USA – The United Auto Workers: Busted?

GM blurs the line between union and management

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It's been a long time since American devotees of Marx (Karl, not Groucho) have had much to cheer about. But with the bankruptcy filings of General Motors and Chrysler, and the transfer of stock ownership from the firms' long-suffering shareholders to the government and unions, communists of the world can rejoice. The workers are now, finally, significant owners of the means of production. The United Auto Workers control about 65 percent of Chrysler and 17.5 percent of General Motors.

For many ardent capitalists, this state of affairs represents a kind of Armageddon. These people didn't rage about the somnolent boards, the incompetent management, the failed economic policies, and the massive destruction of shareholder wealth. No, what really angers folks like Jack Welch—his grumpiness was on display at a recent panel and during an unintentionally hilarious CNBC gabfest on the future of capitalism—is the prospect of an unholy alliance of government bureaucrats and union bosses controlling the fate of a few failed companies.

But they shouldn't be so angry and fearful. Sure, theory tells us that union leaders and government officials might not make optimal corporate directors. But let's not forget that the incompetent boards of companies such as AIG, Bear Stearns, and Lehman Bros., which failed horribly and inflicted massive costs on American taxpayers, were stocked with former CEOs, free-market economists, and other worthies. Would a union boss or Treasury department official really be a worse director than, say, highly respected economist Martin Feldstein was at AIG?

The bankruptcies also are likely to shrink and weaken the UAW, not strengthen it. Before the Chrysler and GM filings, the Big Three's collective market share had fallen to about 46 percent. Edmunds.com projected that Chrysler had a 10.4 percent market share in April (smaller than Honda's) and that General Motors' share was below 20 percent. Unionized auto production accounts for only a tiny sliver of U.S. industrial production and is likely to shrink further, since the bankruptcy filing is enabling GM to do what it should have done years ago but couldn't, in part due to union opposition: slim down in a hurry. GM has already announced a preliminary agreement to sell the Hummer division, reportedly to a Chinese company. It plans to sell off the Saab and Saturn brands, and pare down Pontiac. Oh, and it is closing a bunch of plants. The company's U.S. employment, the Wall Street Journal reported, is set to shrink from 88,000 to 63,000.

Most significantly, as stockholders, unions will have to start thinking like owners. The theory of Detroit was that the United Auto Workers union didn't care about returns Chrysler, Ford, or GM could generate to the stockholder because it was simply concerned with maximizing wages and benefits. But the joke was ultimately on the unions, since high labor costs were one of the many factors that caused the companies to fail—and hence to renege on the long-term retirement and health care benefits they had agreed to pay.

Now, however, the unions are in a situation in which they really need GM and Chrysler to do well, both in the short term and the long term. The UAW is in a pickle because it relied too much on the performance of a single company to fund retirement and health for members. The union has come to see the wisdom of diversification. As the *New York Times* reported: "The U.A.W. president, Ron

Gettelfinger, says he wants to sell the health funds' shares as soon as practical. The union's advisers have warned it would be unwise to tie up so much of the fund's assets long term in a single company's shares."

It's true that the unions could try to use their new ownership role—which doesn't carry proportional representation on the board—to milk Chrysler and GM for all they are worth over the next few years. But if they did that, they'd only be bankrupting themselves. (I mean, it would be like a bunch of investment bankers who own big chunks of stock in their own firm engaging in insanely reckless practices designed to produce massive short-term gains without regard to the ways in which those bets could destroy their entire net worth if they don't work out.)

No, the union is more likely to start thinking like an owner. To provide the retirement and health care benefits its members want, the working man will have to become "the Man." If, indeed, there is an unending war between labor and capital, with one trying continually to screw the other, then it's a Pogo moment for the United Auto Workers. They've met the enemy, and it is them. And thus far, the Man seems to be winning. The UAW has pledged not to strike against Chrysler and GM through 2015.

So let's review: A shrinking union accepts stakes in shrinking companies. It promises not to strike. The governance system muffles the union's voice by restricting its board presence. It sounds like an arrangement a union-hater like Jack Welch would have cooked up.

P.S.

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