

Decline of the United Kingdom's steel industry

Lessons from industrial transitions



SEI brief

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Key insights:

- The socio-economic implications of the UK steel industry's decline include high direct job losses, indirect economic effects such as reduced wages and jobs losses in other businesses, and a legacy of environmental contamination.
- The decline of the steel industry and its associated privatization dramatically changed industrial relations for workers.
- Barriers to the reemployment of former steel workers include the wage differential between former and new jobs, as well as identity considerations.
- Locally based organizations mandated to support job creation and economic activities in areas most affected by industrial decline are not enough to facilitate a transition. Instead, there is a need for the wider regional economic development policy landscape to support economic diversification through measures targeted to local needs and conditions.
- New policies are needed to address the implications of industrial decline; at the same time, policies that may jeopardize regeneration outcomes need to be reconsidered as part of the transition response.
- Measures that can facilitate industrial transition include supporting supply-chain businesses in finding new markets and adjusting their activities, regenerating urban areas, and raising the skill level of the work force to attract knowledge-based industries

This case study examines the long and steady decline of the steel industry across the United Kingdom. It is part of a series that looks at four historical cases involving the decline of major industrial or mining activities. In each, we describe the reasons for the decline and explore how various actors addressed (or did not address) the social, economic and environmental consequences.

The aim of the series is to share lessons that might guide ongoing and future transitions, particularly those related to the decarbonization of regional economies and global economies. Countries and regions that today are heavily dependent on carbon-intensive industries and/or fossil fuel extraction face the prospect of disruptive social and economic changes as the global decarbonization agenda gathers momentum. Sharing knowledge from past experiences might help these communities appreciate the dynamics of transition, and ultimately prepare for and manage these transitions as smoothly as possible, to ensure fair outcomes while reducing any resistance that might slow down necessary change.

Other briefs in this series look at the cases of the closure of a large steelworks in Newcastle, Australia, closure of the Kodak plant in Rochester, United States, and the collapse of the Free State goldfields in South Africa. Some overall insights from the cases can be found in a synthesis brief.

IMAGE (ABOVE): Redcar blast furnace,
Cleveland, UK © BEE-TEERAPOL / GETTY

Background

The British steel industry is today at the tail end of nearly 50 years of decline. In the early 1970s, at its peak production and employment, the industry employed around 320,000 people, excluding those employed in steel processing and in supply chains. By 1978 this figure had fallen to 271,000, and by 1991 it had plummeted to just 44,000. In 2020, the steel industry employed a workforce that was roughly 5% to 10% of the size of its 1971 workforce.

In the early 1970s, concerns about the industry's costs and reliability led some European customers to begin sourcing steel elsewhere. This was partly due to the effect of frequent labour disputes on production, and partly due to external factors including the financial crisis brought on by the 1975-76 oil-price recession and the public spending cuts demanded by the International Monetary Fund in exchange for a large support package it provided to the British government. By the late 1970s, British Steel began negotiating closures. In 1977, Clyde Iron, a small operator in Scotland, became the first of many to close.

Meanwhile, monetary policies adopted from 1979 onwards by the newly elected conservative government pushed up the value of the British currency, creating new problems. This reduced the competitiveness of exports from the British steel industry and also its downstream domestic customers. In 1980, major labour strikes broke out, and a drastic reduction in the steel workforce unfolded. In nine months, 45,000 people



Blast furnaces, Scunthorpe, UK © MARTYN FORDHAM / GETTY

lost their jobs. In the midst of steep decline, in 1988, the UK Government privatized the industry (Davies, 2019; Heath, 2016; Rhodes, 2018), but the decline has continued. Over the last decade, an international glut in steel production, with Chinese state-subsidized firms flooding the international market, has inflicted further pain on the UK industry (Davies, 2019). Overall, employment has suffered considerably more than steel output (Office for National Statistics, 2016), suggesting some job losses were driven by improvements in steel plant productivity (Rhodes, 2018). With the owners of the plant in Scunthorpe – one of the only two remaining blast furnace works in the UK – filing for bankruptcy in 2019, the future of the remaining plant looks bleak.

