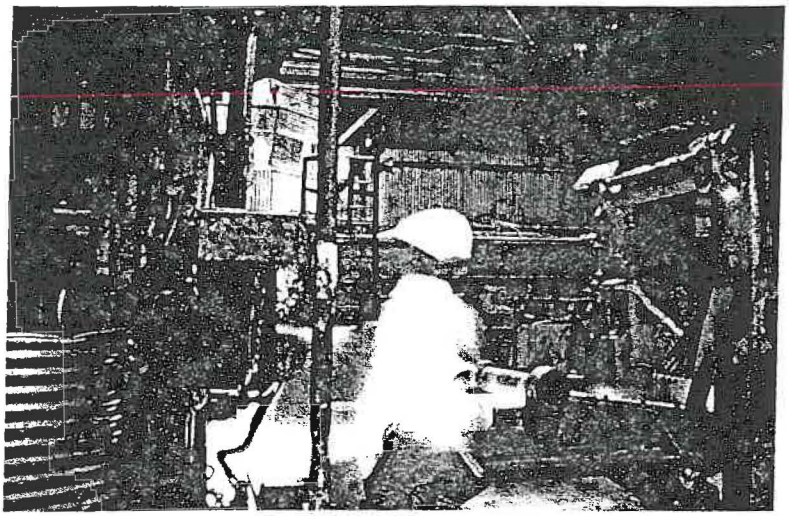
C. Beginnings

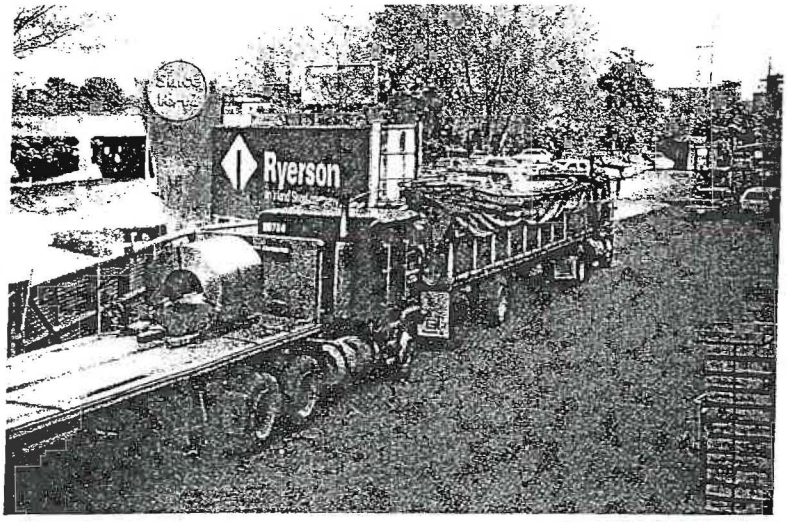
There is reason to believe that revitalization of manufacturing in southeast Chicago and elsewhere in the city has already begun. The most encouraging event is Ford Motor Company's retooling of its Torrence Avenue plant. The automaker, without governmental assistance, has invested more than $200 million to create a state-of-the-art factory for the Ford Taurus and the Mercury Sable. Its 3,000 workers are today building these next-generation cars.

Other positive developments have resulted from involvement of members of the Task Force on Steel and Southeast Chicago. One notable success was the mediation by the task force in the negotiations between the USX Corporation and the Illinois Attorney General. As a result of discussions involving USX top management, the Attorney General, two consultants, and the task force, a three-year-old legal battle was settled. USX promised to create an industrial park in the southern part of South Works, while retaining–and ultimately hoping to expand–steel production in the northern portion of the property. Task force members also tried to persuade the U.S. Economic Development Administration to market the Wisconsin Steel site more effectively and lobbied for the Keyworth Initiative, a recently enacted $7.5 million federal appropriation for steelmaking research, half of which will be performed at nearby Argonne National Laboratory.

The task force effort has also deepened the Chicago Department of Economic Development's commitment to the revitalization of basic industries. The Department has recently approved two financial packages to assist local steel distributors and users: a $350,000 business development loan for Abcor Steel, which will move its operations to an abandoned mill in the Wisconsin Steel plant, and a $40,000 loan (along with a land writedown provision) to Solar Spring, a west side wire fabricator. The Department also became involved when LTV Steel was rumored to be contemplating a complete shutdown of its Chicago plant in early 1986. Finally, the Department has funded the South Chicago Development Commission's industrial outreach program, which has met with over 300 southeast Chicago businesses.



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III. Task Force Recommendations

The negative side of productivity growth has been declining employment.

The task force chose to make two sets of recommendations–one aimed toward the steel industry and one more generally oriented toward ~~southwest~~ SOUTHEAST Chicago. Where recommendations call for more research, the task force felt that a preliminary assessment found an issue to be significant, but of much greater magnitude than could be dealt with by a short-term task force. In most of these cases, much of the groundwork for subsequent study has already been done. The task force strongly believes that each recommendation–whether for steel or southeast Chicago, whether for action or study–must be vigorously pursued to maximize employment opportunities for the Chicago labor force.

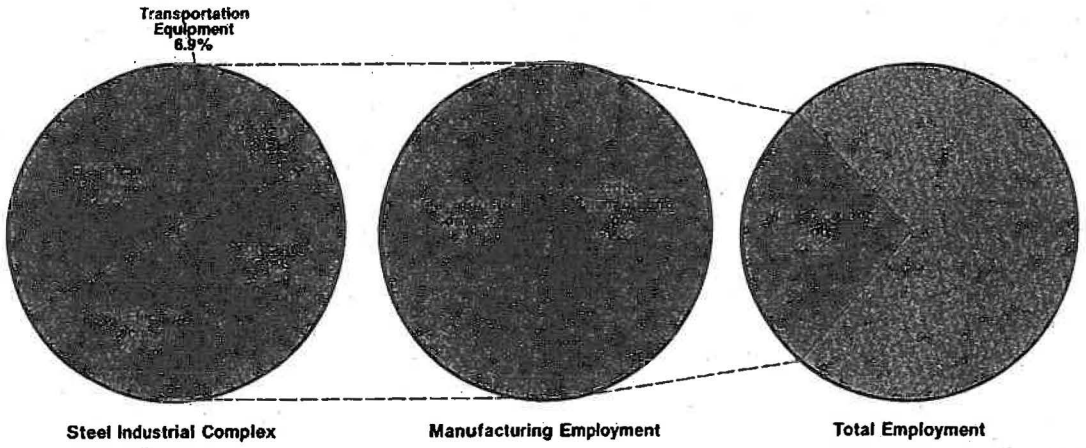
A. Findings: The Past, Present, and Future

Recommendations are clustered around eight research findings. Four task force working groups–Business Development, Real Estate, Steel in the Chicago Area Economy, and Technology–identified a variety of trends and problems. They were found to merge into eight overall conclusions about the present form of the steel industry and southeast Chicago and the continuing influences bearing on each.

1. **Five closely linked sectors–primary and fabricated metals, electrical and nonelectrical machinery, and transportation equipment–remain at the heart of the Chicago economy.** Despite recent losses in employment and production, this industrial complex employed approximately 324,500 people during 1984 in the six-county Chicago SMSA. These sectors represent about one-half of manufacturing and one-eighth of all jobs in the area. These businesses form a network, frequently buying from and selling to one another. Local steel companies are at the heart of this complex because the majority of the firms in these categories produce, distribute, fabricate, or otherwise use steel.

Figure #2

Employment in 6-County Chicago Metropolitan Area, 1984 (%)



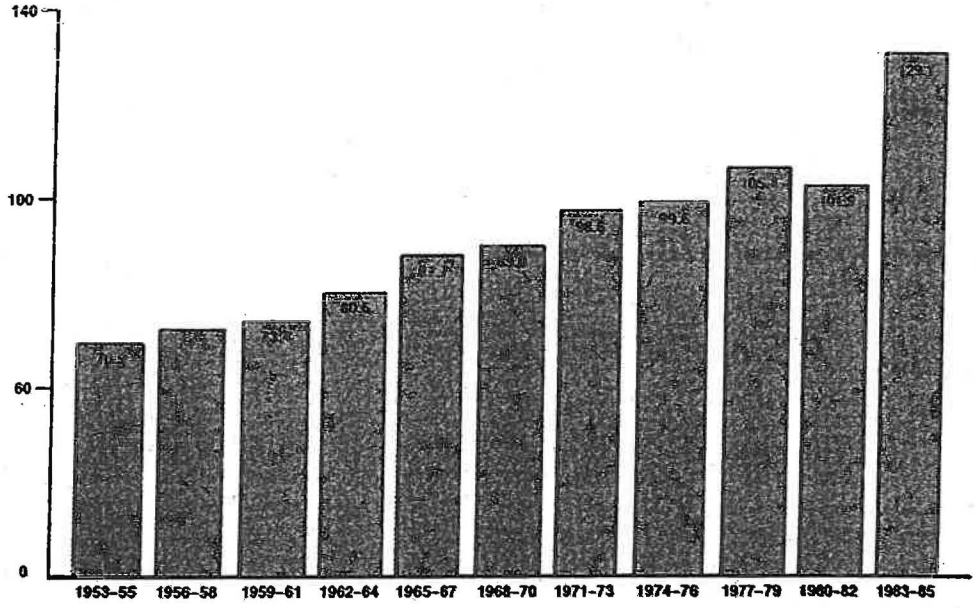
*** Note: Does not include government employees and certain small businesses.**

Source: Illinois Department of Employment Security.

