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Reconfiguring the US Auto Sector: Lessons from Germany

by John Cody

Advocates of neoliberal policy believe that flexible workforces, looser regulations and less government will lead to stronger economies and a better environment for business. Within the US, many such policies have been put into effect with disastrous consequences for the labor market and industry. Even beyond the US, there are claims that all countries are converging into one homogeneous neoliberal set of actors due to globalization pressures. However, in contrast to such assertions is the case of Germany, which features a relatively secure and well-paid manufacturing workforce that fuels one of the largest export surpluses in the world.

Germany's automobile manufacturing sector provides a pertinent example as to how workers can have both fair wages and decent work while sustaining companies that generate far more profit than US automobile producers since the 2008 crisis. Germany's comparative advantage in automobile manufacturing has much to do with its institutional arrangements, all markedly different from those in the US. These institutional arrangements touch on a broad range of areas, including worker training, union power, co-determination and social welfare provisions. Due to labor's position as an institutional stakeholder, Germany has ultimately seen reduced conflict between employers and employees and fostered a competitive workforce to produce in-demand vehicles.

Two Systems

For the "Big Three", GM, Ford and Chrysler, difficulties were building long before the 2008 crisis. In the 1980s, highly efficient Japanese transplants began setting up plants in states that had a history of union opposition. While employees at the Detroit automakers had won union contracts in the early part of the 20th century after years of struggle, newer foreign producers kept unions out of their US plants while simultaneously eating into the Big Three's market share. This not only weakened the position of the Big Three, but also brought troubles for organized labor as the UAW was no longer able to bring the entire auto workforce of the US under its umbrella.

Due to Germany's institutional settings, non-union transplants have never been present in the German domestic market. In fact, all the major auto plants have extremely high unionization rates of up to 90 percent. Within each auto plant, works councils—responsible for issues such as new plant technology and implementation of work rules—are also heavily composed of IG Metall members. At the same time, industry-wide collective bargaining has ensured that worker wages across the industry are generally at parity, helping foster a level-playing field for companies to compete on quality and innovation instead of competing on wages.

There are assertions that higher wages commanded by US union workers left Big Three companies at a competitive disadvantage on labor costs. However, worker wages at the Big Three were only slightly higher before the 2008 crisis, and following renegotiated collective bargaining agreements, UAW wages are generally at parity with other non-transplant workers. Far more important were legacy costs in the form of healthcare and pensions. Foreign transplants in the US not only pay less in terms of benefits and have a younger workforce, but have also spent significantly less time in the US, leaving them with far less retirees. To illustrate this particular disadvantage of the Big Three, at one point following the 2008 crisis, GM had 60,000 active workers and 450,000 retired employees, a burdensome ratio for any company.

Germany has managed to avoid this problem because government plays a major role in regulating the healthcare sector while mandating employees and companies pay a fixed percentage into regulated national health care plans. It also features a strong government role for retirement benefits instead of relying on company-level management, which can and often has led to disaster in the US. Although the Big Three have been successful at shifting their healthcare liabilities to a UAW managed pension fund known as the Voluntary Employee Beneficiary Association (VEBA), this new plan still leaves retiree pensions subjected to market fluctuations.

The 2008 crisis further demonstrated important difference between the US and Germany. While the US intervened in the form of auto company bailouts, the UAW had to accept Tier II wages, tens of thousands of job losses and concessions on job classifications. Germany instead extended the coverage period for short-time work (*kurzarbeit*) benefits, in particular to support both the auto sector and its workforce. Of the estimated 1.5 million employees who benefited, around 900,000 were from the metal and electrical industry[1]. This short-time work saw workers work fewer hours but receive supplemental income from both the government and their employers until demand normalized. The Federal Labor Agency estimates 300,000 positions were saved 2009 due to government supported short-time work[2].