Impacts

The socio-economic impacts of the UK steel industry's decline extend well beyond the huge numbers of direct job losses. There were also significant indirect economic effects such as reduced wages and jobs losses in other businesses (Sadler, 2004). Closure of the Scunthorpe plant, for example, would eliminate 3,000 jobs directly but could cost an estimated 20,000 other people their jobs through knock-on effects (BBC, 2019).

As steelworks closed, many supply-chain companies appear to have been ill-prepared for the loss of their major customer. An examination of supply-chain companies around steelworks in the Tees Valley found that, as steel production declined, many suppliers did not develop any response strategy even after the negative impacts of decline became visible (Sadler, 2004). This had knock-on effects for the local economy. Some small supply firms went out of business, while those that continued became more concentrated around the remaining steel production facilities; this in turn took a toll on the local economies of outlying regions, which lost these small firms. Small, generalized engineering firms in the supply chain reported a need for better marketing expertise to help them diversify their customer base beyond the steel industry. They highlighted difficulties they confronted in finding financial resources to support diversification, and reported dissatisfaction with the available business support services.

Environmental impacts have also been an issue. Concerns about the remediation work needed to clean up former steelworks sites was highlighted, for example, in the 2015 closure of the Redcar steelworks in northeast England. The Redcar steelworks declared bankruptcy, and consequently the site clean-up bill – which could total billions of pounds – was transferred to the public (Moss, 2015). The closure accrued other costs for the public too. For example, the costs of programmes to support and retrain workers have been mostly borne by the government, albeit with some European-funded assistance providing interim wage support for those workers who were re-employed at lower wages (Greenwood, 2009).

Some sources note that privatization of the steel industry in the late 1980s dramatically changed industrial relations for workers, weakening their collective bargaining powers and resulting in a loss of labour power (Upham, 1990).

Responses

Workers and new jobs

Throughout the years of decline, the UK government introduced various policy initiatives aimed at preventing further erosion of the steel industry. More recent examples include: compensation for energy-intensive industries to offset higher electricity costs arising from climate policy measures, review of business tax rates,

lobbying for anti-dumping measures at the EU level, preparation of an infrastructure “pipeline” to enable better capacity planning, and using public procurement and “Buying British” campaigns to stimulate domestic demand (Rhodes, 2018).

As the UK’s steelworks closed one after another, efforts to mitigate the effects on workers increased. In 1975, for example, a new entity, the British Steel Industry (BSI), was set up to assist in the creation of new job opportunities for steel workers, through the stimulation of new businesses. BSI was an entity within British Steel itself and opened offices in the towns where major steelworks layoffs were occurring. The work of BSI included financing small-and medium-sized enterprises, offering business advisory services, generating some seed capital for higher-risk ideas, and providing a handful of “managed workspaces” that were to help establish new businesses (Grieves, 1994). When the Redcar plant on Teesside closed in 2015, the government announced a GBP 80 million support package for workers and the local economy. This included “funding for affected workers to train at local further education colleges and tailored support for them ... and finance to assist workers if they want to start up their own business and for local small businesses to grow and create jobs” (UK Government, 2015).

One of the factors that has made re-employment of steelworkers challenging is the issue of wages. Major industries like British Steel usually pay above-average wages, and these jobs are of high status in the local community. Replacement jobs match neither the previous wages nor status levels (Moss, 2015). Even today, “steelmaking jobs are highly skilled and well paid. The average salary of £36,000 is around 50% higher than that of other workers in regions where the industry operates such as Wales and Yorkshire” (Davies, 2019). Personal identities are often tied to the kind of work people do (Kirk et al., 2015). Former steel workers in Ebbw Vale in South Wales, for example, expressed disgust at the prospect of having to work on the floor of a new marshmallow factory.

