US auto union signals capitulation on GM health-care costs

Stock soars following meeting of UAW officials

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It took the United Auto Workers union (UAW) exactly two days to officially signal its readiness to accept massive concessions in health-care benefits for active and retired workers at General Motors.

Even by the standards of the American trade union bureaucracy, the UAW's response to GM's June 7 announcement of huge job cuts and plant closures in the US, and the company's demand for sweeping rollbacks in health benefits (See: "General Motors announces plans to eliminate 25,000 jobs in US") was so rapid and craven that it sparked a giddy buying spree of GM stock on Wall Street.

Within minutes of Thursday morning's emergency meeting of top UAW officials and the presidents and chairpersons of UAW locals at GM and Delphi, GM stock began to soar. (Delphi, the country's largest auto parts supplier, was spun off by GM in 1999 and remains part of the GM-UAW national agreement.) Big investors and those in the know pocketed a small fortune as GM's share price rose $2.70, or about 8.5 percent, on the day.

GM stock closed at $34.51, far higher than its $26-$31 range of the past three months. More than 25.2 million shares were traded, almost twice the daily volume, according to a June 11 report in the *Detroit Free Press*.

By the end of the week, GM stock had climbed more than $3.50, a rise of over 11 percent—a gain entirely attributable to GM's downsizing and cost-cutting plans, and the capitulatory response of the UAW.

Thursday's union meeting brought together some 100 plant-level officers and national union officials, headed by Richard Shoemaker, the UAW vice president in charge of the union's General Motors department. That the union would not contest GM's three-year plan to cut 25,000 jobs (23 percent of GM's current hourly workforce in the US) and close an estimated six factories was a foregone conclusion. Since the late 1970s, the UAW, in the name of "saving jobs," has entered into a web of corporatist union-management agreements and structures, the result of which has been a wave of plant closures and layoffs that has reduced UAW membership at GM and the other US automakers by more than two thirds.

For some time, the UAW had not even attempted to enforce provisions in its contract with GM that require the automaker to replace jobs lost to attrition.

The general posture of the union was indicated by its decision to hold the meeting, not at the UAW's "Solidarity House" headquarters in Detroit, but rather at the UAW-GM Center for Human Resources—a mortar and brick symbol of union-management "jointness."

Wall Street was concerned that the union make a clear statement of its willingness to collaborate in compelling current and retired workers to pay substantial premiums and deductibles on their health benefits. In his announcement June 7 of GM's response to declining sales, market share and profits, GM Chairman and Chief Executive Rick Wagoner emphasized the company's determination to slash its health-care outlays, complaining that they amounted to $5.2 billion in 2004 and would rise to $5.6 billion this year. He suggested he was looking to cut the additional cost per vehicle from health-care expenses by 50 percent.

GM has also complained that its union employees pay just 7 percent of their health-care expenses while salaried workers pay 27 percent, and demanded that the gap be closed.

An article in Friday's *Wall Street Journal* gave an indication of the minimum level of concessions big investors would consider an acceptable first step in restoring the automaker to financial health. It noted that GM's UAW retirees currently pay no premiums, while white-collar GM retirees pay premiums of $75 a month. The authors calculated that imposing a monthly premium on UAW retirees of $50 would boost GM's annual earnings by about $1.44 per share, and a $100 monthly premium would boost share values to the tune of $2.93.

Wall Street was not disappointed by the UAW's performance. The union officials voted to authorize Shoemaker to negotiate health-care cuts and other possible concessions within the framework of the existing UAW-GM contract, which expires in September of 2007. Financial analysts and major investors were not put off by the statements from Shoemaker and other officials rejecting a formal reopening of the contract.

That, it was well understood, was largely a matter of show, and would not prevent the implementation of unprecedented attacks on both current and retired workers. There are all sorts of provisions buried in the contract language, and never revealed to UAW members, that allow for the most far-reaching rollbacks of workers' compensation, benefits and working conditions.

Only recently, the UAW and Chrysler invoked an obscure codicil in their current contract to force some 35,000 hourly workers and retirees to pay deductibles between $100 and $1,000 for health care that previously was free.

Moreover, as was pointed out by Sean McAlinden of the Center for Automotive Research in Ann Arbor, Michigan, formally reopening the contract would require a rank-and-file vote, something neither the union nor the company wants. McAlinden told the *Detroit News*, "It would never get ratified. How are they going to write up something for GM guys in particular, 60 percent of whom can retire in five years, to cut their own retirements benefits. How do you get that ratified?"

Far better to work out a deal behind the backs of the workers over which they will have no say.

Interviews published in Friday's Detroit newspapers with union officials who attended Thursday's meeting gave some sense of the utter prostration of the UAW bureaucracy. "... the union side will definitely consider a lot of things," said Linda Blaine-Motter, chairwoman at Local 909, which represents GM's Warren (Michigan) Powertrain plant (*Detroit News*).

Al Coven, president of Local 699 at Delphi's Saginaw Steering Systems plant, told the *News*: "Everyone wants GM to survive. They've got some tough issues we need to face and we can either decide to help them or not to help them. We're not stupid. We're going to help them." He added, "It isn't going to bother me one bit if I have to pay a little more for my health care."

Following the meeting, Morgan Stanley auto analyst Stephen Girsky issued a report to investors entitled "UAW willing to negotiate on health care." Girsky wrote, "The fact that the UAW appears to be willing to negotiate and that some type of deadline has been set is an incremental positive."

The report set off the frenzied buying spree that lifted not only GM stock, but also that of Ford and Delphi, indicating that Wall Street is already anticipating similar health-care concessions at the other US automakers.