Demand for steel has been sluggish worldwide.

2. **In an effort to increase cost competitiveness and improve quality, steel firms in the advanced industrial nations have engaged in extensive rationalization.** The companies have shut less efficient steel mills and other facilities, while investing in sophisticated steelmaking and finishing lines and improving the quality of supervisory and worker skills. These steps have substantially improved productivity in the U.S. steel industry, which grew 13 percent in 1984 after a record leap of 28.5 percent in 1983. At the same time, related industries–e.g., iron and coal mining and railroad transportation–also achieved substantial productivity gains in 1984. Though these increases in productivity are substantial and an improvement over earlier years, the U.S. steel industry's productivity still lags behind that of Japan and several Western European nations. This disparity has led to continued competitive pressure and will spur U.S. steel firms' efforts to further increase productivity.

Figure #3 **Output Per Man-Hour Steel Industry (1977 = 100)**



Source: U.S. Bureau of Labor Statistics.

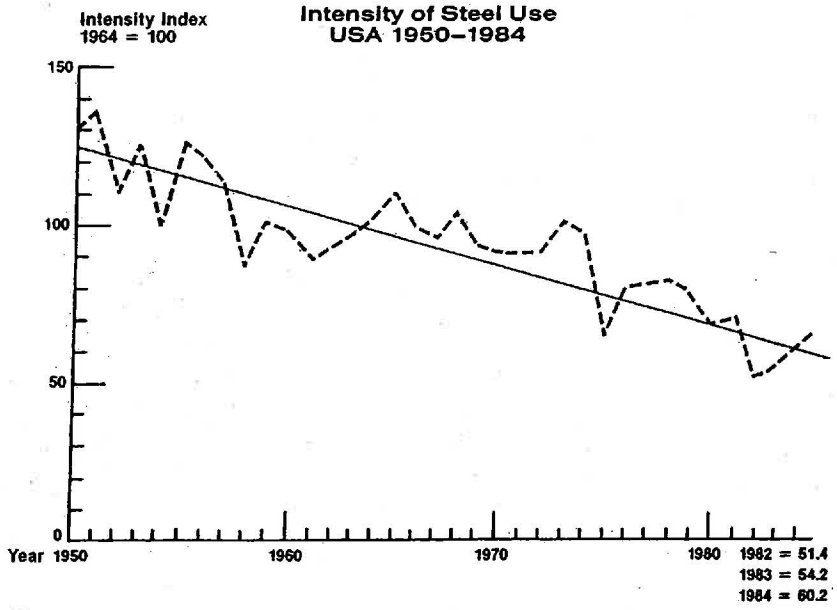
3. **The negative side of productivity growth has been declining employment.** Rationalization and reduced demand has decreased U.S. steel industry employment from 627,000 employees in 1970 to 212,500 in June 1985. In fact, steelmaking employment in January 1985 was the lowest since 1933. Furthermore, the U.S. Bureau of Labor Statistics projects that employment will decline about 1.5 percent annually through 1995. The national trend is mirrored by the extensive layoffs from both southeast Chicago and northwestern Indiana steel producing facilities.

Although all those displaced by plant shutdowns suffer, minority workers, employees over 35 years of age, skilled workers whose substantial but specialized abilities are not transferable, and unskilled employees have had the most trouble finding new jobs. Successful market competition today

requires a workforce that is not afraid to become more productive because it knows society has provided the means to make a transition to productive employment elsewhere in the economy. This is not the case at present: the employment transition for the worker displaced from a southeast Chicago factory has been slow and painful. Many workers have joined the pool of long-term unemployed; when they have found new work, it is frequently for much less pay and with limited future opportunity.

4. **Demand for steel has been sluggish worldwide.** Intensity of steel use has been declining since World War II, and the stagnation has become especially visible in recent years. Both economic conditions and technological developments have dampened steel demand. The worldwide recession of the 1980s, combined with U.S. monetary and fiscal policies that increased interest rates and discouraged capital goods investments, diminished demand for many items which contained steel. At the same time, ceramic, plastic, and aluminum components are being developed which can frequently replace steel products. Furthermore, far less steel is being used in many goods, such as "downsized" automobiles. Stimulating steel demand will require better attention to the product market. Certainly this suggests creation of new steels with different qualities and of ways to combine steel with other products.

Figure #4



5. **Declining demand for locally produced steel has rippled through the southeast Chicago economy, causing shutdowns of steel-related manufacturers and suppliers and other businesses.** These plant closings have led to a decline in the local industrial real estate market. Four thousand acres of available industrial land lie vacant today in southeast Chicago, and disposition of abandoned factories has become an awesome challenge. Efforts to market industrial parks in southeast Chicago have generally been unsuccessful. Consequently, land prices have been static for a decade. The low

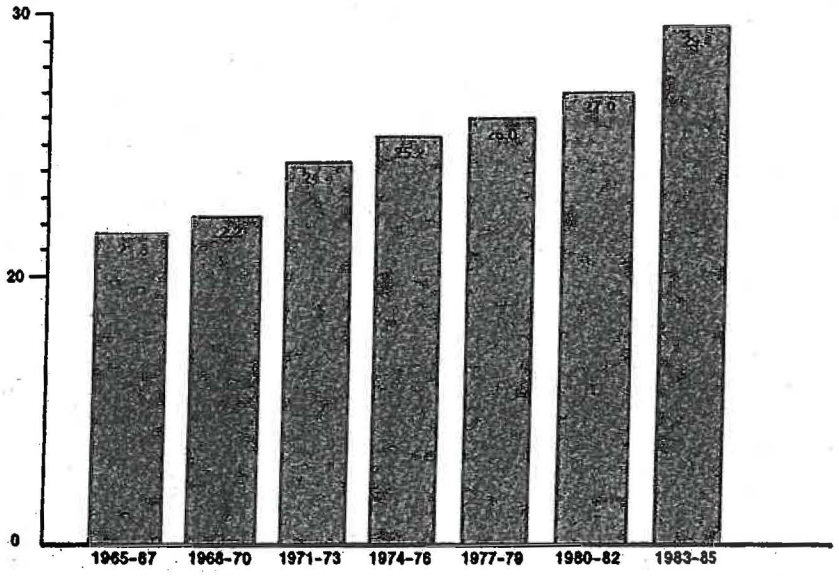
market rents, depressed economic conditions, and high costs of industrial construction are likely to discourage speculative industrial development unless real estate demand can be generated.

America's steel industry, though shrinking, is likely to continue to locate in the midwest, . . .

6. America's steel industry, though shrinking, is likely to continue to locate in the midwest, especially the southeast Chicago/northwest Indiana corridor, to exploit major markets. Illinois and Indiana's share of U.S. raw steel production has been climbing steadily, growing from 20 percent in 1950 to 29 percent in 1985. Several factors account for this. The midwestern states–with Chicago at their hub–are home to the nation's largest aggregation of manufacturers, many of which are major steel consumers. Furthermore, the Calumet region has a critical mass of technologically advanced integrated mills, which will be retained while less modern facilities elsewhere are shut. This regional concentration of steel production is reinforced by Chicago's other comparative advantages: central location, transportation network (rail, water, and interstate highway), research resources, and a large skilled labor force. Finally, the midwestern market is also better protected from import penetration than coastal locations.

Figure #5

Illinois and Indiana's Share of U.S. Raw Steel Production, 1965–85 (%)



Source: American Iron and Steel Institute.

7. "Just-in-time" production methods, which require suppliers to make frequent delivery of parts to reduce manufacturers' inventory costs, are becoming more widespread among automakers, as well as many other industries. This shift should benefit Chicago's steel and steel-related firms, which are located close to primary transportation arteries. Steel service centers, which can have steel ready in the sizes, quantities, and qualities needed for almost immediate delivery, will assume an even greater importance in the local economy as this new delivery method takes hold in smaller factories.

