US automakers to cash in from new UAW contracts

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Wall Street analysts and the news media say Detroit's Big Three automakers—General Motors, Ford and Chrysler—will see a boost in profits from the four-year labor agreements just signed by the United Auto Workers union.

Last week the UAW pushed through the final agreement against the opposition of rank-and-file workers at Chrysler. All three contracts will continue a pay freeze, increase the number of low-wage "tier-two" jobs and maintain other rollbacks in benefits and working conditions imposed by the Obama administration during the 2009 restructuring of the auto industry.

According to the *New York Times*, "It was one of the cheapest sets of contracts ever negotiated by the companies, analysts said." Historically, the newspaper noted, new contracts meant annual labor cost increases of five percent or more. Under the terms of the new deals, increases were limited to one percent or less, the smallest hike in four decades.

After collaborating in the destruction of more than half the jobs of unionized Big Three workers in the last five years alone—from 270,000 to 112,000—the UAW agreements have allowed the automakers to drastically lower their breakeven points. This means big investors and top executives will be guaranteed high returns even if US auto sales fall to the recessionary level of 10-11 million vehicles.

"By avoiding wage increases for their longtime workers, the *Times* continued, "automakers have minimized the longer-term structural cost increases that had characterized its contracts with the U.A.W. for years. Now as they add products, they can also begin hiring thousands of new, less expensive lower-tier workers. The combination of less costly workers and steadily growing sales should produce higher profits over the course of the contracts."

The automakers withheld their third-quarter profit reports to help the UAW push through the contracts. Both the UAW and the corporations feared reports of billions more in profits would make it even more difficult to sell the agreements. As it was, the agreements at Ford, Chrysler and GM faced strong opposition and were defeated at several factories in Illinois, Michigan, Indiana and Ohio. The UAW was only able to secure ratification through a combination of intimidation and dubious vote tallies.

As soon as the deals were passed, Ford announced it took in $1.6 billion in profits in the third quarter, almost all from North America, and Chrysler said it made $212 million.

GM, which is expected to release third quarter results November 9, has had six straight profitable quarters and is "flush with cash," according to the *Detroit News*. Ending the second quarter with a cash hoard of $39.7 billion, the newspaper said, "The biggest question facing the Detroit-based carmaker is what to do with it all."

GM CEO Dan Akerman said the news deal, "underscores the alignment between the UAW and the new GM in our efforts to drive long-term success." A company statement added, "Importantly, it protects GM's low break-even level in the event of a U.S. industry downturn, and preserves GM's fortress balance sheet, with no pension increases and the capping of the hourly defined benefit pension plan population."

Ford saw its credit rating elevated two notches by Standard & Poor's and Fitch Ratings after the UAW contract was approved. The number-two US automaker is expected to resume dividend payments to big investors, which were suspended in 2006. In a note to clients last week, Brian Johnson, an analyst with Barclays Capital, said Ford would announce a dividend early next year and pay 36 cents for 2012, rising to 55 cents in 2015.

Counting on the full complicity of the UAW, Sergio Marchionne, the CEO of Chrysler and its owner, Italian automaker Fiat, made it clear last week he will press ahead with plans to destroy whatever past gains of auto workers remain.

In a conference call detailing the company’s third quarter profits to investors, Marchionne made it clear that the two-tier wage system—which pays workers hired after 2007 roughly half the wages of longer term workers—should be replaced with a single-tier structure where all workers make near poverty wages and substandard benefits.

He said two-tier wages “is certainly in the long term not a viable structure on which to build our industrial footprint…Fundamentally, we need to have one set of wage rates, which clearly recognize participation of our people in the profit-generation capability of the house.”

Presently around 13 percent of Chrysler’s hourly workforce are tier-two workers. Under the terms of the new UAW agreement, Marchionne said, at least 25 percent would be low-wage workers by 2015.

The Fiat-Chrysler boss went on to suggest that workers’ pay should be entirely tied to the profitability of the company and scheduled hourly pay increases abolished altogether. For the most part, the UAW has already endorsed this reactionary proposal. It has abandoned annual wage increases for what will be 12 years by the end of the contract, and agreed to tie pay to profitability and force workers into a competition between plants over productivity and quality “bonuses.”

“I have always believed,” Marchionne said, “that we do need to provide real upside to our workers as long as the organization performs and continues to deliver value. On the other side of that equation, there’s got to be an undertaking and a commitment by our people to share in the downside risk of this venture, because of the potentially cyclical nature of the business that can create conditions of fundamental economic instability—and those are things this house cannot afford to entertain.”

He added, “I think there’s a recognition on the part of the UAW leadership, and there’s certainly a recognition on our part, that that needs to be done.”

This is a formula for wage cuts and the complete impoverishment of the working class. It would mean a return to conditions in the factories not seen since the Depression where workers had no rights and guaranteed wages and were fired and hired at the whim of corporate management.

Under these conditions, the UAW is vying for a position of labor policeman and cheap labor contractor. From the onset of the talks, UAW President Bob King and other top officials identified completely with the corporations, making it clear they would do nothing to raise the “fixed costs” of the automakers or undermine their competitiveness.

King reiterated this point in a PBS interview after the UAW imposed the Chrysler contract on its members. “I think our view has changed,” said King, the son of an industrial relations manager at Ford. “We understand the people who have the most at stake in the long-term success of these companies is our membership. CEOs change, shareholders change, management changes, but our members are there. And their long-term security, their pensions, their health care, their economic security is tied into long-term success of the company.

“So we're focused on making sure that there's new product, new investment, good technology, highest possibility quality for the consumers. So our role has kind of shifted as we have gotten into more of a global economy and global competition.”

For the last three decades the UAW has demonstrated that it doesn’t care the slightest about the pensions, health care and economic security of workers. Over the last three decades, the UAW has overseen the destruction of more than 600,000 Big Three jobs. The only “long-term security,” King is concerned with is the overpaid and bloated staff of the UAW apparatus.

By accepting a sharp increase in the number of low-paid workers, the UAW succeeded in enticing the companies to shift some production back to the US from China, Mexico and other low-wage countries, a move that will boost the dues income of the UAW by about $10 million a year. King & Co. are also trying to convince the European and Asian automakers to allow the UAW into their non-union plants in the southern US states so provide the foreign automakers with the same “long term success” it has given the US-based companies.

Praising the contracts, King told the PBS interviewer, “Here's business, management, and labor, and the government all work together. Rather than polarizing and taking polarizing positions, we came to the table collectively.”