REMAPPING DEBATE
Asking "Why" and "Why Not"

A tale of two systems

Original Reporting | By Kevin C. Brown | Alternative models, labor

Dec. 21, 2011 — American autoworkers are constantly told that high-wage work is an unsustainable relic in the face of a hyper-competitive, globalized marketplace. Apostles of neo-liberal economic theory — both in the public and private sectors — have stressed the message that worker adaptation is necessary to survive. Indeed, Steven Rattner, President Obama's "car czar" during the restructuring of General Motors and Chrysler in early 2009, spoke last week of his regret that the federal government had not required the United Auto workers to take a wage cut at that time to enhance the competitiveness of those companies, comments similar to those he made in a recently published book (after the outcry created by last week's remarks, Rattner yesterday backed away from them, though reiterating his view that more "shared sacrifice" would have bolstered American competitiveness).

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Governments, too, the globalists have contended, should not think that markets can or should be controlled. As Remapping Debate reported earlier this year in an article about the role of large consulting firms in the promotion of the notion that national policy can and must allow global capital a free hand, McKinsey & Co. was already arguing back in 1994 that "a national government has no choice but to move forward to embrace the global capital market unless it wants to harm its own citizens, its economy and its own purposes."

But the case of German automakers — BMW, Daimler, and Volkswagen — tells a different story. Each company produces vehicles not only in Germany, but also in "transplant" factories in the U.S. The former are characterized by high wages and high union membership; the U.S. plants pay lower wages and are located in so-called "right-to-work" (anti-union) states.

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Sales and profitability

In 2010, over 5.5 million cars were produced in Germany, twice the 2.7 million built in the United States. Average compensation (a figure including wages and employer-paid benefits) for autoworkers in Germany was 48.97 Euros per hour ($67.14 US), while compensation for auto work in the United States averaged $33.77 per hour, or about half as much as in Germany, all according to 2007 data from the Bureau of Labor Statistics. For Germany-based auto producers, the U.S. is a low-wage country.

Despite German companies' relatively high labor costs in their home markets, these firms are quite profitable. An examination of the latest publically available financial statements of BMW, Daimler (Mercedes-Benz cars), and Volkswagen reveals strong sales and profits even in the midst of the currently weak consumer markets in Europe and the U.S. In 2010, for example, BMW, produced 1.48 million cars (63 percent of them in Germany), and earned a before-tax profit from its automotive division of 3.88 billion Euros. The Mercedes-Benz car division of Daimler, likewise produced 1.35 million cars (72.4 percent in Germany) in 2010, and earned a before-tax profit of 4.65 billion Euros.

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Race to the bottom in the U.S.

Officials in anti-union states have long sought to lure businesses with the promise of free rein in relation to labor (and to regulation more generally). Sen. Lamar Alexander (R -Tenn.) delivered the weekly Republican Party address this past June, telling his listeners frankly that, when he was Tennessee's governor in 1979, the state's right-to-work law was part of his successful pitch in getting Nissan to open an auto plant.

Alexander participated in a ceremony celebrating the opening of a new Volkswagen assembly plant earlier this year near Chattanooga, and again he cited the state's right-to-work law as among the reasons that Volkswagen chose to come there.

At that Chattanooga plant, according to a company spokesperson, new employees earn $14.50 an hour, with wages gradually rising to $19.50 after 3 years on the job.

A representative of BMW's Spartanburg plant declined to divulge wages employees earn in its South Carolina (non-unionized) facility, but the Washington Post reported last year that employees at the plant earned $15 per hour.

Workers at American companies have seen their wages eroded. As Remapping Debate has reported, the UAW has made significant concessions on wages, especially through the creation of a permanent "Tier 2" level for all new employees. Whereas incumbent "Tier 1" workers earn about $28 an hour, all new UAW hires at the GM, Ford, and Chrysler earn around $15 per hour.

The companies have argued that this new tier is essential. Marci Evans, a Ford spokesperson, told Remapping Debate, "It is our [Ford's] preference to build competitively in the markets we sell in." She added, "reduced cost through introducing an entry level [Tier 2] workforce" is an important part of that strategy.