Investing in the Future

Compared to Germany, the US is not investing in its workforce either. The apprenticeship system in Germany, which is well integrated into the automobile manufacturing system, is coordinated on the federal level and partly subsidized by the state. Apprentices receive extensive training and are usually absorbed into the well-paid German workforce upon completion of their apprenticeship. This allows auto companies to utilize a highly trained workforce to produce quality vehicles that have done well in international markets. Studies have found that automobile workers in Germany receive far more hours of training than US workers, with one study categorizing two-thirds of German autoworkers as intermediate-skilled while in the US two-thirds were classified as low-skilled[3].

The lack of federally coordinated training programs and money lost by Big Three mismanagement of employee benefit funds has also potentially hurt the diversity of product lines offered by the Big Three. The Big Three derive a substantial amount of their profit from light trucks, which are easy to make and sold at high volume. While these large vehicles may sell well in the US, they struggle in the fast growing international markets where many German companies have done quite well. With a more secure and highly trained workforce, US producers could have shifted to a more diverse and in-demand vehicle lineup long ago.

Many organizations such as Brookings[4] and the Economic Policy Institute[5] have advocated the US pursues high-road manufacturing—which focuses on advanced technology coupled with well-financed and government coordinated apprenticeship programs—but the US still lags far behind. For now, US producers seem more interested in cutting worker salaries, shifting production overseas, and eliminating as many positions as possible in production through work rationalization and increased work intensity, which are short-term fixes at best.

Giving Labor a Voice

The US is increasingly a victim of its own liberalized economy, in which the financial markets dominate and sectors that provide real jobs, like manufacturing, increasingly lose out. OECD data shows that between 2001 and 2009, the US has lost 5.6 million manufacturing jobs, a 30.2 percent decline while Germany only lost 700,000 jobs, an 8.3 percent decline. The capital structure of the Big Three automakers reflects the broader market approach that dictates the US business environment, which applies pressure to seek short-term profits at the expense of long-term company health. In Germany, Volkswagen is 20 percent owned by the Lower Saxony government while BMW is mostly family owned. The unique capital structure of these two companies allows them to focus on long-term goals with the expectation that profit will follow. Daimler, the German auto company with the most shareholder pressure, also happens to be facing the most difficulties as of late.

German supervisory boards also provide labor with a third of the vote, securing a strong voice for labor in company decisions. In the case of VW, half of the votes on the supervisory board belong to labor. Any decision to close a plant is especially difficult given that management must contend with these boards and works councils. As a result, no plant in Germany has been closed in decades, with the exception of the Opel plant in Bochum, owned by GM. In fact, since 1990 there have been over 100 plant closures in the US, a number that rapidly increased following the 2008 crisis[6].

That is not to say that German labor has not had its struggles. Strikes have occurred and each bargaining round brings fierce negotiations over wages and other issues. However, due to works councils, government support in key areas and union power, both labor and industry have benefited. With the UAW losing up to three-quarters of its members since 1979, the US labor movement needs a new era of revitalization. The Obama administration and other political actors need to work towards a serious reconfiguring of the US political economy to achieve this. Following some examples from German industrial relations could go a long way to securing the long-term financial viability of the Big Three, and US manufacturing in general.

1 Dribbusch, H. and Birke, P. (2012) "Trade Unions in Germany: Organization, Environment, Challenges" Berlin: Friedrich Ebert Stiftung 2012, accessed at: (http://library.fes.de/pdf-files/id-moe/09113-20120828.pdf)

2 Verband der deutschen Automobilindustrie (2011) *Annual Report – 2011*, Frankfurt am Main: VDA.

3 MacDuffie, J and Kochan, T (1995) "Do U.S. Firms Invest Less in Human Resources? Training in the World Auto Industry" *Industrial Relations*, Vol. 34, No. 2, Cambridge: Blackwell Publishers.

4 (http://www.brookings.edu/research/reports/%202013/10/04-tennessee-automotive)

5 (http://www.epi.org/publication/bp212/)

6 Brugeman, V., Hill, K. and Cregger, J. (2011) Repurposing Former Automotive Manufacturing Sites, *Center for Automotive Research*, accessed at: (http://www.cargroup.org/assets/files/repurposing.pdf)

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