Saving the Detroit Three, Finishing Off the UAW: Learning From the Auto Crisis

Thursday 1 January 2009, by GINDIN Sam (Date first published: 30 December 2008).

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At the end of 1979, President Carter offered loan guarantees to Chrysler to prevent the company's imminent bankruptcy. The loans were conditional on wage concessions of some 10% and the outsourcing of half of Chrysler's work. In August 1981 a newly elected President, Ronald Reagan, ended a strike of 13,000 air traffic controllers by firing the strikers en masse (the controllers' union had ironically been a supporter of Reagan in his 1980 presidential campaign). In these cases, the American state was not just following the private sector's bidding, though corporations of course cheered it on; rather, the state was leading the assault on workers' conditions and rights. The result was a redefinition of American labour relations for a generation to come, with implications for workers everywhere. The American labour movement proved incapable of mounting any resistance through that period and assumed it couldn't get much worse.

It just did. It was expected that the economic crisis, like past crises, would intensify pressures for concessions from auto workers. And it was understood that in responding to the loan requests from General Motors (GM) and Chrysler, the American state would likely reinforce that pressure. But the U.S. Treasury and the Bush Administration went stunningly further. By formally linking UAW conditions to those in the Japanese transplants, the union – whose independence had already been compromised through years of concessions – was pushed to effectively act as an agency of the state.

The loan conditions asserted that "By no later than February 17, 2009, the Company shall submit to the President's Designee ... [a] term sheet signed on behalf of the Company and the leadership of each major U.S. labor organization [essentially the UAW] that represents the employees." Over and above the elimination of any layoff benefits above customary severance pay – something the union had already conceded – the terms called for a reduction in workers' wages, benefits and working conditions to match "no later than December 31, 2009" levels that are "competitive with the average as certified by the Secretary of Labor" at the U.S. operations of Nissan, Toyota, and Honda. As well, the union had to accept that at least half of each company's obligations to the union administered health care plan would now include company stock [1].

While American unions were waiting for the inauguration of a new president to bring them legislation that would make it easier to establish unions, the current administration (with no dissent to date from President-elect Obama) essentially declared, in a standard-setting industry, that: "You can have unions but you can only have non-union outcomes."

There are a number of lessons to learn from this unfolding event and we raise a few of them here.

1. Finance and Auto

The auto sector begged for $34-billion in loans and loan guarantees and was conditionally given half that amount. Finance, on the other hand, didn't have to ask or commit and got $700-billion – more than 20 times what auto asked for. Moreover, the total amount that the U.S. government, and therefore American citizens, are now liable for as a result of the attempt to bailout Wall Street is now estimated to have reached a mind-boggling $8.4-*trillion* – almost 250 times the monies requested by the Detroit Three.

The difference in the treatment of the auto executives relative to finance was not simply a matter of inconsistency. The first and perhaps most obvious lesson of the auto crisis was to confirm that the iconic status of the American auto companies is over. Finance received the treatment it did because it was understood to have become a vital "public utility" (though hardly a democratic one). Since the entire U.S. economy now depended on the health of finance, and since Wall Street was also so central to the functioning of the American empire, finance had to be saved at any cost.

In contrast, while the Detroit Three were acknowledged as still being important to the economy, they were no longer perceived as indispensable. The U.S.-based industry's notorious lag in responding to the environment – resisting stronger legislated standards on fuel efficiency and pollution control, and focusing on larger, more profitable vehicles – ultimately cost the Detroit Three not only market share, but credibility as a creative, dynamic sector. Moreover, with Japanese transplants having spread outside the U.S. Mid-west, auto production could no longer be identified solely with the U.S.-based auto companies.

That the auto sector did get an instalment on the loans it asked for reflected its lingering importance, but had as much or more to do with the particular moment. The collapse of GM and Chrysler was deemed unacceptable not just or primarily because of the impact on working class communities, but because it would further aggravate "business confidence" and the deepening crisis confronting finance and the economy as a whole.