Gary Casteel, the Region 8 director of the UAW, the region covering the whole southeast of the country, acknowledged the creation of "Tier 2" as "concessionary," and said, "It's never attractive to not have equal pay for equal work, but when you've got Nissan hiring in Mississippi for $12.50…and Volkswagen for $14…how are we going to maintain a wage level when our competition is doing this?"

The counter-example in Germany

Workers in the German auto industry maintain high wages and good working conditions through two overlapping sets of institutions. First, in the auto industry, virtually all workers are unionized members of IG Metall, the German autoworkers' union. With such union density, workers have considerable power to keep wages high. German autoworkers have the right to strike, but as Horst Mund, head of the International Department of IG Metall explained to Remapping Debate, they "hardly use it, because there is an elaborate system of conflict resolution that regularly is used to come to some sort of compromise that is acceptable to all parties."

> According to historian and author Marko Maunula, "There is no real industrial nationality anymore."

In addition to high trade union density supporting the power of German autoworkers' wages, the German constitution itself includes a second mechanism for keeping employees involved in the decisions of the firm for which they work. The Works Constitution Act provides for the creation of Works Councils in each factory. The Works Councils provide a mechanism through which a company's management must work with employees, whether they are in a union or not, on issues affecting work life, such as shop floor conditions, scheduling shifts, and other issues particular to the factory. This system, according to Mund, institutionalized "direct contact for workers' representatives with management at various levels, from lower to middle to senior management in daily affairs. So you exercise some kind of dialogue where you don't always wear your management pin or your union pin."

Mund points out that the German example goes "against all mainstream wisdom of the neo-liberals. We have strong unions, we have strong social security systems, we have high wages. So, if I believed what the neo-liberals are arguing, we would have to be bankrupt, but apparently this is not the case. Despite high wages…despite our possibility to influence companies, the economy is working well in Germany."

Are German unions nice and American unions nasty?

Mund says "there are strong contradictions between the way companies that…are used to dealing with unions in Germany, behave differently when they go elsewhere, not only in the U.S., but also in other countries." What accounts for the differences?

Michael Maibach, president and chief executive officer of the European American Business Council, described this apparent difference by saying that union-management relations in the U.S. were "adversarial" as opposed to the "collaborative" German model. J. Ed Marston, a spokesperson for the Chattanooga Area Chamber of Commerce, likewise told Remapping Debate that "Workers councils in Germany promote cooperation between workers and mangers and they deliver value and they continue to thrive…Compared to UAW, where there is an adversarial relationship."

> German union official Horst Mund sees the lauding of "cooperation" in the German context as profoundly misleading, saying companies "would not talk to us either if they had the choice."

According to Mund, however, "The accusation that American unions are more radical and destructive…definitely has to do with the hostile environment in which the unions have to act. How can they be constructive and friendly if their asses are kicked all the time?" Mund sees the lauding of "cooperation" in the German context as profoundly misleading, saying "they would not talk to us either if they had the choice."

Mund emphasized the importance of the trade union and works councils in maintaining workers' participation and high levels of remuneration, and said that the focus was not to maintain the good will of individual firms. He said, "Companies in Germany, while they are bound by law to work with us in works councils, and we are present on supervisory boards, they just have to do this. For most of the companies, not for all, it is not something they would do if they were not forced to do that. The companies are there to make profit, and in the eyes of many managers we are not conducive to making as much profit as possible, but rather a hindrance."

“Because they can get away with it”

Marko Maunula, a historian and author of the book, *Guten Tag, Y’All: Globalization and the South Carolina Piedmont, 1950-2000*, told Remapping Debate that foreign-based manufacturers like BMW “are very cognizant of the political climate of communities,” and they behave differently depending on the legal and social context within which they find themselves. Globalization over the last 20 or 30 years, Maunula suggests, has resulted in a situation where “there is no real industrial nationality anymore.” Though “BMW is a German company and it has a very German hierarchy and management system in Germany…when they are operating in Spartanburg they have become very, very easily adaptable to Spartanburg business culture.”

> “When the Democrats were in [full control of Congress] under Obama, they promised to change” — making it easier for unions to organize through a card check system — but “that didn’t happen.” — Claude Barfield, American Enterprise Institute

Coming from a very different perspective, Maibach told a very similar story: unlike in Germany, where unionization and high wages are normalized by law and custom, “the U.S. has a different tradition” and “companies have a choice to make” about where to locate their facilities, often deciding on places where the risk of unionization is lower.