8. The public's concern and involvement in helping troubled industrial communities and plants is likely to increase as world competition imposes its competitive stresses. Most broadly, local and state governments in the midwestern and northeastern states have realized that they must intensify and coordinate their efforts to retain and attract manufacturers. Approaches to accomplish this include encouraging strategic investments that enable companies to remain viable and promoting product and process research to assure long-term competitiveness. Secondly, city and state governments increasingly have attempted to undertake large-scale development efforts to preserve key industrial areas. An example is the bold effort to develop the Steel Valley Authority in the Pittsburgh area. In addition, "rustbelt" municipalities are increasingly vocal in demanding federal economic policies that will help mature industries and encourage future development. Cities are expected to increase their involvement in national spending and international economic policy debates, including discussions of government aid to save large corporations (e.g., Chrysler) and redistribution of regional federal spending.

B. Recommendations for Steel and Steel-Related Industries

The City, State, and private sector should work together to reinvigorate the regional and local economy by encouraging policies that aid the retention, modernization, and rebuilding of steel-producing and steel-using industries.

i The task force recommends "counterprogramming," a strategy distinct from that of most rustbelt cities. Put another way, Chicago is urged to build on its comparative advantages, and to support manufacturing (both high and low tech) and service industries alike. To target services alone would be a serious mistake. The strength of the region's economy rests upon its diverse and vibrant economy, with the industrial and service sectors nurturing each other. Furthermore, Chicago–and the United States for that matter–needs manufacturing capability and jobs to ensure the broad-based economy needed to generate full employment. These considerations dictate pluralism in economic policy: an emphasis on the region's basic old-line strengths, as well as the large service sector and emerging high tech firms.

ii The task force recognizes, however, that reviving local basic industries is a formidable task. Diminished steel demand has been a major part of this problem. Even the companies that have aggressively modernized (e.g., Inland Steel) are not utilizing their full capacity and consequently are finding profitability elusive. Local, regional, and national steps to promote steel-using firms throughout the midwest, including machine tool and farm equipment manufacturers, are one of the cornerstones of the task force's recommendations.

iii The City and State should promote the growth and development of Chicago as a research center in technologies for steel producers, users, and related industries. The region is already home to several excellent university-based scientific and engineering laboratories and departments, two leading national laboratories (Argonne and Fermilab), numerous industrial research laboratories, and a critical mass of the latest generation of steel mills. The City, State, and region must come together to help industry capitalize on these

advantages and to encourage increased research into the rapidly changing technologies employed in producing and using steel.

The experiences of New England and Silicon Valley demonstrate that industries and sectors go through cycles and that economic trends can be altered. The midwest's economic fortunes may change rapidly. For that reason, it is critical that Chicago build on its basic advantages as one means to retain and attract industries and to maximize employment at living wages.

iv The task force also urges creation of a regional and national political agenda designed to reverse federal policies that are having a harmful effect on midwestern basic industries and employment. Many of the problems on the demand side of the equation are a product of national and international policies that at first glance would seem to be beyond local influence. Because they affect the Chicago economy so profoundly, however–touching upon employment, living standards, and quality of life–these policies are our business.

This agenda necessarily involves complex issues, as current discussions of steel trade policy illustrate. On the one hand, steel producers and the United Steelworkers of America are lobbying Congress for legislation that will restrict steel imports and accomplish what President Reagan's voluntary restraint policy has thus far failed to do. If such a steel trade policy is adopted, steel producers will clearly reap immediate benefits. On the other hand, users of steel who must compete for sales in both domestic and international markets fear reprisals by other countries for trade restrictions. Furthermore, key midwestern industries expect that they will have to pay more for steel if quotas are imposed and that, consequently, their products will be priced less competitively. This raises the possibility that the movement of these industries' production from the midwest to overseas will increase. The task force does not take a position on what trade policy is best for goods-producing industries. It does acknowledge, however, the necessity of a trade policy that encourages greater domestic production and employment by steel producers and users alike.

The task force urges serious review of federal spending priorities, with a view to achieving greater utilization of the region's industrial and human resources. Two examples illustrate the problem. First, massive military expenditures currently flow primarily to the sunbelt states, acting as a magnet to attract manufacturers and skilled workers away from the midwest. The drain of experienced production workers is particularly serious, as the skilled workforce is one of the region's greatest economic development assets. Second, as spending on military programs has skyrocketed, the share of total government expenditures (at all levels) on infrastructure dropped from 4.1 percent to 2.3 percent between 1965 and 1982. One result is that many bridges, ports, highways, railroads, and mass transportation systems have fallen into disrepair, particularly in the midwestern and northeastern states. Decaying infrastructure decreases the quality of life for the average person, while increasing costs for businesses in these regions. USX, for example, reportedly pays an extra $1 million per year in transportation costs because trucks must detour around a deficient bridge in the Pittsburgh area. Congress (including the Institute for Illinois and other congressional coalitions), state officials, and local legislators should be encouraged to address these spending priorities, so that the federal budget is responsive to the region's infrastructure, manpower, and other needs.

In view of these goals, the task force urges that the following actions immediately be undertaken.

1. Retain Existing Steelmaking and Steel-Using Facilities

The task force believes strongly that steel and steel–related industries are critical to the Chicago economy and will continue to remain so. ***Thus, it urges the City's industrial, commercial, and political leaders to work together to retain and renew its basic industry.*** The task force believes that this public/private cooperation should be guided by several principles, agreed upon in advance. These "principles of public/private cooperation" should shape efforts to retain steel and steel- related companies, both large and small.

Major Mill Strategies

The traditional limits on public investment must be stretched, if necessary.

The Chicago area's major steel producers, as has been amply demonstrated in the task force's research, form the foundation for the Chicago area's huge steel-based industrial complex. Each ton of steel produced here leads to local jobs, not only within the mill, but in the raw material supplier's shipping yard, in the factory that uses the steel to produce machinery, in the plant that uses these machines, and in marketing, distribution, and transportation.

This reality has shaped the task force's first principle of extending, where possible, governmental assistance that builds on comparative advantages to preserve–and even increase–production and employment in the city's major steel producing facilities. **The traditional limits on public investment must be stretched, if necessary.** Precedents for this include an offer of $45 million from City and State in late 1983 to USX (U.S. Steel) if it would build a rail mill at South Works–a public investment of more than $22,500 per job. An even more massive public investment was accepted by Chrysler and Mitsubishi Motors when they decided to locate their Diamond Star plant in Illinois. State expenditures are expected to total $276 million–about $25,000 for each direct and supplier job–and when special federal tax incentives are factored in, the total public contributions appear to be between $50,000 and $100,000 per job.The task force believes that such extraordinary public investment also should be used, where appropriate, to preserve employment and production at Chicago's major steel-producing facilities.

The task force recommends several other principles for assisting major steel producers, to be discussed in more detail in subsequent recommendations:

- Encouragement of research that can lead to process and product innovations in steelmaking (pp. 24-25);
- Undertaking industry-government market research studies to provide the basis for more detailed market studies by steel companies (p. 22);
- Dialogue between government and the major local steel producers (pp. 36-37);
- Incentives for investment in energy-conserving equipment by steel producers (pp. 30-31).

Steel Users and Distributors

The task force realizes that it is easy for observers to focus exclusively on the most visible major steel producing mills and to ignore the demand side, the thousands of steel fabricators, distributors, and users that are part of the basic industrial complex. Although each individual firm generally employs far fewer

workers than a steel mill, they cumulatively account for about one-tenth of all the jobs in metropolitan Chicago. Furthermore, the economic impact of production decisions is often hidden, occurring at a distance. Purchasing or production decisions made in Peoria, Moline, or Detroit may have a profound effect on Chicago steelmakers. Thus, public policies to stimulate demand for steel must be devised and implemented on a statewide and regionwide basis, and they should involve major steel users such as Caterpillar and General Motors. To remedy the lack of attention paid to many steel consuming industries, the task force has proposed several regional initiatives: joint research projects (pp. 24-25), conferences of key midwestern steel producers and users (p. 24), and community/labor lobbying for federal policies that are more favorable to midwestern industries and businesses (p. 36).

Numerous opportunities exist to help local steel users and distributors.

Numerous opportunities exist to help local steel users and distributors. Some steps–e.g., targeting such firms for City financial packages–are already under way (p. 13). Other steps will demand extensive cooperation from the private sector. The task force believes, for instance, that there is an opportunity for local steel users and producers to work jointly with the City on market studies of future demand for steel and other materials. Consumption of locally produced steel could be projected objectively, and market niches (specialized products for which demand is unfilled) identified.

