

WebMemo



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Auto Bailout Ignores Excessive Labor Costs

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Without government intervention, one or more of the Big Three automobile manufacturers—General Motors, Ford, and Chrysler—faces restructuring in bankruptcy. Bankruptcy would not be the end of the Big Three but a new beginning. Coming out of bankruptcy, the automakers would start fresh, free of the contractual obligations that have kept them uncompetitive. The United Auto Workers (UAW) and Detroit automakers want to avoid bankruptcy and are seeking a taxpayer bailout. Such a bailout, however, is not an acceptable alternative to bankruptcy because it would delay the restructuring the Big Three need to become competitive again.

UAW workers earn \$75 an hour in wages and benefits—almost triple the earnings of the average private sector worker. Detroit autoworkers have substantially more health, retirement, and paid time off benefits than most Americans. These benefits, and a JOBS bank that pays UAW workers nearly full wages to not work, have been a major force driving the Detroit automakers' current fiscal woes. Consequently, Congress should not force all Americans to pay for high wages and benefits for UAW workers.

UAW Workers Highly Paid. The Big Three automakers are asking taxpayers to bail out some of the most highly paid workers in America. Chart 1 shows the average hourly compensation (wages and benefits) earned by all private sector workers and for UAW represented workers at the Big Three. It also shows the hourly compensation at Japanese plants in the United States.

The average private sector worker earned \$25.36 an hour in 2006—\$17.91 an hour in cash wages and \$7.45 an hour in benefits such as pensions, paid time off, and health insurance.¹ Autoworkers at Japanese plants located in the United States earn substantially more than this: between \$42 and \$48 an hour in wages and benefits, which amounts to over \$80,000 a year in total compensation—hardly cheap labor.²

The typical UAW worker at the Big Three earned between \$71 and \$76 an hour in 2006. This amount is triple the earnings of the typical worker in the private sector and \$25 to \$30 an hour more than American workers at Japanese auto plants. The average unionized worker at the Big Three earns over \$130,000 a year in wages and benefits.³

Generous Benefits. Most of the Big Three's UAW workers' compensation comes as benefits, not cash. Table 1 breaks down the average hourly labor costs for a UAW worker at Chrysler in 2006. Ford and General Motors have similar compensation profiles.

Only 38 percent of the \$75.81 an hour that Chrysler's UAW workers earned came as base wages. The rest came as benefits (though some of those benefits, such as overtime premiums and paid

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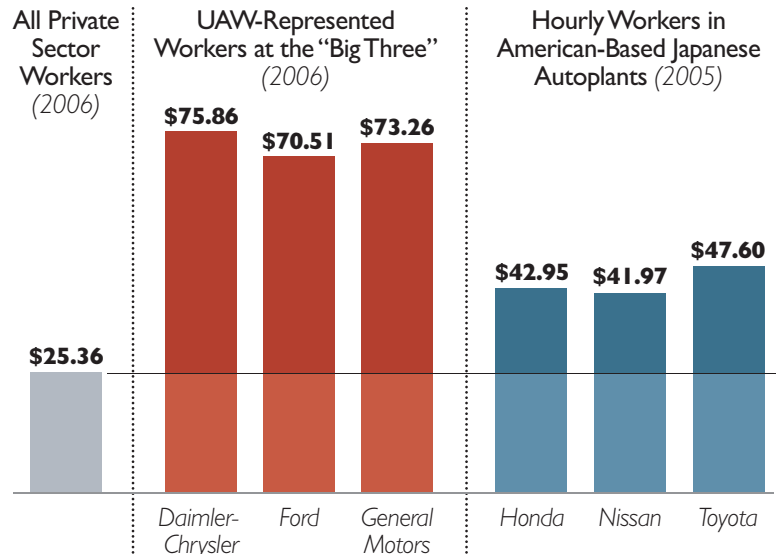
vacation days, are paid in cash). Health care costs are the most expensive benefit, accounting for over a quarter of total compensation.

Gold-Plated Health Care. Health care costs the Big Three so much because the UAW negotiated gold-plated health benefits that include medical, hospital, surgical, and prescription drug coverage. These benefits also cover durable medical equipment (e.g., hearing aids), dental benefits, and even Lasik eye surgery.⁴ For all this, GM workers and retirees must pay monthly premiums of \$10 for an individual and \$21 for families.⁵ As a result, UAW workers and retirees have some of the most comprehensive and least expensive health care in America.

Competitive Disadvantage. These gold-plated health care benefits put the Big Three, and especially GM, at a competitive disadvantage. For example, GM has three times as many retirees as active workers, and health care costs for both groups cost the company \$4.6 billion in 2007. The UAW's lavish health benefits added \$1,200 to the cost of each vehicle produced in the United States.

The Japanese automakers, by contrast, provide standard health benefits to their American employees. Consequently, health care for active workers cost Toyota \$215 per vehicle in 2006.⁶

Average Hourly Labor Costs



Sources: DaimlerChrysler Corporation, Chrysler Labor Talks '07, "Media Briefing Book," p. 37, at http://chryslerlabortalks07.com/Media_Briefing_Book.pdf; Department of Labor, Bureau of Labor Statistics, "Employer Costs for Employee Compensation," Table 5: Private Industry Workers by Major Occupational Group, at <http://www.bls.gov/NCS/> (November 18, 2008).

Chart 1 • WM 2135 heritage.org

Every American buying an auto made in Detroit pays an extra \$700 to \$1,000 to support health benefits far more generous than most Americans receive.

