Foreign-Owned Operations in the U.S.: The Changing Role of Unions

Dr. Anne Macy
Gene Edwards Professor of Finance
West Texas A&M University
Unions

• Guns, Abortion, Religion, Politics, Money, Relationships...
• Of course, this is the interesting stuff

TABOO topics
Purpose of Unions

- Promote fairness in wages
- Promote safe work environments
- Protect worker rights

Norma Rae: 1979
Budget: $4.5 million
Box office: $22,228,000
$73 million today

Sally Field won Best Actress Oscar
Did Volkswagen Really Want a Union?

- Chattanooga, Tennessee plant
- Friday, February 14, 2014 – vote
  - 712 against; 626 for
- Plant opened in 2011
- Only VW plant in U.S.
- There are over 20 other auto plants in South from various auto manufacturers
  - 2/3 of total auto plants in U.S.
Works Council

Classic Labor vs. Capital Struggle

- Factory Council not Workers’ Council
- 1920 German law
- Alternative to workers’ councils
- Trying to take direct democratic (?) control of plants
  - Thwart militant workers
- Not an easy law to pass
- Hitler outlawed them
- U.S. reinstated them after WWII
Purpose of Works Council

- Elected by all non-management employees
  - Blue and white collar
- Works council is independent of Union
- However, union usually puts forward slate of candidates
- Purpose: Work in the best interests of both workers and company
  - Find non-conflictual ways to deal with new technologies, reorganization of jobs, and plant closings
  - Negotiate with management
Worker representation is split into two parts
  - Works Council – Factory floor issues
  - Union – Wages and benefits

Conflict exists
  - Works councils are more open to leaner production methods than unions have been
  - Management knows this and goes to Works Council first
GM Works Council Example

Opel plant in Bochum, Germany

- IG Metall (union) reached an agreement with GM to reduce the work week to 35 hours over the next 11 years
  - By 1995, GM and the Works Council wanted to keep 8 hours a day but have extra days off during the year
  - Opposition members within the Works Council organized a rank-and-file vote
- Result: 7.5 hours a day; 37.5 hours a week; rest in days off
- Union and Management negotiate a policy but the Works Council does the details and implements
  - Democratic
GM to Close Opel Plant

IG Metall negotiated severance packages

- Announced last week of June 2014
- 635 euros ($855 million) to close plant
  - About 125,000 euros per worker
  - More than 3,300 workers
- Assistance to younger workers for finding new jobs
Volkswagen Wants Works Council in Chattanooga

- Global Works Council wants a works council in Chattanooga
  - Only major plant in the world without one
- Issue: Members of Works Council are paid by management
  - U.S. labor law says management may not “dominate” a union or “contribute financially or other support to it”
  - Interpretation is that the plant first needs a union before it can add a works council
  - Otherwise, it is a “company union”
Are All Works Councils the Same?

- No – depends on the corresponding union
- In Germany, Works Councils have power because of longevity and if there is a strong union (IG Metall)
- In China, state-controlled union
- Most of Europe has some version

Universal goals:
- Reduce conflict through communication
- Adjust national agreements to local circumstances
### Who is #1?
Goal is to be biggest by 2018