At the same time, these firms have very different needs: while small custom machine shops, for instance, are growing, other steel users, such as construction machinery, are rapidly declining. Thus, government and industry must develop programs tailored to each of the dozens of key steel-related industries.

The task force has identified several examples of governmental cooperation for one steel-related industry–steel service centers–which employ 30 percent more workers overall in Cook County than work in steel mills. Public support could accelerate the growth of the stronger firms, while helping some of the weaker adjust to the changing economy. The following key steps are recommended:

- Increase visitation by the Chicago Department of Economic Development to steel service centers, to insure maximum utilization of existing infrastructure repair and technical assistance programs.
- Promote available financial packages to steel service centers. These could help the centers invest in items such as computers and scanning equipment they may need to provide inventory and statistical quality control.
- Help smaller service centers adjust to fluctuating steel prices (a serious problem because the bulk of the service centers' capital is tied up in their steel inventory) by developing a financing program for their accounts receivable.
- Research the application of computers and robotics to increase efficiency and improve quality in steel service centers (see next section for details).
- Target steel service centers for assistance through the small business programs administered by the Illinois Department of Commerce and Community Affairs.

As suggested in the final item, the State should complement the City's initiatives to assist steel-related industries.

2. Create an Advanced Technology Program for Chicago Regional Basic Industry

Formidable international competitors have emerged in the domestic market over the past two decades. The U.S. Department of Commerce estimates, in fact, that 70 percent of U.S. manufactured products confront effective international competition today. The success of Japanese and European firms in world markets is due, in large part, to their willingness to make investments that turn technological innovations into commercial assets.

The task force therefore recommends that an Advanced Technology Program for the Chicago region's basic industries be established.

The R & D process divides into three stages: basic research, the discovery of new scientific principles; applied research, in which innovative industrial ideas are developed from these principles; and development, where ideas become commercially feasible products and processes. American laboratories–university, government, and private–have consistently led in scientific discoveries, and U.S. firms pace the world in converting these findings into patents. ***Where domestic steelmakers and other manufacturers have proved deficient is in the development stage.*** Both Japanese and European industries have been far more willing to commit capital for translating innovations into actual marketable products and processes. Japan, in particular, has aggressively licensed patents from abroad and then commercialized the discoveries. Often the foreign manufacturer will then license a process–originally based on an American patent–*back* to a U.S. firm!

That several American basic industries, including steel, lag in translating research discoveries into competitive products and processes has serious implications. Companies that delay adopting critical new processes (such as continuous casting in the steel industry) will frequently lose market share and be faced with higher costs. Furthermore, a firm that relies on purchasing technology from foreign competitors often is not viewed as an innovator. Beyond this, the many indirect benefits of researching and implementing innovations–from unanticipated spinoffs to the proximity of experts who can immediately respond to production problems–are lost.

Nature of the Advanced Technology Program

Impressive scientific and technical facilities lie within the Chicago metropolitan area and the states of Illinois and Indiana. The University of Chicago, University of Illinois, and Northwestern University have national reputations in the physical sciences, while Purdue and the Illinois Institute of Technology have very good engineering departments. Two of the leading government research laboratories, as well as numerous corporate research facilities, are located in the Chicago area, yet little of the research coming out of these world-class laboratories is currently being translated into commercial products and processes for steel producing and consuming industries.

The task force therefore recommends that an Advanced Technology Program for the Chicago region's basic industries be established. Universities, laboratories, governments, and companies in both Illinois and Indiana should all participate in and contribute to this effort. The task force believes that the Mayor of Chicago should take the lead in promoting this program, calling on the governor of Illinois to seek appropriations for the initial seed money. The Mayor should contact other mayors in the push to create this program, including

the mayors of Gary, East Chicago, and other Indiana cities. The Mayor should also seek the support of the governor of Indiana, as well as various regional organizations.

As the concept of this program is being introduced, Argonne National Laboratory, in conjunction with the University of Illinois at Chicago and the City, could sponsor a summit for midwestern steel producing and consuming companies. This gathering should bring together steelmakers, machine tool manufacturers, automotive and agricultural equipment manufacturers, and other midwestern industries linked to steel. Scientists and engineers from local, private, government, and university laboratories should participate, along with appropriate federal agencies with technology transfer programs. This summit should identify the most promising technologies in which basic and applied research has already been performed that can be translated into competitive processes and products. In particular, the conference should highlight technologies where local laboratories can complement efforts underway elsewhere. Specific technologies to be identified at the summit might well include:

- Process innovations in steelmaking in the coke production, ladle metallurgy, continuous casting, and electro-galvanizing stages, as well as enhancing computer and sensor control to assure consistent quality.
- Creation of new market niches for steel products, particularly through application of material science discoveries, e.g., developing more steel/nonsteel composites.
- Application of computer monitoring and optical scanning to steel service center operations–an effort similar to the joint research project by the Auto Industry Action Group.
- Technologies to conserve energy in steelmaking, a significant problem for local mills.
- Joint machine tool builder/user projects that could address the many problems that metalworking industries face today, including ways to link automated production lines.

Government and private matching grants would be sought to develop steel and steel-related technologies.

Creating the Advanced Technology Program

After the regional summit outlined above, the Advanced Technology Program is envisioned as unfolding in several stages, starting as a consortium of public and private laboratories to exchange knowledge and develop cooperative projects. Funding would be sought from many sources: the States of Illinois and Indiana, federal agencies such as the National Science Foundation and the Department of Energy, and local companies. **Government and private matching grants would be sought to develop steel and steel-related technologies.** A natural adjunct would be the spread of knowledge through conferences and seminars. An example of this approach is the Western Pennsylvania Advanced Technology Center, part of the state of Pennsylvania's Ben Franklin Partnership Program, which encourages steelmaking research in the Pittsburgh area in this manner.

Such an Advanced Technology Program might later evolve into a jointly supported technical center. Initially, it could be modest in scale, following the example of the $350,000-per-year Steel Research Center at the Colorado School of Mines. The Colorado Center keeps costs low by relying on graduate students

and by utilizing used equipment. That facility nonetheless has undertaken important research projects. The proposed technical center might be especially effective in meeting small steel users' development needs. In the longer range, the creation of a larger research center, modeled on the recently formed Institute of Advanced Manufacturing Sciences in Cincinnati, which examines and develops machine tool and automation technologies, would be ideal. That institute anticipates having an annual budget of $5 million within five years and a staff of 50 to 60 scientists, technicians, and trained workers.

The American Iron and Steel Institute (AISI) has asked for proposals to establish a steel resource center, a university-affiliated facility to engage in steelmaking research. The task force commends the AISI for its interest in establishing this center and urges it to consider the many advantages that a southeast Chicago location would give this research facility. Because considerable expertise in steel production and research is centered in the Pittsburgh area, the AISI is also urged to consider a joint plan, wherein research to benefit steel producers and users would proceed in both cities.

The benefits of an advanced technology facility in southeast Chicago, close to major steel producers and users, would be many. Steelmakers and steel-consuming industries would benefit from the technical discoveries and applications, while jobs and income would be added to the southeast Chicago economy. The facility would also demonstrate that state and local governments and the private sector are committed to retaining a vital, viable steel industry in the Chicago region. Involving local firms in ongoing joint research efforts has proven to be an effective way to retain aging industries in several communities. Finally, the facility can be a first step toward a joint Illinois/Indiana approach to basic industry. After all, the steel-based manufacturing complex is not divided by the state line: many transactions between suppliers and customers cross the border, as do many manufacturing workers.

Related Steps

At the same time, the task force urges further efforts to secure federal support for long-range research to make basic industries more competitive. Mayor Washington and task force members lobbied on behalf of the Keyworth Initiative, a recently enacted program that will provide $7.5 million for initial research into futuristic steelmaking technologies, much of which will take place at suburban Argonne National Laboratory. These technologies would eliminate several steelmaking steps and significantly lower the cost of making steel, thus helping make the U.S. steel industry a world-class competitor once again. The task force believes that subsequent federally supported steelmaking research –including an experimental mill–should also be located in the Chicago area. Considerable effort from the public and private sector will be needed to establish Chicago as a steel research center.

