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AUTO INDUSTRY

U.S. wages driving production abroad?

by Richard Freeman

General Motors and the other two top American automakers are planning to shake out the U.S. auto industry by demanding that the United Autoworkers Union members take a 30 to 50 percent pay cut, or they will move auto production out of the United States.

General Motors announced Oct. 23 that it is canceling its plans to build a $500 million assembly plant in Kansas City, Missouri. GM had already announced in the last six weeks its plans to cancel a $400 million expansion of a Baltimore assembly plant, and also canceled plans to build a several-hundred-million dollar plant in Flint, Michigan which was to have replaced plants there that are being closed down.

This cancellation of GM's three key expansion projects represents a dramatic cutback in plant construction in the United States. A source who is very well placed in the U.S. auto industry reported recently, that "during the next 12 to 18 months, the auto industry will be at a turning point. The Big Three, particularly GM and Ford, have a lot of money planned for expansion abroad. They are planning to get the sources for components from abroad, and if they find that they can't break wage levels in the U.S., they will conclude that it is cheaper to build and run plants abroad, and do so."

GM already expects to spend $18 billion, or 30 percent of its $60 billion capital-spending for the decade, in plants outside the United States. It is now possible that they will increase that amount to 40 to 60 percent.

"A move of this dimension will not be small," Bill Puchiluk of Chase Econometrics told *EIR* Oct 26. "If Ford or GM makes this move, then the size of investments they are talking about are about $1 billion a shot for plant and supporting industries. When you make a move of that sort, then the dollars you're taking out of the U.S. are big." Chase Econometrics is consultant for all three American auto companies on plans they have to go abroad, and Wayne State University Automotive Center has already done a "Delphi" consensus report on which product lines are the best produced abroad.

Currently, U.S. auto production, at 6 million autos this year, is at 60 percent of 1973 levels. Should the auto companies reduce their capital-spending in the United States, U.S. auto output will plummet to only 40 percent of 1973 levels!

In all likelihood, the U.S. would become the final assembler of autos, while the value-added construction of components and parts would be done elsewhere. The United States would become the site of the "Third World," labor-intensive end of the world auto-production process.

The wage issue

The key to effecting this next level of collapse of the auto industry is the claim by GM Chairman Roger Smith Oct. 26 that auto wages must fall drastically because auto workers, who are too greedy, are the cause for the collapse of the auto industry—not the high interest-rate policy which has collapsed consumer incomes. Smith stated, "The lights in U.S. auto plants have been going out all over America—extinguished by high labor costs. The rank and file have to understand, what's at stake," he warned. "Their jobs." Ford Motor Company echoed GM's Smith, announcing Oct. 22 that workers at its Sheffield, Alabama aluminum-casting plant would have to take a 50 percent wage cut or the plant would close.

The argument that American auto workers' wages are too high is a lie, which can be shown on two levels.

GM claims that it pays its employed auto workers $19.80 per hour, while Japanese auto workers earn only $11.20 per hour, but produce Japanese cars at $1,000 to $1,500 less. But the GM figures are wildly overstated. The leading auto-maker takes its total wage bill, plus its total cost for benefits—of employed and unemployed workers both—and the costs for unemployment insurance, and then divides that by the number of employed hourly workers to arrive at its hourly labor cost of $19.80.

Obviously, each employed worker does not take home in his pay envelope what GM figures as the fringe benefits of unemployed workers, nor the unemployment checks. The hourly labor-cost figure per GM-employed auto worker is probably closer to $15.50. Moreover, Japanese wages, which were much lower than American levels 30 years ago, have been rising spectacularly along with the rise in Japan's standard of living. Taking the hourly compensation level that existed for American workers in 1960 as equal to 100 on an index scale, then the American hourly compensation was only at a 113 index level in 1967, and 122 in 1976; if we set the Japanese hourly compensation level of 1960 as equal to 100, then the Japanese hourly compensation rose to 140 in 1967, and 300 in 1976. If this rate of rise continues, by the mid to late 1980s, Japanese workers will be better paid than their American counterparts.