<table>
<thead>
<tr>
<th>Rank</th>
<th>Group</th>
<th>Country</th>
<th>Total</th>
<th>Cars</th>
<th>LCV</th>
<th>HCV</th>
<th>Heavy Bus</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Toyota</td>
<td>Japan</td>
<td>10,104,422</td>
<td>8,381,968</td>
<td>1,448,107</td>
<td>268,377</td>
<td>5,972</td>
</tr>
<tr>
<td>2</td>
<td>GM</td>
<td>United States</td>
<td>9,285,425</td>
<td>6,608,567</td>
<td>2,658,612</td>
<td>7,558</td>
<td>10,688</td>
</tr>
<tr>
<td>3</td>
<td>Volkswagen</td>
<td>Germany</td>
<td>9,254,742</td>
<td>8,576,964</td>
<td>486,544</td>
<td>169,064</td>
<td>22,170</td>
</tr>
<tr>
<td>4</td>
<td>Hyundai</td>
<td>South Korea</td>
<td>7,126,413</td>
<td>6,761,074</td>
<td>279,579</td>
<td>70,290</td>
<td>15,470</td>
</tr>
<tr>
<td>5</td>
<td>Ford</td>
<td>United States</td>
<td>5,595,483</td>
<td>3,123,340</td>
<td>2,394,221</td>
<td>77,922</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Nissan</td>
<td>Japan</td>
<td>4,889,379</td>
<td>3,830,954</td>
<td>1,022,974</td>
<td>35,451</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Honda</td>
<td>Japan</td>
<td>4,110,857</td>
<td>4,078,376</td>
<td>32,481</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>PSA</td>
<td>France</td>
<td>2,911,764</td>
<td>2,554,059</td>
<td>357,705</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Suzuki</td>
<td>Japan</td>
<td>2,893,602</td>
<td>2,483,721</td>
<td>409,881</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Renault</td>
<td>France</td>
<td>2,676,226</td>
<td>2,302,769</td>
<td>373,457</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Chrysler</td>
<td>United States</td>
<td>2,371,427</td>
<td>656,892</td>
<td>1,702,235</td>
<td>12,300</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Daimler AG</td>
<td>Germany</td>
<td>2,195,152</td>
<td>1,455,650</td>
<td>257,496</td>
<td>450,622</td>
<td>31,384</td>
</tr>
<tr>
<td>13</td>
<td>FIAT</td>
<td>Italy</td>
<td>2,127,295</td>
<td>1,501,979</td>
<td>498,984</td>
<td>85,513</td>
<td>40,819</td>
</tr>
<tr>
<td>14</td>
<td>BMW</td>
<td>Germany</td>
<td>2,065,477</td>
<td>2,065,216</td>
<td>261</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>SAIC</td>
<td>China</td>
<td>1,783,548</td>
<td>1,523,398</td>
<td>190,848</td>
<td>67,805</td>
<td>1,497</td>
</tr>
<tr>
<td>16</td>
<td>Tata</td>
<td>India</td>
<td>1,241,239</td>
<td>744,067</td>
<td>314,399</td>
<td>165,171</td>
<td>17,602</td>
</tr>
<tr>
<td>17</td>
<td>Mazda</td>
<td>Japan</td>
<td>1,189,283</td>
<td>1,097,661</td>
<td>91,622</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Dongfeng Motor</td>
<td>China</td>
<td>1,137,950</td>
<td>539,845</td>
<td>245,641</td>
<td>337,545</td>
<td>14,919</td>
</tr>
<tr>
<td>19</td>
<td>Mitsubishi</td>
<td>Japan</td>
<td>1,109,731</td>
<td>980,001</td>
<td>127,435</td>
<td>2,295</td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Changan</td>
<td>China</td>
<td>1,063,721</td>
<td>835,334</td>
<td>166,727</td>
<td>59,978</td>
<td>1,582</td>
</tr>
</tbody>
</table>

*2012 figures*
Need a mid-sized SUV for U.S.

- Chattanooga plant has capacity
- Puebla, Mexico plant has capacity
  - Largest car plant in the Americas and second-largest VW plant
  - Has a works council
- Who gets to build the SUV?
So What Is Up With Unions?

2013 data from BLS

- Union membership stands at 11.3% and 14.5 million workers
- Compare to 1980: 20.1% and 17.7 million workers
- For whom:
  - Public-sector workers - 35.3% (7.2 million)
  - Private-sector workers – 6.7% (7.3 million)
- In what industry:
  - Education – 35.3%
  - Protective Services – 35.3%
- Gender:
  - Men – 11.9%
  - Women – 10.5%
U.S. Union Info, part 2
2013 data from BLS

- Weekly earnings
  - Union workers weekly earnings: $950
  - Non-union workers weekly earnings: $750
  - Does not take into account any other variations such as geography or occupation

- Age
  - 16 to 24 years: 4.2%
  - 25 to 34 years: 9.8%
  - 35 to 44 years: 12.5%
  - 45 to 54 years: 14.0%
  - 55 to 64 years: 14.3%
  - 65 and older: 9.6%
Where Are Unions Strong?