2. Foundations of the Auto Crisis

In contemplating what lies ahead, it is worthwhile to spend some time looking back. After World War II the UAW, arguing from a different logic and social vision than the corporations, called for a small, fuel efficient and safe car. The companies totally rejected any union input into the kind of car being built – what did workers know? The UAW also called for a public health care system. The union's failure to win these goals has come to cost auto workers and a good many Americans dearly.

Detroit's reluctance to make small cars more than a niche product was not simply a matter of short-sightedness but of doing what businesses are supposed to do under capitalism: maximize profits for their shareholders. For companies like GM, developing a wider market for small cars meant competing with itself – selling significantly more of the smaller cars translated into fewer sales of mid-size and larger cars with their higher profit margins. That the Japanese companies emphasized small vehicles was less a matter of their having more foresight, than a practical response to the fact that they could not then compete with the U.S. in other sections of the market. (In hindsight, the U.S. companies underestimated the potential of the Japanese companies to move upstream into the larger models.) The American state's commitment to cheap gas – prices in Europe and Japan have generally been at about three times that of the U.S. – limited interest in smaller vehicles and the U.S. companies were happy to follow those market signals.

By the early 1980s, the import of Japanese cars was significant enough to lead the American state to impose temporary import limits and give the Detroit Three some breathing room to "adjust." But the quantitative limits pushed the Japanese to accelerate their penetration of the larger car market and also to move directly into the United States. In the consequent competition with the U.S. companies, with all sides now on U.S. soil, health care costs emerged as one of the most significant factors. The U.S. has been unique in having no public health care system (in a sense, while European capitalism was legitimated via the welfare state and public benefits, American capitalism offered private mobility and private space – cheap gas and high levels of homeownership). The UAW's attempt to offset this by negotiating health care plans at the company level was reluctantly accepted by the companies and they subsequently came to appreciate the degree of control it offered (risking the loss of health care could limit worker militancy). Bargained health care worked relatively well when competition was less intense and production was growing. But with downsizing, the contradiction of an insurance program fragmented across companies was exposed.

GM, for example, now has 480,000 retirees and surviving spouses while Toyota's relatively newer U.S. operations include less than 300! It is by dividing such costs among the active hourly workers (under 75,000 at GM) that the companies and uncritical journalists arrive at the astronomical hourly labour costs so often cited. Such additional costs relative to the transplants have accounted for the major part of the Detroit-Japanese labour cost differential. If the U.S. had a Canada-type health care system, the savings over a few years would have exceeded the loans the companies have just received from the government – and they wouldn't have to be paid back.

As the Detroit Three lost market share, they responded by improving productivity, outsourcing and demanding worker concessions in the workplace and in compensation. But to the extent that the companies were successful, this came with fewer workers. Over the past two decades, for example, competition in the auto industry led to a doubling of productivity alongside a 25% decrease in the number of jobs – even with the addition of the transplants. Even as the UAW accepted concessions (which were always sold in terms of job security) the bleeding of jobs continued unabated. At the end of the 1970s, when the concession era began, there were some 750,000 hourly employees at the Detroit Three. Today, more than two thirds of those jobs are gone.

This sobering history provides a second lesson of the crisis – the solutions for the industry are just as likely to worsen the circumstances of workers. Even if the U.S.-based auto companies move more aggressively on fuel efficient vehicles – as it now seems they must – competition will be as intense as ever and the Detroit Three may face continued decreases in market share (and not all are likely to survive); pressures to increase productivity will, as before, mean fewer workers; and the auto companies may, in their own narrower interest, simply import smaller vehicles rather than produce them in North America. Corporate health costs are already being "solved" by shifting more and more of the risks to the workers. And nothing in the government or corporate plans speaks to the hundreds of thousands of auto workers already laid off, the equipment and workplaces going to waste, or the tens of thousands of auto workers to be laid off and further workplaces idled as the Detroit Three "get in shape" to meet their Japanese competition.

3. Hypocrisy and Class

During the U.S. primaries and presidential election, politicians competed to self-identify as the champions of blue-collar workers and their manufacturing jobs. Once the election was over, however, and attention turned to the auto crisis, these “middle-class” heroes were once again reduced to being “over-paid workers.” It’s worth elaborating a bit on the response to auto workers especially compared to those who contributed to, and were enriched by, the events leading to the Wall Street and auto crises.