Various measures have sought to rejuvenate local economies and find replacement sources of employment in steel regions. The South Tees Development Corporation (STDC) was established to identify opportunities for economic growth in the Tees Valley area around the former steelworks. To support the new entity, a 4,500-acre site including the former steelworks land was designated as the UK’s first Special Economic Area (STDC, 2019). This designation allows the STDC to retain rent and business taxes for the purpose of reinvestment in further development of the site. This model aims to reduce the costs that would otherwise fall on local taxpayers for redevelopment of the site (STDC, 2019). Similarly, around the Port Talbot steelworks near Swansea in South Wales, a “city and region deal” aims to encourage growth in the area by investing in a new national steel innovation centre “to foster interaction between research and commercial steel operations”, and to provide retraining schemes to help workers upskill and prepare for potential opportunities in industries such as information and communications technology (Rhodes, 2018).

The long downturn in the UK steel industry is part of a wider, precipitous decline in industry and manufacturing that some believe has played a pivotal role in reshaping politics, culminating in the UK’s vote to leave the European Union in 2016. Some analysis suggests that key drivers of voters’ support for leaving were a historical dependence on manufacturing, low levels of education, low incomes, and high unemployment – all of which lessened the ability of these regions to adapt to economic changes (Becker et al., 2017). Further research suggests that subsequent national policies including public funding cutbacks could have exacerbated this dynamic. For instance, austerity-induced welfare reforms adopted by the UK government in the wake of the 2007-2008 financial crisis took a particular toll in these ailing regions, which, in turn, were more strongly in favour of leaving the EU (Fetzer, 2019).

Regional economic development policies

Because this case offers an example of nationwide decline in a particular sector, it is instructive to look also at the suite of nationally rolled-out responses, most of which were not specific to the steel industry but instead were meant to address the wider pattern of deindustrialization of the British economy during the same period. Regional development strategies have been promulgated through development corporations, regional development agencies, other forms of “local economic partnership”, and, more recently, through devolution deals to give more powers to cities in the North and Midlands.

Here, we make a number of observations. First, though governments used regional policy to incentivize replacement industries in economically depressed areas, this had an overall negative effect on industrial expansion nationally. In practice, such policies proved to be the wrong tool, at least for addressing needs consistently across affected/depressed areas. Regional programmes started after World War II consisted of subsidized roads and infrastructure, as well as restrictions or incentives that tried to shape where in the country new industries would establish themselves, or where existing industries would expand. Particularly active in the 1960s and 1970s, these policies involved both financial support mechanisms and regulatory incentives designed to encourage businesses to go to targeted areas. As an example, “industrial development certificates”, used until the 1970s, granted approval for an expansion of manufacturing. These certificates were easier to obtain in depressed areas, and more difficult to obtain in prosperous areas of the country. The programme led to some decisions by manufacturers to relocate, but often led to decisions to curtail or cancel expansion plans; the policy had an overall negative effect on industrial development at the national level (Broadberry & Leunig, 2013).

In an examination of different UK policy regimes on the country’s manufacturing industry, Broadberry and Leunig (2013) find that many policy “remedies” were unsuccessful. For example, investment subsidies failed because they channelled support to sectors where they could have little long-term benefit. They find that lasting positive effects could only be seen in the areas of public sector purchasing and the encouragement of foreign direct investment. The authors conclude that the “overwhelming dominance of unemployment considerations” over industrial needs, and a reliance on a strategy of “bringing work to workers” were key mistakes (pp. 47, 36). As a consequence, policies sometimes supported clusters that were in fatal decline (e.g., cotton and shipbuilding), and, at other times, policies broke up clusters of nascent sectors such as the car-manufacturing industry, which suffered adverse effects on its long-term viability (Broadberry & Leunig, 2013).

Second, regional policies failed to address all the barriers that constrain diversification and the establishment of new industries. Policies were not properly targeted to local needs and conditions. Instead, approaches all across the country followed relatively generic strategies. Take the case of Colby, for example, which was well located close to London and seemed to offer a decent prospect for developing alternative economic activities. Yet, 30 years after the town’s steelworks closed, the community still had no rail infrastructure that could transport people and goods in or out.

