

The Redcar Steel Plant Closure – What Now?

By **Alexander Baron** - Oct 4, 2015



Things are getting pretty hot at Redcar steelworks

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The loss of 1,700 jobs in Redcar with the closure of the SSI steel-making plant has led to calls for urgent action at the highest level. It has even been suggested that future steel-making should be subsidised, something the Government has ruled out. Some are dismayed that the banking system was bailed out, so **why not the steel industry?**

The answer to that question is that the banks should also have been allowed to fail, and those responsible for the crisis should have been hung out to dry, but two wrongs do not make a right. SSI is said to have lost hundreds of millions of pounds since it reopened in 2012. What is the point of subsidising a loss-making industry? There is a point, but not a good one, as Murray Rothbard explained in **a 1984 speech**, one that is just as valid today as it was then. Herein, Rothbard also explains why the banks are considered so important, namely they have bought off all the politicians and academics, the latter of what he calls a new alliance of throne and altar.

Having said that, it does sometimes make good sense for the Government or other entities to subsidise apparent loss-making concerns. A subsidy or a grant may enable a company to purchase new equipment that will improve production and profits. Imagine for example a farm that was worked entirely by hand, would it not be worthwhile for the Government or someone to subsidise the farmer so that he could buy a tractor and other equipment, thereby increasing food output and the wealth of the nation? This is an entirely different proposition from subsidising loss-making jobs.

The folly of subsidising jobs for the sake of it is tackled in the 1991 comedy *Other People's Money*. Here are two clips from that film, **the first** showing Gregory Peck as the idealistic company owner, **the second** with Danny DeVito as the asset stripper, the man who wants to break up the company and sell it off to make a quick buck. (If you have trouble playing the clips, save to disk first). The DeVito character is portrayed as a parasite, but at the end of the day his pragmatism will make money for the shareholders while the idealist will drive the company to bankruptcy. The analogy is not perfect because there is no suggestion here of government subsidies, but at the end of the day, if a company isn't making a profit, if no one is buying its products, it is far better for the shareholders to face up to this than throw good money after bad.

Clearly the situation in Redcar calls for urgent Government action, and Chancellor Osborne **has promised this**, but this will require new industries that will generate real wealth, not subsidies that will simply churn out more steel in a market that is already facing a global glut.