In the Wall Street bailout, only the compensation of the top five officers of companies was addressed: limits on white-collar workers and managers, many of whose compensation exceeded or approached $1-million annually, were not even discussed. Secretary of the Treasury Henry Paulson originally tried to avoid any compensation limits; his discomfort was hardly surprising given that his yearly compensation of $38-million before he came to Washington placed him at the head of the Wall Street trough. The limits ultimately forced on him by popular outrage were always of questionable significance, but even so the Bush administration introduced a last-minute loophole that “lawmakers and legal experts say… has effectively repealed the only enforcement mechanism in the law dealing with lavish pay for top executives” (Washington Post, December15, 2008).

At GM and Chrysler as on Wall Street, there were no compensation limits on managers other than the very top echelon. The compensation of the chief executive officers of GM and Chrysler would not be directly limited as blue collar workers were, but any compensation beyond $500,000 would no longer be tax exempt. But this alleged restriction is hardly impressive. Currently compensation over $1-million is not tax exempt and this didn’t prevent GM from paying its CEO an average of over $11-million per year in the previous three years and absorbing the tax losses.

Moreover, while studiously comparing the compensation of production workers to their Japanese counterparts, no one asked or even thought of asking how U.S. auto CEO compensation compared to that of the Japanese – U.S. executive compensation is about three times as high. Nor did anyone raise historical comparisons between executives and auto workers: if U.S. auto workers had the same percentage increase as GM’s CEO over the past quarter century, their wages would be closer to $280/hr than to $28/hr, a result that might have made auto workers more amenable to a “reduction.”

And no one bothered to compare auto workers’ compensation over the past quarter century with inflation and productivity. Factoring in inflation, current auto wages are only about 8% higher than they were in 1979 (an increase of about a quarter of 1% per year) while output per hour has more than doubled. Over this period, workers also lost some of their paid time-off. As for the fabled increase in negotiated heath care costs (which, according to the industry, account for the bulk of their cost disadvantage with the Japanese plants), this wasn’t primarily the result of bargaining higher benefits but of the rising payments, for the same benefits, to the private insurance industry. (Interestingly, in the past, comparisons of auto worker compensation were made with costs in Japan, but now that the high value of the Yen has placed Japanese compensation at par with the U.S., no one seems interested in this comparison anymore.)

But more than political opportunism was involved in making workers into heroes one day and scapegoats the next. The hypocrisy took the particular form of a class bias against working people. This is a third lesson of the auto crisis: auto workers aren’t part of a ’middle class,’ a bland, safe and limited category that excludes a good section of working people; rather, auto workers are part of the “working class” – a designation that exposes the reality of power relations and workers’ second-class status within capitalism (it’s called “capitalism” because it is capital that rules), suggests qualitatively different interests, and points us toward clarifying who is lined up against us and who is potentially there with us.

4. Their Weakness Versus Our Weakness

If we were surprised at the extent of the state's response, it was in part because the economic crisis seemed to have created a new political opening. Over the past quarter century, while working families and the poor endured the pressures and pain of neoliberal sacrifices, permanent insecurity and growing inequalities, the captains of American business had justified their feudal-era salaries – with government bureaucrats, politicians and much of the media joining the chorus – as being justified by the wealth and prosperity they were delivering. In a remarkably compressed matter of months, these former champions were however exposed as frauds – legally in some cases, in substance more generally. Corporate elites, the American state and to some extent the capitalist system itself were suddenly on the defensive and profoundly delegitimated; people no longer accepted so readily the wisdom of markets or the authority of those in control. Now, surely, dramatic and progressive social changes were on the agenda – weren't they?

A fourth lesson of this crisis is that the delegitimation of those who have structured our lives in a very particular way since the early 1980s has only created an opening – a potential – not the inevitability of social change. As crucial as some degree of spontaneous resistance is to any progressive change, even "spontaneity" needs a degree of organization to be effective, especially if it is to be sustained. In this regard, there is the greatest difference between "us" and "them." Finance may be in disarray, but economic elites in the U.S. and elsewhere still have the resources, power and especially the organizational support of the state to renew themselves. And as much as business has been discredited, basic assumptions of the bounds of possibilities persist (such as not going beyond the limits of private ownership, markets and competitiveness) and this is reinforced by our daily dependence on finance in all aspects of our daily lives – jobs, pensions, homes, cashing checks, spending, and saving.