3. Facilitate Labor Adaptation and Human Resource Development

Recent studies have pointed out opportunities to expand and improve programs designed to aid displaced workers, especially steelworkers. Nationwide, these efforts often have been fragmented and ineffective. ***In view of these findings, the task force recommends that the City devise more efficient strategies to facilitate adaptation of unemployed workers to the changing job market through retraining, educational, and–where appropriate–job placement and advocacy programs.*** This effort should include:

- A linkage between the City's Human Service and Development subcabinets to respond to the problems of the unemployed. A new committee, including staff from the Department of Human Services, the Department of Economic Development, and the Mayor's Office of Employment and Training, should be formed to address their problems. This group should work closely with appropriate State agencies, including the Illinois Department of Public Aid, Illinois Department of Commerce and Community Affairs, and the Illinois Department of Employment Security.
- Participation by unemployed persons in both design and implementation of retraining and education programs.
- Cataloging all existing and proposed regulations and policies concerning plants closing in the City.
- A mobile unit to provide City and State services to workers faced with displacement, which should be funded by the State.
- Periodic City and State examinations of the labor force in southeast Chicago and other communities to monitor economic and social changes related to plant closings. (The State's Illinois Displaced Worker Project–which will monitor major layoffs and track displaced workers–should address this need. Its first report is due in November 1986.) In addition, the Illinois Department of Employment Security should communicate to the City any findings that are useful in predicting plant closings.

Need to Design a Dislocated Workers Delivery System

Chicago's skilled and experienced labor force is one of the city's most valuable economic assets, but it is frequently ignored or actually viewed as a competitive handicap. The City's economic development strategy must promote and develop this asset by tying together industrial development with labor development and advocacy.

A linkage like this would best be achieved through creation of a training and service delivery system capable of responding to the particular needs and preferences of displaced industrial workers. Such a delivery system would have to meet several criteria. Its size and structure should encourage innovative program responses. Also, such a delivery system must be able to attract operating support from many sources, including foundations, corporations, labor, and individuals, as well as federal, state, and local grants. It must be a single-minded voice and advocate for the needs of displaced industrial workers, whatever the shifts in government funding or policies. One option for such a delivery system

might be to create a new agency, governed by a public/private board (including union and unemployed representatives). The experimental program of the Downriver Community Conference–an effort to reemploy displaced industrial workers in Wayne County, Michigan–might serve as an effective model.

The displaced workers delivery system must also provide for the following activities:

- Aggressive outreach efforts to involve workers and their families in the development and implementation of programs.
- Assessment of individual and family needs for services to cope with job loss and to lead to labor force reentry. These services would be developed in response to expressed needs, and could be expected to include training and employment services, assistance to new entrepreneurs, physical and mental health services, legal/financial services, child care, and transportation.
- Continuation of these support services to job reentrants while they establish themselves in their new jobs.
- Aggressive marketing of the strengths of a proven, skilled, and trainable workforce to businesses considering relocating to or expanding their operations in Chicago.
- Advocating and leveraging demonstration projects that lead to job retention, e.g., new avenues for coping with plant closings in basic industry, such as alternative forms of ownership and worker buyouts.
- A research clearinghouse that will:
  - Survey data and research to identify existing skills of the industrial labor force, appropriate retraining opportunities, and effective economic development strategies to utilize existing labor force skills in new enterprises.
  - Research and identify the manpower needs of public and private employers.
  - Identify all available funds, both public and private, to assist displaced workers.
  - Document the impact of unemployment on workers and their families, as well as social costs.

Creation of an effective and broad-based displaced workers delivery system will benefit all parties. Businesses will be able to offset personnel recruitment, training, and administrative costs. Workers will acquire more reliable access to training and education that will have immediate utility in the labor market. They will also experience less frustration in obtaining services and in the job search process, and have a greater choice and autonomy in the face of industrial change. Finally, the city and state will gain through a more dynamic labor component of industrial revitalization.

C. Recommendations for Southeast Chicago

Steel and steel-related industries will remain critical to the Chicago economy, but they are unlikely to ever employ as many workers as they did in the middle 1970s. Thus, the steps outlined above to retain and revitalize basic industries–no

matter how successful–will not produce jobs for all the workers displaced from southeast Chicago factories over the past decade. The task force realizes other actions will also be required, and recommends that the public and private sectors undertake the following steps:

- Retention of the existing businesses of southeast Chicago, one of the critical industrial locations in the region.
- Creation of one or more "engines for industrial development." Such catalysts could reignite demand for land in southeast Chicago.

Southeast Chicago has been targeted in the following recommendations because of its tremendous industrial base and legacy of providing jobs to workers from many parts of the city. Ideally, redevelopment of the area could create enough decent jobs at living wages for today's displaced and unemployed workers.

1. Retain and Develop Southeast Chicago Industries

Retention of existing industries is a critical first step toward revitalization of southeast Chicago. Both academics and economic development officials are realizing that it is often more successful and cost-effective for a community to focus on retaining existing industries than emphasizing costly "smokestack chasing."

The task force has already strongly urged that an industrial outreach program be created in southeast Chicago, a recommendation that was implemented by the Chicago Department of Economic Development and the South Chicago Development Commission. The program involves systematic visits to all southeast Chicago businesses. This initiative is succeeding in:

- Identifying the needs of southeast Chicago business persons through interviews (327 contacts were made in the first nine months of the program).
- Gathering information on local business trends through a questionnaire.
- Informing companies of public and private programs and incentives.
- Forwarding business problems to agencies for further action and assistance.
- Exploring the potential for cooperation among local small businesses, such as joint purchasing and marketing.

Many problems of southeast Chicago businesses are being resolved before they become major hardships, while local government may deepen its understanding of local business needs. Most important, troubled facilities in danger of closing are being identified.

The City should now complement this effort by:

- Designating some portions of southeast Chicago–in particular the Wisconsin Steel and Pullman Works sites–as the first "Class 8" tax abatement districts in Cook County. This designation, certifying the area as "severely blighted," would allow a reduction in the industrial and commercial property tax rate for new projects from 40 percent to 16 percent for a period of 12 years.
- Addressing the competitive problem that southeast Chicago's aging infrastructure poses by undertaking specific public rebuilding projects that will

benefit individual employers (for example, the bridge at Ewing Avenue and 92nd Street).

- Exploring use of the present enterprise zone designation in southeast Chicago for a trial of an innovative building code.

The State should buttress the City's efforts by offering appropriate incentives, granting funds, collecting data, and cooperating with the City to retain business and jobs. The Illinois Department of Commerce and Community Affairs recently provided the South Chicago Development Commission with a $50,000 grant to market southeast Chicago, especially its status as an enterprise zone.

2. Address Energy Cost Competitiveness Issues

Essential to the revitalization of southeast Chicago businesses is alleviation of the area's high energy costs by the City and State. Utility services to business, particularly for electric power, generally cost more than in neighboring states and in regions of Illinois served by different utility companies. Commonwealth Edison's projections suggest that this disparity will significantly increase in the near future. Depending on the rate structure used to pay for power plants now being built, rates may go up 35 percent by as early as 1989, or as much as 67 percent by 1997. Many southeast Chicago industries are extremely energy-intensive: energy represents about 25 percent of the cost of steel production, for example, and a large share of the cost of metal fabrication, food processing, and chemical manufacturing. Soaring electric rates can only exacerbate the businesses' difficulties in remaining cost-competitive.

Thus, the task force believes that making Chicago's energy costs more competitive will help retain industries in southeast Chicago and elsewhere. As a first step, the task force endorsed the joint petition by Peoples Gas Light and Coke Company and the Chicago Department of Economic Development to establish a natural gas economic development incentive rate for approximately 9,200 Chicago businesses. Eligible companies that increase gas use and employment would have received substantial discounts on the additional gas used, particularly businesses located in enterprise zones. The Illinois Commerce Commission rejected the employment provision, but it should continue to be pursued.

The task force also recommends that Commonwealth Edison and the City work together to develop a similar incentive rate for electricity. Although Commonwealth Edison currently has incentive rates to promote sales, they apply only to about 100 large users, with no provisions for small- and medium-sized electricity–intensive firms. The Illinois Commerce Commission has requested Edison to consider applying these "Rider 19" rates to smaller users. A proposed amendment would extend these rates to new electricity use by about 1,500 other firms; but even so, these industrial incentive rates are not contingent on expansion of employment. The task force urges that the Edison company and the City work together to augment these rates with features that encourage employment, especially in enterprise zones.

The task force recognizes that the issue of energy costs is of such importance to southeast Chicago businesses that several initiatives specifically aimed toward the region may be needed.

In-Depth Study of Energy Proposals for Southeast Chicago

So far, energy incentive rates apply only to new demand, beyond a firm's present level of use, and do little to soften the impact of expected future rate increases. ***The task force recognizes that the issue of energy costs is of such importance to southeast Chicago businesses that several initiatives specifically aimed toward the region may be needed.*** The Mayor's Commission on Energy is conducting an in-depth inquiry into electrical supply alternatives for Chicago. The City Departments of Economic Development and Law should work with the commission and the State of Illinois to further develop and evaluate the following two task force proposals.

