Did The Labor Contracts Between The UAW And The Big Three Automakers Work?

John J. Lucas, Purdue University Calumet, USA
Jonathan M. Furdek, Purdue University Calumet, USA

ABSTRACT

In the Fall 2007, there were landmark labor contracts agreed upon between the United Autoworkers (UAW) and the Big Three Automakers—General Motors, Ford Motor Company, and Chrysler LLC. The impetus for these truly historic labor agreements was to afford the automakers to remain competitive in the global market while labor was to be protected. Since the passage of these labor contracts, auto sales have continually declined to record lows due to the recession in the United States. This paper will trace the major contractual provisions of these labor agreements and also analyze how effective they were in accomplishing the stated goals for both the UAW and the Big Three automakers. Additionally, the paper will examine the necessary changes needed in these labor contracts if the automakers are to survive in the global economy.

Keywords: UAW; 2007 Negotiations; Labor Contracts

INTRODUCTION

The Fall 2007 contract negotiations between the United Autoworkers (UAW) and the Big Three automakers (General Motors, Chrysler LLC, and Ford Motor) were viewed as truly historic in significance as both respective parties struggled to attain their goals and reach mutually agreed upon labor contracts (Lucas and Furdek, 2009). Both the UAW and the Big Three automakers realized that in order to survive and compete successfully in the global economy, a new paradigm would be established. The primary goal for the UAW was to protect labor, while the goal for the Big Three automakers was to be competitive as well as profitable.

Following pattern bargaining, the UAW reached agreements with General Motors, followed by Chrysler LLC, and concluded with the Ford Motor Company. Each labor contract contained unprecedented provisions for both parties, permitting them to achieve their stated goals. The Big Three automakers were able to reduce their labor and benefit costs to close the gap with its rival automakers. On the other hand, the UAW gained work commitments at certain assembly facilities that protected current and future jobs for its membership.

In the GM-UAW labor agreement, a multi-dollar health-care trust fund, known as the Voluntary Employee Benefit Association (VEBA), was created to manage the health costs of retirees. GM estimated that this transfer of retirees' health care to the union-operated trust fund would result in a savings of $1,200 to $1,500 per car, compared to a car manufactured by its rival, Toyota Motor Corporation (Stoll and McCracken, 2009). Additionally, there were no pay raises allocated over the four-year agreement, but rather, lump sum payments of 3%, 4%, and 3% in the last three years of the contract (Lucas and Furdek, 2009). This labor contract also created a two-tier wage structure to provide a lower wage for newly hired workers in certain noncore jobs, as well as a 401(k) defined contribution plan (Lucas and Furdek, 2009). Another significant provision of the 456-page labor agreement was job security, as GM committed to build current and future products at sixteen of its eighteen U.S. assembly plants (Lucas and Furdek, 2009).

Similar to the GM agreement, a multi-dollar VEBA was also established to cover the cost of health care for retirees in the UAW-Chrysler labor contract. Likewise, a two-tier wage and reduced benefit system was also created for its new hires performing noncore jobs. A job security provision designated a commitment from Chrysler to provide work for UAW workers for at least fifty of its fifty-nine facilities (Lucas and Furdek, 2009).

In the UAW-Ford Motor Company labor agreement, a VEBA was also established to address the health care costs of UAW retirees. However, the Ford Motor Company would contribute less to the retiree health trust fund, as compared to GM and Chrysler, because Ford was viewed, at the time, as the weakest financially of the three car manufacturing companies. The labor contract also provided for a lower wage and reduced benefit package for all new hires performing not only noncore jobs, but also assembly line work. A job security provision was also included to address a commitment from Ford Motor to have two assembly plants remain open (Lucas and Furdek, 2009).

In retrospect, all three labor agreements appeared to accomplish the goals sought by both parties that management was to be competitive and profitable and labor was to be protected. At the time, both the UAW and Big Three automakers were to be commended for their efforts to agree upon such innovative and groundbreaking labor contracts in order for the American auto industry to remain viable and successfully compete. However, there was a dramatic economic downturn experienced in the last quarter in 2007 and the financial crisis would dramatically impact the auto industry.