As an oppositional force without the material, ideological or organizational resources of the capitalist class, or the support of a state committed to democratizing economic power, the issue for us is to go beyond lamenting recent developments and use this moment to build a capacity to affect the direction of society. That is, how, starting with resistance, to develop an alternative vision, alternative policies and an organizational capacity that can match what we are up against.

5. Fixing and Also Restructuring Capitalism

There is more at stake in this crisis than how long it will take to get the system running again and how much suffering will occur along the way; the fixing of capitalism will come alongside its restructuring in ways that affect future possibilities. A fifth lesson of the crisis is therefore that such moments create openings and opportunities for both sides, and. if we aren't engaged in shaping that restructuring in our favour, we'll be paying for this lost opportunity for a long time to come. The outgoing Bush administration's exploitation of the auto crisis to virtually destroy the UAW as an independent social force is just one example of negative restructuring.

There are a host of issues to think about in this regard. Since there will soon be more auto workers laid off than working, why can't restructuring proposals include the conversion of the idled but potentially productive tool and die shops, component plants, and assembly facilities – as was done in World War II when all auto production was stopped but the number of jobs in these facilities increased? This time, however, we can turn to making the socially useful products we need (particularly all the modified and new products that will be part of this century's environmental reconfiguration of how we work, consume, travel and live)? Why can't the crisis be converted into an opportunity to not only fix roads and bridges but also revive manufacturing, provide manufacturing jobs and sustain communities?

The emphasis on public infrastructure is positive not just because it is today the only effective way to stimulate the economy, but because it opens the door to doing things that should have been done long ago. And this places crucial choices on the agenda. Will the American state invest in more military expenditures or finally move to affordable public housing for the poor and replace the disastrous promise that the poor can get (and keep) homes through the marketplace? Will the concentration be on roads or also on developing urban and inter-urban mass transit? What input will communities have on what projects are chosen? And how will the workers involved have a say in guaranteeing decent working conditions and pay?

The privatization of the welfare state has failed even the minority of workers who had health care and pension plans. As these benefits are further eroded the base is being expanded for moving to public plans that can spread risks across the nation and provide benefits to all working families. The Great Depression witnessed the first breakthroughs in achieving a social safety net; why can't the labour movement lead during this crisis (especially since there is so much more wealth today) in securing and expanding health care, access to needed drugs, dental care, unemployment insurance, adequate welfare payments, and pensions – and in the process revive its leading social role? Rebuilding the physical infrastructure is vital; so is investing in social infrastructure.

And if the financial system is really a public utility, why don't we democratize it? That is, can we use the crisis to move toward a form of democratic regulation, including the nationalization of the financial system, so that finance becomes an instrument for developing control over the economy rather than a vehicle that undermines democratic options by holding us hostage to the "discipline of markets"?

6. Defending or Changing the Union?

A final lesson relates to the UAW itself. The union has faced the greatest and most complex of pressures, yet that doesn't explain how inept it has been in initiating any defence of its members. It has been unable, and has seemed even unwilling, to attempt any mobilization of its members. It has become isolated from the community to the point of losing touch with even its own laid off members. It has failed to bring forth the urgency, commitment, energy, and creativity to unionize the Japanese transplants (to the point that they, rather than the UAW, now set bargaining and workplace standards – an opening that the Bush Administration used to formalize that transplant leadership). It has spoken to the need for single-payer health care but refused to take the risks that might place socialized health care on the agenda and subsequently retain bargaining space for other issues; and as difficult as it is for unions to deal with saving or creating jobs, its relative silence on putting forth any substantive ideas is discouraging. Even as everyone is jumping on the bandwagon of "economic stimulus," the UAW hasn't exposed the contradictions of using the loan guarantees to establish standards that undermine workers' incomes and therefore the purchasing power on which stimulus depends.