The first initiative would be for the State of Illinois to create an Energy Demonstration Zone in southeast Chicago. Businesses within the zone would be free to generate power with minimal regulatory restraint. Cogeneration, investments in energy-conserving equipment, and sale of power between manufacturers would all be encouraged.

An example of an innovative project that could be encouraged in an Energy Demonstration Zone is a waste incinerator. Development of a resource recovery waste-to-energy incinerator system, integrated with up-front recycling, would be a boon to southeast Chicago. Such systems are economically viable today, but the development of an Energy Demonstration Zone would further enhance competitiveness by freeing energy sales from regulatory restrictions. As envisioned by the Mayor's Solid Waste Task Force, such a system would not only solve the problem of rapidly-filling landfills, but could provide a cheap source of energy to industries in southeast Chicago. More than 80 waste-to-energy plants are being operated, built, or planned by American cities today, and interest is growing rapidly.

A second energy initiative to benefit southeast Chicago would be establishment of a bulk purchase cooperative. Such a cooperative could significantly lower electricity rates for the area or the entire city by introducing competition. Either cheaper electricity would be purchased by the cooperative from other utilities, or Commonwealth Edison would agree to lower its rate.

Many American cities are aggressively diversifying into alternative energy purchasing, production, and distribution enterprises. The Public Utility Service recently established by New York City buys cheaper power from outside the local utility's service territory and distributes it as an economic development incentive to firms that expand employment. More than 2,000 electric utility systems in America are owned and operated by public authorities, serving cities as large as Los Angeles, Cleveland, and Seattle and offering power at average rates 20 to 40 percent lower than those of privately owned utilities. Public power authorities are being actively supported by New York State Governor Mario Cuomo as a replacement for the troubled Long Island Lighting Company, and by the City of New Orleans as a replacement for New Orleans Public Service Company.

Various forms of public authority are among the many options to the inordinately high and rising cost of power in Chicago. Cheaper power is available from outside the Edison service territory, and several of Edison's current large-scale customers are now demonstrating that they can obtain or generate it cheaper themselves. The Edison company's franchise to provide service in Chicago ex-

pires in 1990. Now is the time to evaluate all the alternatives carefully and thoughtfully.

Finally, the task force has been made aware of the higher utility tax rates in Illinois than in neighboring states. Although state and local taxes are a very small percentage of the total cost of producing steel, these taxes are among the fastest growing cost items. At the same time, it is clear that utility taxes play an increasingly important role in the finances of many municipalities, particularly Chicago. Legislation has already been passed that caps the State's utility tax rate, so further increases in utility rates will not raise State taxes. A similar provision was included in Mayor Washington's 1986 budget proposal. The task force urges the Mayor's Commission on Energy to consider whether further steps are needed to address this important issue.

3. Plan and Develop Southeast Chicago Land Strategically

Many American cities are aggressively diversifying into alternative energy purchasing, production, and distribution enterprises.

Many industrial developers will not be attracted to southeast Chicago until the stagnant local real estate market is revitalized. More than one-fifth of the land currently lies vacant in southeast Chicago, and half-empty industrial parks and abandoned factories are scattered through the area. In fact, southeast Chicago (which represents less than 6 percent of the city's area) has more than one-third of the vacant land in Chicago. The situation is not improving: only a handful of real estate transactions–and most of those involving public bodies–have been completed there in the past decade. This vacant industrial land decreases the quality of life in nearby residential communities, reduces real estate developers' interest in the area, and leads to higher property taxes for businesses and residents throughout the city.

The task force believes that active governmental stimulation of the industrial real estate market–as has proven successful in several older industrial areas, including the New Jersey Meadowlands and northwestern Milwaukee–is needed in southeast Chicago. The task force examined a variety of approaches for attracting developers to southeast Chicago, including using enterprise zones more fully as an economic development tool and implementing innovative zoning regulations. ***The task force believes, however, that the best way to stimulate the local real estate market is to call upon the City's Commercial District Development Commission (CDDC).***

The CDDC, founded in 1977, is enfranchised with broad powers to initiate commercial and industrial development, buy and sell property, clear and renovate buildings, borrow and lend money, and exercise the power of eminent domain. In the nearly ten years of its existence, however, the commission has exercised few of its powers, and the limited actions completed have moved slowly. The CDDC so far has left many areas of the city untouched, not yet undertaking a single project in the critical industrial region of southeast Chicago. Indeed, the Subcommittee on Economic Development of the Chicago Community Development Advisory Council has recommended that the commercial district designation process be streamlined.

The task force believes that the recently reconstituted CDDC is well suited to carry out the functions of an industrial development authority, and that it should

use southeast Chicago as a demonstration zone for implementing its broad statutory powers. To begin the process, the commission should ask the Chicago Department of Planning (working with other appropriate planning agencies) to provide assistance to complete a land-use plan for the area. This plan would emphasize the continued industrial character of southeast Chicago. The CDDC should then designate a number of sites in the region as commercial/industrial districts. **The commission should not hesitate to use all of its development powers to reinvigorate the local real estate market,** and to appoint a special CDDC Committee on Southeast Chicago to oversee and monitor these projects.

The commission should not hesitate to use all of its development powers to reinvigorate the local real estate market, . . .

The commission should seriously consider land banking large unused industrial properties. Land banking–where a government body holds unused parcels (up to several hundred acres) for a number of years to insure their future use for industrial purposes–has been employed successfully in Milwaukee and Philadelphia. These properties are then developed as industrial opportunities present themselves. The stagnant real estate market suggests that southeast Chicago is appropriate for such an approach until the local industrial economy improves.

The commission will require increased funding if it is to undertake land banking and generally play a major redevelopment role. This revenue could be generated from several sources:

- Each commercial district could be designated a tax-increment district so that all additional tax revenues generated by CDDC activity will be used to pay off bonds that the CDDC issues to finance the district's redevelopment. Such an approach has been used to finance a variety of Chicago developments, including the North Loop.
- A set of commercial districts could be designated as a single tax-increment district, enabling the revenue generated in one district to finance other projects.
- Vacant industrial land in the district could be taxed at a higher rate (this would also be a powerful incentive for land development). Similar tax structures have been implemented, with varying success, in Pittsburgh, Harrisburg, and several other Pennsylvania cities.

4. Assure Long-Range Industrial Growth

To get things moving in southeast Chicago again, a catalyst is badly needed. A major new facility could anchor economic development efforts. Logically, the catalyst(s) should be industrial or industrially oriented to be in harmony with the area's existing uses and labor force.

This conclusion is in accord with the two recent studies of the southeast Chicago economy: Gladstone Associates' marketing analysis of the Wisconsin Steel property and the "highest and best use" determination for South Works by Melaniphy and Associates. Both reports concluded that few non-industrial developments would match the needs of the community. If, for instance, Arlington Park race track were rebuilt in southeast Chicago and thoroughbred racing were held there each summer, the benefits would be limited. A $150 to $200 million track would create 3,600 jobs, but they would be seasonal (about

four months per year), low-paying, and likely to be filled by the primarily suburban employees of other racetracks in the region. Visitors to the track would pump up to $15 million into the local economy, but the facility would not meet the needs of industrial workers displaced from local factories.

In the early stages of its work, the task force identified the need for a large industrial catalyst in southeast Chicago. The initiatives that were subsequently evaluated as possible "engines for industrial development" included three transportation projects with considerable potential:

- A revamped Port of Chicago, with a number of new maritime industries surrounding the port area. The State of Illinois recently completed a plan emphasizing the continued maritime character of the port, and should be commended for performing this much needed service.
- A modern trucking terminal in southeast Chicago. Considerable street improvements would have to be made if this terminal were to become a reality, and a new Skyway interchange would be needed at either 87th or 95th streets. (The increased access would benefit U.S. Steel's new industrial park on the South Works property.)
- A centralized southeast Chicago rail yard. At least 136 rail yards are located in the Chicago area, and long delays ensue as rail cars are shunted from facility to facility. Steps to rationalize rail service in southeast Chicago are already being taken: the Chicago Department of Economic Development, South Chicago Development Commission, and U.S. Small Business Administration worked together to enable the LaSalle and Bureau County Railroad to purchase a line serving many local industries.

In the early stages of its work, the task force identified the need for a large industrial catalyst in southeast Chicago.

