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Business: A sadder, wiser union; Carmaking in America

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ABSTRACT

On September 20th, as the United Auto Workers union (UAW) and General Motors (GM) unveiled a remarkably modest four-year pay agreement, union bosses stressed their commitment to helping GM prosper. Some union members will complain loudly about the new deal. But the UAW's leaders can boast of some achievements. After what seemed like endless rounds of job cuts, GM is now hiring again. The road ahead for GM and the other American carmakers is still potholed and slippery. If sales continue to recover, they can hire more workers and still make profits. But if recession returns, forget it.

GM has plenty of cash to help it weather passing storms, and its repeated cost-cutting has made it lean enough to make profits even if it produces fewer cars. But its fight for survival is far from over—and the same applies to the union it has locked horns with for 75 years.

FULL TEXT

GM has reached a realistic deal with its blue-collar union. But bigger struggles lie ahead for both

TWO years ago General Motors (GM) went bankrupt. High labour costs, short-sighted management and global economic turmoil forced what was once America's mightiest firm to seek refuge from its creditors. Only a federal bail-out saved GM from the scrapheap. Now, after a dramatic restructuring, the company is in reasonable shape, but another recession could sideswipe it.

Small wonder the United Auto Workers union (UAW) is less truculent than before. On September 20th, as the UAW and GM unveiled a remarkably modest four-year pay agreement, union bosses stressed their commitment to helping GM prosper.

The deal allows GM to hire thousands of new "tier two" employees, who will get about half the pay of longer-serving blue-collar workers for the same work. It offers early-retirement buy-outs to thousands of costly tradesmen the firm no longer needs. It gives each of GM's 48,500 production-line workers a \$5,000 lump sum now and about \$4,000 more spread over four years, plus a slightly higher share of profits. But GM has not had to concede any increase in basic pay (apart from a modest rise for the low-paid tier twos). The next contract talks, in 2015, will in effect start with pay reset at the levels of the early 2000s.

This is not the first time the union has had to make concessions. In 2007 it accepted the long-taboo two-tier wage structure. In 2009 it agreed to curbs on its ability to call strikes. Now that GM has lighter debts and a smaller, cheaper workforce, the firm is back in profit. Better models have won car-buyers back: in August GM had a 20.4% market share in America, up almost two percentage points in a year. But still, the union has to be realistic.

Two spectres make it shiver. One is the economy. The other is the continuing threat from the "transplants"—low-cost foreign-owned car factories in America, mostly in the union-unfriendly South. Until 2007, GM's labour costs

were far higher than the transplants' (see chart). Now GM, like Ford and Chrysler, has slashed them so severely that they are only slightly higher. Analysts at Deutsche Bank reckon that the labour deal could narrow the cost gap by a few dollars more.

Some union members will complain loudly about the new deal. But the UAW's leaders can boast of some achievements. After what seemed like endless rounds of job cuts, GM is now hiring again: of the 6,400 jobs it plans to add or retain in American plants as a result of the deal, many will involve work that would otherwise have been sent down Mexico way. Since all these jobs will be at unionised plants, the UAW will get some respite from the relentless decline in its membership, which has slumped from 1.5m at its peak in 1979 to less than 400,000. The UAW is being reasonable partly because it wants to keep GM competitive, but also because it dreams of persuading workers at foreign transplants to unionise, says Harley Shaiken, a labour expert at the University of California, Berkeley. Mr Shaiken thinks this is fairly likely, so long as Ford and Chrysler reach similarly amicable deals with the UAW.

However, Kristin Dziczek of the Centre for Automotive Research in Michigan is sceptical: workers usually join unions only when they feel mistreated, she says. Pay at the transplants may be lower than at the Big Three in Detroit, but it is above-average for the states where the foreign-owned plants are located. And most of the transplants are in "right-to-work" states, where closed-shop agreements, which force workers to join a union as a condition of employment, are banned.

In any case, the UAW may have its reasonableness tested in the coming talks with Ford and, in particular, Chrysler. Ford, which never declared bankruptcy, has the highest costs of the Big Three, and thus needs to drive a hard bargain. Sergio Marchionne, the boss of Chrysler and of its main shareholder, Fiat, has shown himself to be tough with the Italian and Canadian unions, says Ms Dziczek, and he is already in a bad mood with the UAW's leader, Bob King, for failing (says Mr Marchionne) to turn up for a negotiating session.

Still, it may make sense for Mr King to grit his teeth and strike a deal with Mr Marchionne: Chrysler insiders say the firm is contemplating bringing back in-house some work currently contracted out to non-union suppliers, so long as the UAW agrees to keep labour costs down.

The road ahead for GM and the other American carmakers is still potholed and slippery. If sales continue to recover, they can hire more workers and still make profits. But if recession returns, forget it. Analysts at Morgan Stanley, a bank, expect Americans to buy 14m new cars next year. If the economy shrinks, however, they could buy as few as 10m, and GM would again start to lose money.

Either way, the Big Three will face tougher competition, as foreign rivals such as Hyundai and Volkswagen continue to expand their global capacity. GM has plenty of cash to help it weather passing storms, and its repeated cost-cutting has made it lean enough to make profits even if it produces fewer cars. But its fight for survival is far from over—and the same applies to the union it has locked horns with for 75 years.

DETAILS

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