2013 data from BLS

- **Geography**
  - Highest: New York – 24.4%
  - Lowest: North Carolina – 3.0%

- **Over half of all union members live in just seven states even though the states account for 1/3 of total workers**
  - California - 2.4 million
  - New York – 2.0 million
  - Illinois – 0.9 million
  - Pennsylvania – 0.7 million
  - Michigan - 0.6 million
  - New Jersey – 0.6 million
  - Ohio – 0.6 million

2013 data from BLS
Screen Actors Guild
Mark Harmon is a member
Unions As A Voice
Positive View of Unions

- Act as a unified group
- Reduce exit and quit rates
  - Higher wages and better working conditions reduce turnover
- Grievance procedure can increase productivity
  - Workers have a voice
- Unions encourage better labor management
  - Better selection process
  - Get rid of bad employee sooner
- Decrease employee discrimination
  - For those in union
Big Labor View

Negative View of Unions

- Restrict labor market
  - Act as a monopoly
- Feather bedding
  - Higher five people to do the work of two
- Productivity decreases
  - Wages and job security a function of seniority not productivity
- Misallocation of resources
  - Cannot easily substitute capital for labor
- Seniority issue
  - Hard to discipline senior employees with union protection
- Foreman’s power reduced
  - Foreman cannot discipline because union steps in
- Ability to Strike
Shifts in the Economy

- Consumer demand has shifted to more service
  - Harder to unionize service workers
- Technology advances have increased productivity
  - Lowered the number of workers in industries to unionize
  - Look at the two biggest industries – education and protective services
- Production has shifted
  - To overseas
  - From northeast and midwest to south
  - To high-tech industries
- Small firms are growth areas for employment
Substitution Effect

Government Has Replaced Some of the Unions' Role

Summary of the Major Laws of the Department of Labor

The Department of Labor (DOL) administers and enforces more than 180 federal laws. These mandates and the regulations that implement them cover many workplace activities for about 10 million employers and 125 million workers.
Unions Were Too Successful

- Unions has successfully negotiated higher wages and benefits
- Created space for cheaper imports
- Substitution of cheaper products increased the elasticity of demand for union labor (decreased union power)
- Example:
  - Veteran AUW members in Detroit earn $26 to $28 per hour
  - VW employees earn $19 per hour
  - Detroit new hires earn $17 per hour
- Wages are not directly comparable because of experience differences
Managerial Opposition

- Wagner Act prohibits dismissing workers who are pro-union
- Many employers receive light penalties from government
- Other tactics managers can use
  - Intimidation
  - Threaten to close factory
  - Lockouts – which are on the rise
Advertising Was Harsh
Changing Workplace

- Studies show that women are more willing to join a union
  - Greater gains in wages
  - Promotion is due to seniority and not other factors
- Women are usually main caregivers
  - Need flexibility
  - Need to be treated individually
- Women are willing to trade explicit wages for implicit benefits
  - Amarillo examples
  - Firms get better workers and maybe even “free” labor
  - Informal works council
- Millennials desire different labor-leisure trade-off
Many times the employer is the only one in town
  - Only “good” one
  - Monopsony
Union counters the monopsony as a monopoly
Ability to move production counters union monopoly on labor
Ability to work from home (telecommute) counters monopsony
  - Mid to high-skilled service worker
Opinions of Unions
Positive view of unions at 51%

Favorable Views of Business and Labor Up Sharply Since 2011
% with favorable view of...