Each of these ideas warrants further feasibility studies. The task force believes that an additional promising proposal is for a feasibility study for an airport near Lake Calumet Harbor, primarily to handle air cargo. A cargo airport could provide many well-paying jobs, and it could increase business development and employment opportunities in southeast Chicago. The industrial development around O'Hare Airport demonstrates the catalytic potential of air cargo operations. In addition, a cargo airport could benefit machine tool companies and other steel-related businesses by significantly enhancing their ability to meet the just-in-time needs of automakers and other major manufacturers. While the cost of constructing a cargo airport near Lake Calumet Harbor would be very high, the potential economic benefits, if the airport is feasible, could be substantial and long-term.

Such a Lake Calumet airport might be developed in stages over 10 to 20 years. Initially, a small general aviation airport could handle excess traffic from O'Hare, Meigs, Midway, and Gary with a runway of approximately 4,500 feet, with space to permanently accommodate several hundred private airplanes and an aircraft maintenance operation. The second stage might be to obtain an anchor tenant, such as an air cargo carrier willing to make this airport its hub or military flight operations displaced from other regional facilities. At this stage, the original runway could be lengthened and widened. Finally, a full-scale cargo airport might be created on the site, while retaining private aircraft traffic.

The task force recommends that the City fund, or find funding for, a feasibility study of a Lake Calumet cargo airport. The feasibility of each stage of the airport development process should be carefully evaluated. In addition, the task force

suggests that integrated transportation development in southeast Chicago should be a part of this analysis, including methods for tightening the links between barges, trucks, and rail.

D. Implementation Plan

. . . the task force recommends that the EDC establish a Southeast Chicago Oversight Committee, . . .

The Task Force on Steel and Southeast Chicago has devoted more than a year to analyzing the problems of an industry critical to the local economy. Detailed recommendations have been developed after extensive research. All this work will have been in vain, however, unless there is coordinated and thoughtful implementation of these recommendations.

Recognizing this fact, the Task Force has carefully developed prescriptions for the implementation of its proposals. These call upon many actors–the City and State, local labor and community organizations, congressmen and senators, university and research laboratories, and the private sector–to help turn the proposals into action. Some implementation recommendations were presented earlier and will only be touched upon here. Other proposals are already underway, as has been described. But above all, the task force believes that a concerted and cooperative effort to address the problems and opportunities of the steel industry and southeast Chicago is essential.

Local Government Actions

One way to assure successful implementation of these recommendations is to have an existing body, already empowered with the legal authority to promote Chicago's economic development, take the lead. The Economic Development Commission (EDC) of the City of Chicago appears to be best suited to accomplish this task. Therefore, **the task force recommends that the EDC establish a Southeast Chicago Oversight Committee**, modeled after the task force, but with heavier representation from southeast Chicago.

One major function of this committee will be to oversee the Steel and Steel-Related Industry Unit that should be established in the Chicago Department of Economic Development. The task force strongly recommends that the City create this unit and assign permanent staff members to implement these recommendations on a full-time basis. The staff should be conversant with the problems of the steel industry, so they can make recommendations that anticipate future difficulties as well as solve existing problems. The staff's duties will include:

- Gathering data on trends in the Chicago industrial complex, monitoring legislation and policies that may affect steel and related industries, and conducting market analyses.
- Disseminating information about economic development opportunities in the Chicago basic industrial complex and encouraging investment in local factories, whether from domestic or international sources.
- Insuring that appropriate City services (including financial packages, industrial area improvements, and technical assistance programs) go to support steel and steel-related businesses.
- Encouraging the development and use of technologies that assure the competitiveness of the region as a center for heavy manufacturers.

Ideally, the unit staff should have statistical skills to closely monitor current trends, have access to key steel executives, monitor technological research and development in the field, and be familiar with the network of local labor leaders.

A second role for the EDC Oversight Committee will be to work closely with the Commercial District Development Commission, which, as stated above, should exercise its wide statutory powers to coordinate land planning and development in southeast Chicago. The oversight committee should carefully follow and participate in the discussions of the CDDC subcommittee in which the revitalization strategy for southeast Chicago will be shaped. To reinforce this connection, tighter bonds should be forged between the whole Economic Development Commission and the Commercial District Development Commission. One way to assure this relationship would be through cross-appointment of key leaders.

A final function of the oversight committee will be to cooperate with the independent agencies implementing task force recommendations. Argonne National Laboratory, for instance, might request members of the oversight committee to participate in its regional technology summit. The oversight committee should also work with State, regional, and federal officials.

Steel and Steel-Related Network

The task force believes that a legislative economic agenda is needed to revitalize our nation's industrial heartland. Local governments, labor, and neighborhood organizations must work together to reverse the economic erosion of the past decade. Already the crisis in the midwestern and northeastern states has mobilized both private citizens and politicians to press for policy steps toward revitalization. Several groups are promoting alternative economic and legislative agendas:

- Cities and states alike have begun to formulate comprehensive strategies to retain and rebuild troubled industries and to promote the growth of related firms (e.g., the State of Michigan's effort to retain automakers).
- Communities and labor organizations affected by plant closings have responded by examining and questioning the roots of structural changes in the U.S. and world economy.
- The U.S. Conference of Mayors, which represents 800 cities with populations over 30,000, endorses increased capital budgeting for infrastructure development and strongly supports increased technology transfer from federal laboratories to the private sector and local governments.
- Many groups of clergy and laity support economic policies that will aid ailing manufacturing industries and provide employment for the jobless. The Ecumenical Great Lakes/Appalachian Project on the Economic Crisis has drawn together many of these groups in Illinois and the midwest.

A common redevelopment strategy, calling for change in economic and legislative policies, would emerge . . .

The task force recommends that these and other groups join together to establish a steel and steel-related network. The network could evolve as follows. Religious, community, and labor leaders would sponsor a series of conferences throughout the midwest and northeast for workers (employed and unemployed) from heavy manufacturing industries and other groups experiencing economic hardship. A common redevelopment strategy, calling for change in economic and legislative policies, would emerge through these conversations.

Network participants would then seek to educate others in their community and to express their concerns and proposals to elected officials.

To complement this steel and steel-related network, the U.S. Conference of Mayors should organize a meeting of mayors of midwestern and northeastern cities, with Congressional Steel Caucus members and other representatives also invited. The goal of this meeting would be to develop a legislative agenda to alleviate the economic crisis in steel and related industries and in the communities that depend on heavy industry. This agenda might include:

- Actions to increase local and regional demand for steel, including upgrading our nation's infrastructure (e.g., repairing weakened bridges and developing a high-speed rail system).
- Programs to ensure that the labor force has adequate opportunities for employment at a living wage.
- Greater federal support for research into technologies that will make basic industries more competitive, in both university and national laboratories.

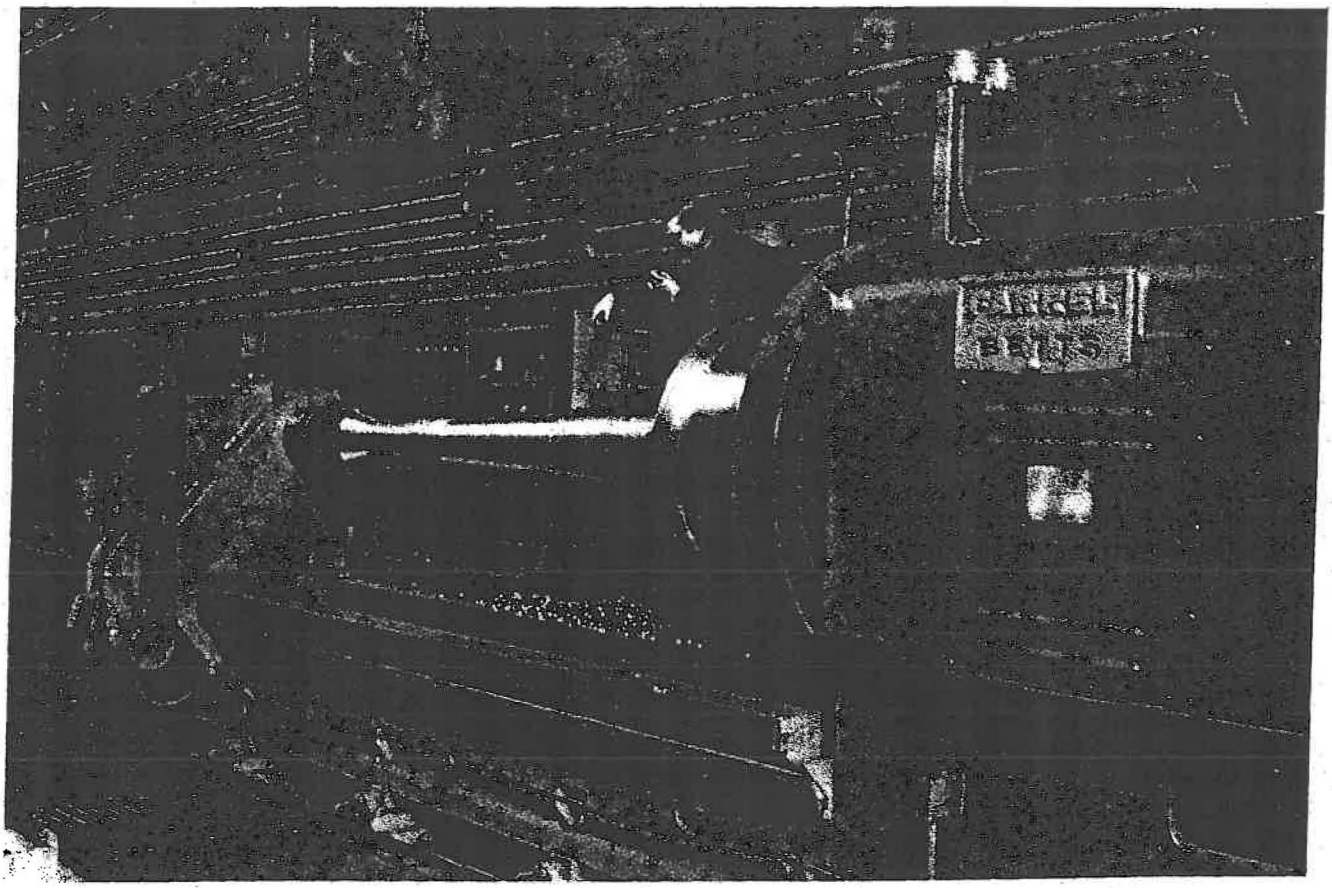
The task force effort represents a good-faith initial investment by the local civic community in the future of steel in Chicago.