But the wage level is really only a secondary consideration. In the 1950s, American auto wage-levels were nearly twice those of British auto workers, yet America produced cars that were 10 to 15 percent cheaper than

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British cars. The real issue is that Japan today has better, more modern plant and equipment as a result of the country's capital investment policy and the freedom from domestic versions of Paul Volcker interest-rate policies. Japan produces almost one-and-a-half times as many cars per worker as America. At Nissan Motor's Zama plant, which has 50 robots, 160 workers turn out 800 units a day—the highest level in the world—even though each worker is given two 10-minute coffee breaks and a 1-hour lunch break.

The U.S. auto industry was first crippled by the environmentalist movement, which demanded unsafe safety standards—smaller cars result in more accidents and of greater severity—and then by the two oil shocks during the 1970s. Even though the auto industry spends a huge amount for plant and equipment—$100 billion for the decade of the 1980s—much of it is diverted into environmental standards, not basic production techniques.

The danger of the U.S. auto industry's moving abroad is not that auto production someday should not take place elsewhere, but that the United States is not moving simultaneously up the technological ladder of production—to producing fusion plants, cryogenic plants, monorail plants, etc.

What GM, which is essentially run by the Mellon and Morgan banks, has in mind for U.S. auto is indicated by the story of GM's Hyatt plant in Clark, New Jersey, which has been "sold" to the workers, and opens "under new management" Nov. 2 (see page 8), with cuts in pay, workforce, and seniority.

Earlier this year, workers at Ford's Dearborn, Michigan steel plant agreed to a cut in incentive pay, and workers at a Ford stamping plant in Cleveland, Ohio and at a parts plant in Monroe, Michigan have agreed to certain productivity-related changes in local work rules.

Chrysler Motor Company has already gotten the UAW to agree to a profit-sharing plan, in which the workers took large pay cuts and givebacks, totaling $450 million, in return for a hoped-for piece of the profits sometime later. GM and Ford have explicitly asked for this arrangement from the UAW and are prepared for a long strike, according to sources at Chase Econometrics.

GM's strategy, which was first enunciated by GM chief economist and New York Council on Foreign Relations board member, Marina von Neumann Whitman, will not work. If the top auto-maker does achieve its objective, which is nothing short of breaking the union, it will simply contribute to the lowering of living standards in the United States in the way Fed Chairman Paul Volcker has persistently proposed. At continued falling wage-levels, the consumer demand for cars will not exist, regardless of where they are produced.

GM'S HYATT PROJECT

'If you can't sell cars, sell labor the plant'

by Leif Johnson

On Monday, November 2, 800 workers at the former Hyatt-General Motors bearing plant in Clark, New Jersey will re-enter the plant both as new employees and new "owners." In a buyout by the employees that has taken more than a year to negotiate, GM succeeded in liquidating a plant that makes obsolete bearings, and adding to its own cash flow, while taking tax losses carried forward and achieving unprecedented wage and benefits givebacks.

The workers have accepted a 30 percent wage cut, pledged a 50 percent "productivity" increase (although new machinery will not be provided), abolition of seniority, and the attrition of half the workforce. The remainder bears responsibility for servicing the $60 million new debt which was incurred in purchasing the plant from GM. Still being members of the union, workers will continue dues payment.

The workers will not own the factory directly. The Employee Stock Ownership Trust (ESOT) will be run by a board of directors, of which three members will be chosen by the union, three by the lenders, and three by the management. The management group will be headed by C. D. Howell, a social-engineering specialist from Arthur D. Little, Inc., the Boston-based de-industrialization consultants.

General Motors' good fortune was relatively easily achieved. Since the mid-1960s, the company has been divided into an assembly division and a parts-supplier division. While the company kept the assembly division intact, it has contracted out much of its parts supply. Most of the suppliers, whether domestic or foreign, have been set into desperate competition against each other. As the whole auto industry dissolves, the competition increases, and supply-company managements search for cost-cutting devices—primarily wage cutting.

GM President Roger B. Smith recently declared that "just as GM has to compete with the Japanese auto companies as if they were right across the street, so does our worker have to compete with the Japanese worker as though he lived across the street."

GM informed Hyatt's union, Local 736 of the United Auto Workers (UAW), in March 1980 that it would close the plant. The union argued that management should