As a result of the global economic downturn, U.S. auto sales slumped for each of the Big Three automakers. Overall, the sale of light vehicles, in 2008, was thirteen million, which represented a decline of eighteen percent compared to overall sales in 2007 (Denning, 2009). For GM, the company posted a 30.9 billion loss in 2008 with a $9.6 billion loss alone in the fourth quarter as car sales dramatically declined (Terlap, Stoll, and King Jr.). Additionally, GM experienced a seventeen percent drop in revenue compare to 2007 (Terlap, Stoll, and King Jr.).

Similar to GM, both Chrysler LLC and Ford Motor also experienced unprecedented record lows in auto sales, as well as losses in revenues. In 2008, Chrysler LLC, the 84-year old automaker, lost $8 billion as light auto sales tumbled (Kellogg and Dolan, 2009). The Ford Motor Company reported a record setting loss of $14.6 billion in 2008 which was the worst loss reported in its 106-year history (Johnson and Krisher, 2009).

As plunging auto sales continued, the Chief Executives of the Big Three automakers appealed to Congress for a financial bailout using taxpayer's monies to enable the auto industry to survive. After arduous and tumultuous debates in Congress, the White House agreed to $17.4 billion in bailout loans to both GM and Chrysler LLC on December 19, 2008. GM received $13.4 billion in U.S. loans, while Chrysler accepted $4 billion (Stoll, Terlap, and Kellogg, 2009). The Ford Motor Company did not seek a bailout for it believed that it could sustain itself without governmental intervention.

As American gross domestic product shrank sharply to 6.1% in the first quarter of 2009, the worst performance of the U.S. economy in over fifty years, The Big Three automakers experienced severe financial losses. Auto sales continued to crumble, reflecting the severity of the recession. GM reported a $6 billion loss for the first quarter and its market share dipped to 18.6% (Ingrassia, 2009). For the first quarter of 2009, GM's revenue shrank 47% to $22.43 billion compared to 42.38 billion in 2008. Therefore, GM needed to use $10.2 billion in cash to continue its operations for the first quarter (Terlep, Stoll, and Cimilluca, 2009). As part of the federal bailout agreement, on March 27, 2009, CEO Rick Wagoner Jr. agreed to resign.

Both Chrysler LLC and Ford Motor also experienced financial losses of revenues resulting from the car industry slump. For the first quarter, Chrysler LLC auto sales fell more than forty percent, and consequently, the third-largest U.S. carmaker filed for bankruptcy protection on April 30, 2009. The Ford Motor Company reported a $1.4 billion loss for the first quarter, but the company maintained its position that it would not seek any type of government bailout (Johnson and Krisher, 2009).

In retrospect, the UAW and the Big Three automakers had agreed to landmark labor contracts in the Fall 2007. Each labor agreement contained cost saving measures for the automakers, as well as job security provisions for the UAW. At the time, the labor agreements appeared to achieve the desired goals for both parties. The automakers were to remain viable and competitive, while the UAW protected jobs for its membership. Since the passage of these labor contracts, auto sales have plunged to record lows as consumers are simply not purchasing new vehicles due to the severity of the recession experienced in the United States. Obviously, both the UAW and the Big Three Automakers could not have envisioned the severity of the recession when they negotiated these labor agreements. The question remains, could these labor agreements function during this economic downturn, and if not, what must the UAW and the Big Three automakers do in order to survive and compete in the auto industry.

FORD MOTOR COMPANY

As previously stated, the Ford Motor Company was viewed as the weakest of the Big Three automakers and was able to gain substantial labor-cost savings measures as well as a reduced benefit package in the 2007 labor agreement. Due to the car industry slump, Ford Motor had experienced financial losses of revenues, but it had not sought any type of bailout from the government. However, the Ford Motor Company gained additional concessions from the UAW in the Spring 2009. It was estimated that these concessions would save the company $375 million in 2009 and $500 million or more in the following years (Bennett and Terlep, 2009).