Mund relates the initial perplexity of his American counterparts in response to the anti-union stance taken by German automakers in the U.S.: “In the past we frequently had the impression that our American colleagues thought we would just have to talk to management here in Germany in the sense that ‘look, behave decently, you know us, we’re the good guys, our American colleagues from the UAW they are equally good, so behave mutually and everything will be fine.’”

“But,” Mund said with understatement, “It is not working like this.”

When asked why German firms operate so differently with respect to labor in different countries, Claude Barfield, a resident scholar at the American Enterprise Institute where he studies international trade and globalization, told Remapping Debate that they do so, in part, “because they can get away with it so far.”

Though a Volkswagen-Chattanooga spokesperson told Remapping Debate that “it is up to our production team members to decide” whether to join a union, Barfield points out that all of the German-based auto manufacturers in the U.S. located in right-to-work states are “not unhappy with the situation they have now,” citing the fact that they “have more authority, they have more power” than they would in a unionized context.

Barfield said that factors other than wages brought the German carmakers to right-to-work states. A central reason for their interest in those states, he says, “has to do with not wanting to…get involved with work rules and seniority.” They have, he continued, “a much greater flexibility just in assigning work, and to be able to have plants change as conditions change. So, they’re not unhappy with that. They would not say they are happier with this than the system they deal with in Germany, but they probably are.”

Making choices

Returning to the experience of Germany’s domestic auto industry, Mund says that, while “it is not a law of nature that you have to be non-unionized to be successful,” companies are clearly choosing not to be union where they don’t have to.

Could conditions in the U.S. be changed to produce a structure that, like Germany, protects workers against declining wages and conditions?

Barfield noted that “you’d have to change major state law as well as federal law.” His prognosis is not that it is impossible as a legal matter, but that, as a practical matter, “it will never look like Germany.”

A different beginning

Despite the current differences in auto industry labor practices in Germany and U.S., German auto firms’ foray into manufacturing in the U.S. initially conformed to the high-wage, unionized mode of German industry. As part of a wave of foreign direct investment in the U.S. by European-based firms, in 1978, Volkswagen opened the Westmoreland Assembly Plant, 35 miles outside of Pittsburgh. At the time, most autoworkers in the United States were members of the United Auto Workers, and Westmoreland became no exception, and the plant rapidly unionized.

Volkswagen’s quick acceptance of labor organizing at its first American plant was apparently not out of the ordinary for newly arrived foreign-based firms. In 1981, two economists asked in the U.S. Labor Department’s Monthly Labor Review, “Do foreign owned U.S. firms practice unconventional labor relations?” Noting that “it is very possible that unionization may pose no great problem for foreign-owned firms, especially those with European parent companies, because they have been dealing with unions successfully for many years,” the authors’ survey of unions and firms in the U.S. concluded that “foreign owned companies do not differ from domestically owned companies in their approach to most labor relations issues.”

"In the U.S., there's no prospect that we will change our laws," he continued. "When the Democrats were in [full control of Congress] under Obama, they promised to change" — making it easier for unions to organize through a card check system — but "that didn't happen."

More broadly, Barfield said, "It's a different tradition of business, government, and labor relations. Three pieces of things all together in Germany and the U.S. never had that. So I don't think it's just that the laws per se, it's the attitude of corporate leaders and union leaders and governments. Not because of one specific piece of legislation."

If he is right — and no one we spoke with disputed Barfield's short-term political assessment —— conditions for labor in the U.S. auto industry will continue on their current path, a path described by the UAW's Casteel as "spiraling downwards."

On the other hand, despite Barfield's reference to tradition, the "tradition" in the U.S. through the 1970s was having a highly unionized auto making industry, one that paid good wages. Indeed, the tradition was such that the initial forays of German automakers into the U.S. saw them accept unionization in their transplanted factories (see box below).

Casteel and Mund hope for a return to that tradition, with Casteel saying, "Corporations aren't going to give back to the workers unless they are made to." The UAW has said that it is renewing its efforts to organize the southern transplants, but has not released specifics on its strategy or timetable.