Three inter-related factors seem to have been crucial to the UAW's failures (and these apply as well to a good many other unions): the union's loss of organizational and ideological independence from employers; the internal bureaucratization and erosion of a democratic culture and practices; and the narrowness of the union's responses when what is so badly needed is an extension of activity across the working class and popular groups.

The lesson here is not so much that the UAW needs a change in leadership though this is obvious enough, but that its members must rethink what kind of union they want, what kind of supplementary working class organizations are essential at the municipal, regional and national level might be contemplated, and what workers' own role is in all of this given that things are getting worse and there is no "someone" to do it for them.

_7. Conclusion: The Necessity of a Fight-back

We are living in one of those historical moments in which dangers and new possibilities share the same space. The American state, determined to renew American capitalism, has responded in the largest and most radical ways: money dropped from the sky on the financial system, zero interest rates, consideration of the most significant economic stimulus since the Great Depression, and the high-handed audacity to tell the union that once led sit-down strikes that they will henceforth track the Japanese transplants. The question facing UAW members – and the labour movement more generally because of the implications of a defeat of the UAW on this scale – is whether workers can develop the confidence to think as big and as radical as "they" are thinking in terms of both how workers see the future and what needs to be done to build the capacities to get there.

It must, in this regard, be understood that if concessions are simply accepted, more will follow. As pressures continue on the Detroit Three – and with the companies noting that auto workers will accept cutbacks even in their health care – pensions may be next. The Japanese transplants have kept their compensation and conditions at their levels in large part to avoid the unionization threat from the UAW; with that out of the way, what is to stop them from cutting back, as the economic crisis worsens, on present commitments?

There MUST be resistance to the conditions the loan agreement imposes on auto workers if only to show that the union still matters and to keep a measure of hope alive. An obvious starting point if the union is to retain any credibility is to assert that the conditions of the non-union Japanese transplants are not the standards of the UAW. It is also absolutely essential to reject the further transfer of health care risks to workers; a health care fund linked to GM or Chrysler stock hardly represents health security for workers and their families. Autoworkers should instead insist that the incoming President's recovery plan replace the failed American health care system with a public system for all Americans that is comparable to the rest of the developed world. And with all the focus on job-creation, the union should be mobilizing its hundreds of thousands of laid off members to assert that the potentially productive auto facilities already idled or about to be shuttered be converted to useful manufacturing jobs that keep families working and communities functioning. In the Great Depression, workers overcame their own weaknesses and society's barriers to develop new ways to struggle and organize. Today's workers need to start meeting, talking, debating, preparing and discovering a comparable level of determination and creativity.

Further Resources

Malcolm Gladwell, "The Risk Pool: What's behind Ireland's economic miracle - and GM's financial crisis?" *New Yorker*, August 28, 2006:

[-http://www.newyorker.com/archive/2006/08/28/060828fa_fact]

Gregg Shotwell, "Bailout – an End Run around Bankruptcy", *MRZine*, December 1, 2008:

http://mrzine.monthlyreview.org/sho...

David Leonhardt, "$73 an hour: Adding It Up", *The New York Times*, December 10, 2008:

http://www.nytimes.com/2008/12/10/b...

Harold Meyerson, “Destroying What the UAW Built”, *Washington Post*, December 17, 2008:

http://www.washingtonpost.com/wp-dy...

Bill Fletcher, “Auto Workers Must Fight Back!” *Black Commentator*, December 19, 2008:

http://www.blackcommentator.com/304...

Tiffany Ten Eyck, “Auto Workers Told to Take Concessions, Abandon Retirees”, *MRZine*, December 20, 2008:

http://mrzine.monthlyreview.org/eyc...

Also very worth browsing through:

Socialist Project: http://www.socialistproject.ca/

Soldiers of Solidarity (Gregg Shotwell): http://www.soldiersofsolidarity.com/

Center for Labor Renewal: http://www.centerforlaborrenewal.org/

Labor Notes: http://mrzine.monthlyreview.org/

MRZine: http://mrzine.monthlyreview.org/

P.S.

* From The Bullet, Socialist Project • E-Bulletin No. 172, December 31, 2008.

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Footnotes

[1] Tthe full terms are available at www.ustreas.gov/press/releases/hp13...