One major cost-cutting modification to the 2007 labor agreement pertained to the method that Ford funded the VEBA which affected approximately 187,000 retirees and spouses. The funding change was that fifty percent of future cash contributions to the retiree health care fund were replaced with company stock (Dolan and Bennett, 2009). For Ford Motor, the total health-care liability was $13.6 billion over ten years; however, the company anticipated reducing its cash obligation to 6.6 billion with this new funding (Dolan and Stoll, 2009).

Another major cost-saving measure was to lower the total pay compensation per hour of a worker. Under the new contractual terms, the company lowered the total pay compensation per worker from $60 to $55 an hour including benefits, pensions, and bonuses. Thus, Ford Motor moved closer to the estimated $48 an hour compensation per worker that Toyota Corporation and other foreign automakers paid workers at their U.S. plants (Bennett and Terlep, 2009). Other major concessions included cutbacks in work rules and reduced unemployment benefits for laid-off workers. All of these concessions were approved by the UAW membership with forty-nine percent of Ford's production workers and fifty-eight percent of the skill trade workers. These approval percentages were considerably lowered than the original 2007 agreement approval percentages of eighty-one percent for the production workers and seventy-one percent for the skill workers (Dolan, 2009).

CHRYSLER LLC

As previously discussed, Chrysler LLC was loaned $4 billion in December 2008 by the U.S. Treasury as part of a bailout package. The company also requested an additional $5 billion in the Spring 2009 (Linebaugh, Bennett, King, and Stoll, 2009). Similar to Ford Motor, Chrysler LLC experienced a dramatic declined in its auto sales. For example, Chrysler LLC reported that its auto sales of cars and light trucks declined forty-eight percent in April 2009 (Bennett, 2009).

Under the prescribed conditions for the federal bailout loans, Chrysler LLC agreed to renegotiate VEBA and other labor cost-cutting measures with the UAW. It was estimated that Chrysler LLC had committed to a $10 billion contribution to VEBA; however, there was to be a contribution of both cash and stock under the terms of the bailout (Dolan, 2009). These modifications to the 2007 labor pact were to reduce the company's overall costs in order to avoid bankruptcy.

On April 26 2009, Chrysler LLC and the UAW announced a "concessionary agreement." Under the terms of the new agreement, Chrysler would eventually own fifty-five percent of stock in a restructured Chrysler company. Additionally, Chrysler agreed to issue a $4.59 billion note to VEBA, and also would pay $300 million in cash into the trust fund in the years 2010 and 2011. The cash contribution would increase to $823 million in the years 2019 to 2023 (Kellogg and Maher, 2009). In exchange, the UAW accepted the suspension of cost-of-living-adjustments (COLA) and limitations on overtime pay with workers receiving overtime pay only after working forty hours in a week. Additionally, Easter Monday holiday, in the years 2010 and 2011, were eliminated (Kellogg and Maher, 2009).

These amendments to the 2007 labor agreement were viewed as a way to finalize a planned alliance with Italy's Fiat Spa and to avoid bankruptcy (Stoll and Bennett, 2009). On April 30, 2009 Chrysler LLC filed for bankruptcy protection as court documents revealed that Chrysler LLC lost $16.8 billion in 2008 and anticipated to lose $4.7 billion in 2009 (Bray, McLaughlin , and Boudette, 2009).

GENERAL MOTORS

In 2008, GM reported a $30.9 billion loss as revenue declined seventeen percent to $149 billion as compared to 2007. It was also estimated that global vehicle sales fell eleven percent for GM (Terlep, Stoll, and King Jr., 2009). Besides the $13.4 billion loan in December 2009, GM received an additional $4 billion in May 2009 (Terlep and Shirouzu, 2009). GM also sought to renegotiate the 2007 labor agreement with the UAW as outlined in the bailout loan guidelines established by the federal government.