Gay marriage is 54% favorable
Demographics of survey respondents

<table>
<thead>
<tr>
<th>Views of Business and Labor</th>
<th>Business corporations</th>
<th>Labor unions</th>
<th>Diff in Favor</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fav %</td>
<td>Unfav %</td>
<td>Fav %</td>
</tr>
<tr>
<td>Total</td>
<td>55</td>
<td>39</td>
<td>51</td>
</tr>
<tr>
<td>White</td>
<td>54</td>
<td>40</td>
<td>46</td>
</tr>
<tr>
<td>Black</td>
<td>62</td>
<td>36</td>
<td>69</td>
</tr>
<tr>
<td>Hispanic</td>
<td>52</td>
<td>37</td>
<td>58</td>
</tr>
<tr>
<td>Men</td>
<td>56</td>
<td>39</td>
<td>46</td>
</tr>
<tr>
<td>Women</td>
<td>53</td>
<td>40</td>
<td>55</td>
</tr>
<tr>
<td>18-29</td>
<td>51</td>
<td>43</td>
<td>61</td>
</tr>
<tr>
<td>30-49</td>
<td>58</td>
<td>37</td>
<td>50</td>
</tr>
<tr>
<td>50-64</td>
<td>53</td>
<td>42</td>
<td>49</td>
</tr>
<tr>
<td>65+</td>
<td>56</td>
<td>35</td>
<td>42</td>
</tr>
<tr>
<td>College grad+</td>
<td>56</td>
<td>39</td>
<td>48</td>
</tr>
<tr>
<td>Some college</td>
<td>50</td>
<td>45</td>
<td>53</td>
</tr>
<tr>
<td>HS or less</td>
<td>57</td>
<td>35</td>
<td>51</td>
</tr>
<tr>
<td>Family income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$75,000 or more</td>
<td>59</td>
<td>37</td>
<td>44</td>
</tr>
<tr>
<td>$30,000-$75,000</td>
<td>56</td>
<td>40</td>
<td>54</td>
</tr>
<tr>
<td>Less than $30,000</td>
<td>50</td>
<td>43</td>
<td>56</td>
</tr>
</tbody>
</table>
### Pew Research, part 3

Politics of survey respondents

<table>
<thead>
<tr>
<th>Category</th>
<th>60%</th>
<th>40%</th>
<th>30%</th>
<th>20%</th>
<th>10%</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Republican</td>
<td>69</td>
<td>24</td>
<td>31</td>
<td>64</td>
<td></td>
<td>+38</td>
</tr>
<tr>
<td>Conservative</td>
<td>74</td>
<td>20</td>
<td>23</td>
<td>74</td>
<td></td>
<td>+51</td>
</tr>
<tr>
<td>Moderate/Liberal</td>
<td>63</td>
<td>33</td>
<td>44</td>
<td>50</td>
<td></td>
<td>+19</td>
</tr>
<tr>
<td>Democrat</td>
<td>50</td>
<td>46</td>
<td>73</td>
<td>20</td>
<td></td>
<td>-23</td>
</tr>
<tr>
<td>Liberal</td>
<td>37</td>
<td>58</td>
<td>80</td>
<td>14</td>
<td></td>
<td>-43</td>
</tr>
<tr>
<td>Moderate/Conservative</td>
<td>56</td>
<td>41</td>
<td>70</td>
<td>23</td>
<td></td>
<td>-14</td>
</tr>
<tr>
<td>Independent</td>
<td>51</td>
<td>42</td>
<td>44</td>
<td>47</td>
<td></td>
<td>+7</td>
</tr>
<tr>
<td>Lean Republican</td>
<td>60</td>
<td>33</td>
<td>32</td>
<td>61</td>
<td></td>
<td>+28</td>
</tr>
<tr>
<td>Lean Democratic</td>
<td>52</td>
<td>44</td>
<td>56</td>
<td>38</td>
<td></td>
<td>-4</td>
</tr>
</tbody>
</table>

**Among Rep/lean Rep**

| Tea Party                       | 74  | 20  | 18  | 79  |     | +56        |
| Non-Tea Party                   | 59  | 34  | 42  | 51  |     | +17        |

**Union household**

| Yes                             | 51  | 44  | 73  | 25  |     | -22        |
| No                              | 55  | 39  | 48  | 44  |     | +7         |

Future of Unions?

- Fewer and fewer people have experience with unions
- Need to get the new jobs unionized
- Need to find role in global economy
- Need to find how to unionize Millennials
- Need to change public opinion
Foreign Ownership

- For Americans, we have to get used to other countries’ labor laws
  - German Works Council
  - Toyota Way
- We expect other countries to abide by our rules
  - Discrimination
  - Child labor
- So which laws and customs do we accept or change to be in alignment?