US auto union in deal with GM to slash health benefits

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General Motors announced Monday that it had reached a tentative agreement with the United Auto Workers union (UAW) to drastically reduce the company's health care costs for hundreds of thousands of hourly workers, retirees and their dependents.

The agreement will cut GM's long-term health care costs by $15 billion, or 25 percent, while reducing the company's annual medical expenses by $3 billion, before taxes. The deal, which must be ratified by UAW members, will affect 750,000 US hourly employees and dependents, retirees and surviving spouses.

Announcing the agreement at the company's Detroit headquarters, CEO Rick Wagoner indicated that the sweeping cuts in health benefits were only the beginning of a broader offensive against the workers. Hailing the agreement as "the single biggest cost reduction we've probably been able to announce in a single day in the history of GM," he added, "This is a very big step forward that we will build on."

The news that auto workers and their families would be forced to bear the burden of skyrocketing health costs was greeted with enthusiasm on Wall Street, where GM's stock, which had fallen some 30 percent from a year ago, shot up $2.11 a share, or 7.54 percent. It is widely predicted that the move by the world's largest auto manufacturer will be followed by similar demands from Ford, DaimlerChrysler and other major employers.

Details of the health care cuts were not announced, but analysts expect that workers will face higher co-pays and deductibles for doctor visits, prescriptions and hospital care. UAW workers at GM, Ford and DaimlerChrysler currently pay 7 percent of their health care costs. GM has said it wants health costs for hourly workers to come into line with those borne by salaried workers, who pay 27 percent. Last March, the UAW agreed to a pact that compels 35,000 hourly and retired Chrysler workers to pay between $100 and $1,000 for health care that was previously free.

The cost-cutting announcement was timed to overshadow the release of GM's third-quarter results, which showed a loss of $1.6 billion. The company, which has been hard hit by rising fuel prices and falling market share, has had three consecutive losing quarters, with a total loss of nearly $4 billion.

The health care cuts were part of a $5 billion restructuring plan outlined by Wagoner, including speeding up plant closures and eliminating the jobs of 25,000 hourly workers by 2008. GM has already closed or stopped production at three plants this year.

Wagoner also said GM would freeze pay for salaried and contract employees. The company has cut US salaried jobs by 30 percent over the past five years, and further cuts will be made in 2006.

GM will reduce what it pays for parts and materials by another $2 billion in 2006, despite higher prices for commodities such as steel and oil. This will create a ripple effect of further wage cutting and downsizing throughout the auto parts industry.

The action by GM follows the bankruptcy filing by Delphi, the largest automotive parts supplier in the US, which is demanding a 60 percent cut in hourly wages and has moved to dump its pension plan. GM took no action to bail out Delphi—which it spun off in 1999—and has used the bankruptcy and speculation that GM might follow suit to increase the pressure on its workforce for concessions.

Billionaire financier Kirk Kerkorian, who in recent months has become one of GM's biggest stockholders, is pressuring the company to quickly boost its share value. This reportedly includes demands that GM sell off its most profitable assets, including the GMAC car loan and mortgage business, and spend billions to buy back its own stock.

In June, Wagoner said the UAW had to agree to a deal to cut health care costs or GM would impose its own plan. At the time, the UAW declared it would not reopen the national contract, which was not scheduled to expire until 2007.

Given its long record of collaboration in the destruction of auto workers' jobs and living standards, the UAW's complicity in the slashing of health benefits was wholly predictable. Announcing the deal, Wagoner praised UAW President Ron Gettelfinger and Vice President Richard Shoemaker, saying, "GM and the UAW have renewed our joint commitment to work together on a broad scale to continue to reduce the cost and improve the quality of our health care. We continue to be concerned that the issue is of great importance for the future of overall US competitiveness." Wagoner added that he looked forward to working with the union to institute the restructuring plan.

As has been the case in the past, the chief concern of the UAW in the negotiations was not the needs of its members, but protecting the perks and privileges of the labor bureaucracy. The tentative agreement includes the establishment of a Defined Contribution Voluntary Employee Benefit Association, supposedly set up to mitigate the impact of reduced retiree benefits. The association, which will be funded by $3 billion in contributions by GM, will be administered by the UAW bureaucracy.