At the end of May 2009, both GM and the UAW agreed to a "new structuring plan." Under the new GM-UAW deal, GM committed $10 billion to the VEBA fund, with a $2.5 billion note and a $6.5 billion in preferred stock. Additionally, the trust fund would be given a 17.5 % of the "new GM" shares of stock and an option for another 2.5% in the future (Stoll, McCracken, and King Jr., 2009). Other major concessions were similar to those granted to Chrysler LLC such as the suspension of COLA, bonuses, and certain holidays (Stoll, McCracken, and King Jr., 2009). Also, the union agreed to additional job buyouts and a ban on strikes until 2015(Terlep, 2009). The new labor agreement was approved by the UAW membership with a seventy-four percent support vote (Stoll, and Terlep, 2009). Despite these cost-saving modifications to the labor agreement, GM filed bankruptcy protection on June 1, 2009.

CONCLUSION

The 2007 labor agreements between the UAW and the Big Three automakers were designed to "usher in a new era for the industry." These labor contracts were negotiated and driven by the principle that the automakers would remain viable and competitive in the global economy while the UAW protected jobs for its membership. The creation and establishment of VEBA as well as a two-tier wage and benefit structure for newly hired workers were the cornerstone provisions of these labor pacts.

Since the ratification of these labor agreements, auto sales and market shares have plunged to record lows for the Big Three automakers due to the severity of the global recession. Both GM and Chrysler LLC received bailout loans to an estimated $62 billion; however, both companies filed Chapter 11 bankruptcy. When a "new GM" emerges from bankruptcy, it will be 60% owned by the U.S. government, and the union health care trust fund will own 17.5%. The company plans to close seventeen plants and eliminate twenty thousand jobs by 2011 (King Jr., and Terlep, 2009). A reorganized Chrysler LLC has completed its alliance with Fiat Spa with the U.S government owning 8% of the revamped company, and the UAW retiree health-care fund possessing a 55% stake (Bennett and Kellogg, 2009). Ford Motor has received no bailout loans from the federal government, but has requested a $25 billion loan from the U.S. Department of Energy to meet future fuel-efficiency standard. Additionally, Ford Motor received $695 million in loan guarantees for Volvo, to be used as part of the europroject to reduce emission and energy efficiency in cars (Dolan and Bennett, 2009).

The Big Three automakers received concessionary agreements from the UAW in order to reduce the so-called "legacy costs" of the labor and benefits paid to union members established over the years. With GM and Chrysler LLC in bankruptcy, the fate VEBA and pension obligations for the retirees will be determined by a court decree. It was estimated that GM will spend $300 in retiree health care costs per vehicle and its pension fund, covering 500,000 retirees, was underfunded by $12 to $13 billion (Helliker, King Jr., and Stoll, 2009). It is fully anticipated that GM and Chrysler LLC will emerge from bankruptcy with a leaner workforce and fewer auto dealerships. The question still remains can the Big Three automakers still afford the wages and benefits it promised to the UAW under the modified labor agreements. Only time will reveal the effectiveness of these concessionary agreements; however, the UAW will be limited in reacting to any broken promises by the automakers since it agreed not to strike through 2015 under these revised labor agreements.

AUTHOR INFORMATION

John J. Lucas, Purdue University Calumet. Dr. Lucas was formerly the Industrial Relations Representative for Commonwealth Edison. He has experience in all facets of Human Resource Management including labor relations, benefits administration, human resource planning, and health education. He earned his Master of Science in Industrial Relations (MSIR) and Ph.D. degrees from Loyola University Chicago. He is a Professor at Purdue University Calumet and teaches a variety of human resource management courses. His research interests are in the areas of labor relations, employee benefits, and health education. He is also a graduate of Purdue University Calumet.

Jonathan M. Furdek, Purdue University Calumet. Dr. Furdek earned his Ph.D. degree from the Krannert Graduate School of Management at Purdue University in Industrial Economics. He is an Associate Professor in Economics at Purdue University Calumet where he teaches courses in quantitative methods and operations management. His research interests involve pension benefits, manpower and facility planning, and supply chain management.

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