Third, these strategies for economic revitalization typically promoted replication of manufacturing economies. A study of changes in the economic status of UK cities over a century of major economic change and deindustrialization, of which the decline of the steel industry was a part, suggests that other strategies led to better outcomes (Swinney & Thomas, 2015). The study shows that cities that prospered the most (e.g., Reading and Brighton) did so by reinventing their economies – replacing jobs



Port Talbot steelworks, UK © TIRC83 / GETTY

in traditional industries with jobs in new, more knowledge-focused activities such as IT and digital media. By contrast, cities that struggled most replicated their old economies, replacing jobs lost from declining manufacturing industries with lower-skilled, routinized jobs, such as “swapping cotton mills for call centres and dock yards for distribution sheds” (p. 1). The authors argue that this replication strategy is the reason that these cities have not prospered in the transition. And they highlight that this strategy has remained visible in the UK’s national policy framework – as evidenced, for example, by the call for “a ‘march of the makers’” by George Osborne, Chancellor of the Exchequer from 2010 to 2016, and “the overt focus of the Regional Growth Fund on manufacturers in the North and Midlands” (p. 2).

Strategies that involved “subsidising the building of vast out-of-town business parks and tempting multinationals to move in their call-centre or distribution warehouse” or to “build a glitzy shopping complex and hope an influx of consumers brought money flooding into the local economy” have not generated economic vitality (Stewart, 2015). By contrast, cities that have succeed in regeneration (e.g., Manchester and Leeds) have a highly skilled workforce stemming from local universities. These cities have also invested in a “gradual renaissance” of their city centres. “Post-industrial areas without a major university, a large city centre, or pre-existing expertise in building something people still want – such as cars – have been left high and dry” (Stewart, 2015).

In short, these studies argue that the flaw in these policies was not just that they were too generic. They were also flawed because they adopted the wrong strategy. Therefore, for these two different reasons, regional economic development policies used in the UK arguably have not provided a sufficient foundation for helping a smooth transition as the steel industry closed down. In the context of this exploration of the steel industry’s demise, it is interesting to note that 30 of the 41 cities classed by Swinney and Thomas (2015) as “replicators” – those that sought to replace heavy industry with more heavy industry – are in the North, Midlands or Wales, i.e. in the areas where steel production has historically been an important source of employment and regional economic activity. This suggests that the transition experienced across these areas has, broadly, not been smooth or successful.

Success in transition?

As with other cases of industrial and mining transitions (e.g., in South Africa's Free State goldfields, with the Newcastle steel industry demise in Australia and the closure of the Kodak plant in Rochester, New York), narratives about new jobs and re-employment need close scrutiny to understand the character of the transition experienced. An example is Consett, a town of 30,000 people in Northeast England, where the steelworks closed in 1980. Consett was at that time a “one employer town... the steelworks employed 4,300 people directly, and probably three or four times that number indirectly”. Shortly after closure, male unemployment in Consett was almost 100%, and the whole of the 1980s is described as traumatic, economically and socially (Moss, 2015). Not long after the steelworks closed, the Government removed the town's rail line, a decision that seems unlikely to have helped a place in need of support for economic revitalization. There were some signs of economic revival by the mid-1990s, for example with the emergence of “light engineering and food companies” as new employers. Yet although jobs figures look positive, the conditions of work have deteriorated, with a rise in part-time and/or minimum wage jobs and a growth in zero-hours contracts (Moss, 2015).

Conclusion

As the UK steel case indicates, locally based organizations mandated to support job creation and economic activities in areas most affected by industrial decline are not enough to facilitate a transition. The case shows the importance of the wider regional economic development policy landscape in terms of transition outcomes. It warns against policy measures that are not properly targeted to local needs and conditions, and against those that focus on sectors that are already in decline, and methods that try to reproduce the old manufacturing economy structure. The case also highlights the need to remove policies that may jeopardize regeneration outcomes as part of the transition response.

Instead, the UK steel case points to some measures that can facilitate industrial transition, such as supporting supply-chain businesses in finding new markets and adjusting their activities, and urban regeneration efforts to attract knowledge-based industries. It also highlights the growing role of knowledge-based economies and their potential in industrial transitions. Here, Swinney and Thomas (2015) recommend raising the skill level of the work force to make knowledge-based economies jobs available to them while also promoting clustering and place-specific knowledge networks to support innovation. Overall, a key insight from this case is the need to explore how the regional economy can be transformed and strengthened, and thus to resist strategies of reproducing the past, despite the sense of (false) safety these may give.

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