UAW employees also receive the following extraordinary provisions:

- **30-and-Out contracts.** UAW employees work under a 30-and-Out contract that allows them to

1. Department of Labor, Bureau of Labor Statistics, "Employer Costs for Employee Compensation," Table 5: Private Industry Workers by Major Occupational Group, at <http://www.bls.gov/NCS> (November 18, 2008).
2. A worker earning \$45 an hour for 35.5 hours a week throughout the year earns \$83,070 a year.
3. Based on a 35.5 hour workweek, the average hourly hours worked at DaimlerChrysler in 2006. DaimlerChrysler Corporation, "Chrysler Labor Talks '07: Media Briefing Book," p. 38, at http://chryslerlabortalks07.com/Media_Briefing_Book.pdf (November 18, 2008).
4. United Auto Workers, 2003 Auto Contract Summaries, "UAW Delivers on Health Care Pledge," September 2003, at <http://www.uaw.org/contracts/03/gm/gm03.cfm> (November 18, 2008).
5. "Why the UAW-GM Deal Matters to You," Hospitals & Health Networks, November 2007, at http://www.hhnmag.com/hhnmag_app/jsp/articledisplay.jsp?dcrpath=HHNMAG/Article/data/11NOV2007/0711HHN_Dept_StoryBoard&domain=HHNMAG (November 18, 2008).
6. Alex Taylor, "Behind Ford's Scary \$12.7 Billion Loss," *Fortune*, January 27, 2007, at http://money.cnn.com/2007/01/26/news/companies/pluggedin_taylor_ford.fortune/index.htm?postversion=2007012611 (November 18, 2008).

retire with generous pension benefits after 30 years on the job, irrespective of age.

- *Seven weeks' vacation.* A Chrysler worker with 15 years' tenure was entitled to 34.5 paid holidays and vacation days in 2006—seven weeks in paid time off.⁷ This is three weeks more paid vacation than the average private sector worker with similar tenure.
- *Paid not to work.* Under UAW contracts, workers whom the automakers let go when plants close are not laid off. Instead, after exhausting regular unemployment payments from the automakers and the government, they are transferred to a JOBS bank where they are paid nearly full wages to not work.

A Step in the Right Direction. These affluent wages and benefits prevent the Detroit automakers from successfully competing. The Detroit automakers and the UAW have known about this competitive disadvantage for decades, but the UAW resisted making any concessions until 2007—when bankruptcy became an impending reality.

Under the 2007 contract, the Big Three and the UAW agreed to the following:

- To transfer, starting in 2010, retiree health care obligations to a Voluntary Employee Benefits Association (VEBA) run by the UAW. The automakers agreed to collectively pay \$60 billion into the VEBA, after which time the UAW would have full responsibility for providing retiree health benefits. This agreement takes the cost of providing health benefits off the Big Three's balance sheets.
- To limit time in the JOBS bank to two years.
- To require workers in the JOBS bank to accept new employment offers.
- To create a two-tiered wage structure. Detroit automakers may now hire entry-level workers for “non-core” positions (those not directly involved in manufacturing automobiles) for roughly \$26 an hour in wages and benefits.

Average UAW-Chrysler Labor Costs Per Hour Worked (2006)

	Costs Per Hour	% of Total Costs
Base Wages	\$29.15	38%
Health Benefits	\$20.14	27%
All Other Compensation	\$26.57	35%
Total	\$75.86	100%

Source: DaimlerChrysler Corporation, Chrysler Labor Talks '07, "Media Briefing Book," p. 41, at http://chryslerlabortalks07.com/Media_Briefing_Book.pdf (November 18, 2008).

Table 1 • WMM 2135  heritage.org

Although these entry-level workers may transfer to the higher paid vehicle assembly jobs as vacancies occur, they will never receive retiree health benefits.

Too Little, Too Late. GM estimates the new contract will eventually cut 70 percent of their labor cost gap with the Japanese manufacturers.⁸ Average compensation will fall to \$54 an hour once the contract takes full effect. It will, however, take years for the Big Three to realize these cost savings. The cost reductions affect only a minority of workers and occur gradually as current workers retire.

The vast majority of UAW workers in Detroit today still earn \$75 an hour, and the Detroit automakers must still find \$60 billion to finance the VEBA. Detroit's labor costs will not fall as much or as rapidly enough as the Big Three need to restore their competitive position and remain solvent.

Had the UAW made similar concessions in the early 1990s, it might have prevented the Big Three from falling into such dire economic straits. It did not, however, and the new contract is too little, too late to keep the Detroit automakers solvent.

Taxpayers Should Not Bail Out the UAW. By seeking a bailout, the UAW, along with the Detroit automakers, are asking taxpayers to help keep

7. DaimlerChrysler Corporation, “Media Briefing Book,” p. 40. Note that both figures exclude paid sick days.

8. Joseph Szczesny, “Big-Three Contracts Even the Playing Field—Eventually,” *Auto Observer*, November 18, 2007, at <http://www.autoobserver.com/2007/11/big-three-uaw-contracts-even-the-playing-field---eventually.html> (November 18, 2008).

UAW earnings at \$75 an hour when the typical American takes home a third that much. The Big Three also want Congress to use taxpayers' money to pay billions of dollars into the new health care VEBA, thereby funding health care benefits for UAW retirees that are far more generous than those provided by an already under-funded Medicare system.

UAW workers understandably want to preserve the standard of living to which they have become accustomed, but that standard is not sustainable in a competitive economy. Congress should not tax all Americans in order to maintain UAW workers' affluent lifestyles.

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