Private Sector Initiatives

Participation by the private sector is critical to the success of the task force effort. The role of Argonne National Laboratory's regional summit as a forum for discussion of joint research projects–involving business leaders, academics, and government researchers–has already been discussed. Ideally, this conference will lead to steel and steel-related companies working together on a regional basis to assure development of an economic policy that supports critical midwestern industries. Manufacturers from other midwestern regions could also be invited to later conferences.

The local business community should also become involved in implementing these recommendations through the Commercial Club of Chicago. The Commercial Club's recent study of the Chicago economy, *Make No Little Plans*, contained few references to the critical manufacturing sector. When the club implemented their recommendations by creating six task forces that report to its Civic Committee, basic industries were once again absent: only industries such as health care, financial services, and information and software technologies were chosen for in-depth study and promotion. The task force recommends that the Commercial Club add a subcommittee on steel and steel-related industries to its Civic Committee, and that this body educate both the general public and the business community about the importance of basic industries in the Chicago economy. The private sector must also participate through foundations, whose support will be needed for several initiatives.

Ultimately, however, these proposals are a specific challenge to local steel and steel-related industries. The goal of the task force has been to benefit not only Chicago's industrial workforce, but also the steel and steel-related companies in the region. **The task force effort represents a good-faith initial investment by the local civic community in the future of steel in Chicago.** Successful implementation of these proposals will require real leadership, participation, and cooperation by steel producers, distributors, and users. Steel and steel-related industries must work together–with each other, with organized labor, with other Chicago businesses, with universities and laboratories, and with government–to insure their own survival and Chicago's future industrial greatness.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- The Commercial District Development Commission should designate parts of southeast Chicago as commercial/industrial districts and establish a subcommittee to oversee their revitalization.
- The City should fund, or find funding for, a feasibility study of an air cargo airport and other transportation catalysts for southeast Chicago.
- A Steel and Steel-Related Industry Unit should be created by the Chicago Department of Economic Development to assist in implementation of these ideas and to assist the industry over time.
- Community, religious, and labor organizations should join together to establish a steel and steel-related network to seek more equitable and sensible economic policies.
- The Commercial Club of Chicago should create an educational and promotional task force on basic industries.

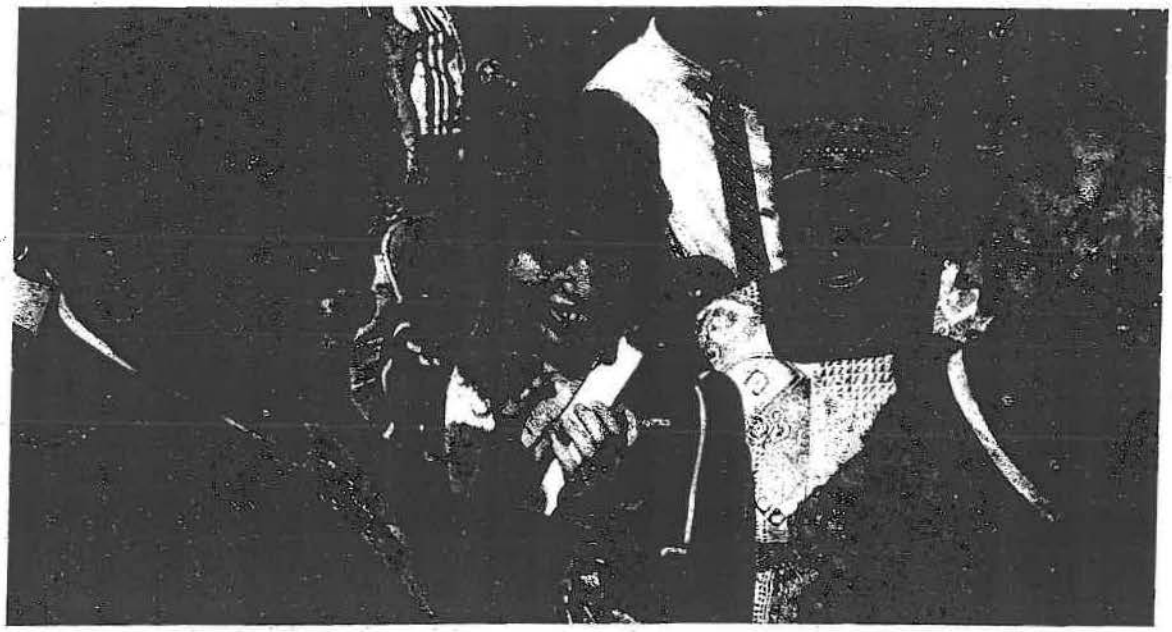
What Should be Accomplished in One to Four Years:

- The Chicago Economic Development Commission should continue to oversee the implementation of this report within and outside of City government.
- Subsequent technology conferences should bring together steel producers and users from throughout the midwest.
- The City and State should undertake a demonstration project to assist steel service centers and other steel users, in order to underscore government commitment to assisting steel consuming and distributing firms.
- The Mayor, along with private citizens, should help make Chicago the research center for steel and steel-related industries. He should lobby the Governor for seed money for an Advanced Technology Program, promote Chicago as a public/private steel research center, and urge the creation of an experimental steel mill in southeast Chicago as part of the Keyworth Initiative.
- The City, State, labor, and other concerned organizations should further refine a delivery system capable of aggressively responding to the expressed needs of displaced industrial workers.
- The City and State should continue to increase assistance for steel-related firms and for southeast Chicago businesses.
- The City should explore using the southeast Chicago enterprise zone for a trial of an innovative building code and designating southeast Chicago as an energy demonstration zone.
- The Chicago Commercial District Development Commission should be extensively involved in southeast Chicago, possibly undertaking industrial land-banking there.
- The City, State, or Federal government should fund a feasibility study of a cargo airport near Lake Calumet and undertake the first stages of development, as well as of other transporation projects.
- The U.S. Conference of Mayors should sponsor a gathering of mayors of midwestern cities to develop a joint agenda on basic industry.

What Should be Accomplished in Five to Twenty Years:

- The Chicago Economic Development Commission and Commercial District Development Commission should continue to play an active role, if needed, in redeveloping the area. Ideally, the private sector will have assumed much of the initiative.
- A major technology research and commercialization center for steel producers and users should be opened in southeast Chicago, as a logical conclusion to the local research funded by the Keyworth Initiative.
- A waste-to-energy incinerator should be opened in southeast Chicago, and a bulk purchase cooperative should be established there.
- A cargo airport near Lake Calumet should be developed, in stages, as a major industrial catalyst, along with other transportation projects.

If this public/private strategy is actively adopted and pursued, the task force believes that the benefits to local manufacturers, the southeast Chicago community, and the entire city will be substantial.



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