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INVEST IN AMERICA

Essential policies needed to secure U.S. jobs and broadly shared prosperity in the auto industry

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The trend is clear: more and more of “Big Three” auto production is taking place in countries other than the United States. Big Three motor vehicle production in Mexico increased in 2008 while it fell 24% in the United States and 25% in Canada. As a result, the Mexican share of total North American production rose between 3 to 4 percentage points for GM, Ford, and Chrysler in 2008. GM has invested \$3.6 billion in Mexico in the past three years and is increasing its commitment to Mexican production by having its new Aveo subcompact built there instead of in the United States (Black 2008). And the Big Three plan even greater future investments outside of the United States: GM announced plans to invest \$1 billion in Brazil (Ortolani 2008), and Chrysler is investing \$570 million in a new engine factory near Saltillo in the Mexican state of Coahuila. At the same time, GM and Chrysler are seeking nearly \$22 billion in additional restructuring aid from the Obama administration. Taken together, these facts make an “Invest in America” requirement an essential component of any further government assistance for U.S. auto companies.

This paper reviews recent trends in auto production and in trade in vehicles and parts in North America and demonstrates that GM and Chrysler are planning to rapidly shift additional production to Mexico. To address this shift, the Obama administration and Congress should adopt three policies as a part of any auto restructuring plan:

- **Cap imports:** A standstill agreement on the number of cars and trucks imported from Mexico, as a share of actual sales; Mexico could share in the benefits of recovery, but not at the direct expense of autoworkers in the United States or Canada.
- **Stabilize domestic content:** Require that the domestic content of cars and trucks sold in the United States, on average, equals or exceeds the 2008 domestic content shares. This will limit offshoring of parts and vehicle production by GM and Chrysler.

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- **Reform labor rights in Mexican auto assembly plants:** Anti-democratic labor laws and lax enforcement policies have systematically kept wages low in Mexico and encouraged companies like GM and Chrysler to outsource production there. Weak labor rights are endemic to Mexico, and reform of labor rights in auto plants could help pave the way for improvements throughout Mexico's labor market. Key reforms in this areas would include:

1. Eliminating unelected, employer-dominated "protection unions;"
2. Enforcing and strengthening of union members' democratic right to decide if they want to be represented by a union of their own choice; and
3. Ensuring that auto companies and their suppliers allow independent unions to have access to their workers in Mexico and that employees can freely choose a bargaining representative of their own choice.

On March 31st, the Obama administration released its new "Path to Viability for GM and Chrysler." The plan provides critical bridge financing for an additional 30 days (for Chrysler) to 60 days (for GM), and it embraces the proposed Chrysler-Fiat alliance. However, the plan also requires the firms to engage in more significant, aggressive restructuring of "manufacturing, headcount, brand, nameplate, and retail network[s]," and it does so under the threat of "utilizing the bankruptcy code" to force restructuring on the companies if they fail to meet the government's demands.

These demands are likely to further reduce the manufacturing footprint of both firms in North America and could reinforce their established outsourcing strategies. It may enhance the likelihood that when demand for vehicles does recover, as it ultimately will, an even larger share of the vehicles sold by GM and Chrysler will originate abroad. This would conflict with the president's announced "commitment to support an auto industry that can help revive modern manufacturing."

Final restructuring plans should include the "Invest in America" policies outlined here to maximize U.S. auto employment and broadly shared prosperity.

Restructuring proposals

GM and Chrysler received \$17.2 billion in bridge financing from the Bush administration in December 2008. On February 14, 2009 they submitted plans required to apply for additional financial assistance that were supposed to demonstrate how each company could return to break-even performance and eventually repay government loans.

The companies proposed to reach these goals largely by cutting costs, starting with labor costs. GM currently plans to fire 40,000 workers and close five plants, while Chrysler would only eliminate 3,000 jobs. Some Congressional leaders and many journalists and commentators have called for substantial cuts in wages and benefits for current workers and retirees. However, labor costs are responsible for only 10% of the cost of building a car, while more than half of the costs are for parts (Helper 2009a). Detroit's most important competitors are not based in low-wage locations, but in Europe and Japan. Of the 20 richest countries in a Bureau of Labor Statistic Survey, the United States ranked 17th in hourly pay for production workers in manufacturing (Bivens 2009).

On March 31st, the Obama administration released its response to the company proposals. Unfortunately, it requires the firms to engage in more significant, aggressive restructuring of "manufacturing, headcount, brand, nameplate, and retail network[s]," and it does so under the threat of "utilizing the bankruptcy code" to force restructuring on the companies if they fail to meet the government's demands. These demands could exacerbate the outsourcing of production to Mexico that is documented in this report.

Raise prices. As Helper and Wial (2009) note, the U.S. auto industry's primary long-term problem is not one of high costs but of *low prices*. Although U.S. automakers' defect rates are now similar to those of Japanese automakers, they continue to lag in other aspects of quality such as ride, noise, vibration, and expected reliability. As a result, the Big Three's cars typically sell for \$1,500 to \$3,000 less

than a comparable Japanese car in the same size class. It is those lost potential revenues—not high labor costs—that help explain the big losses and declining market share of U.S.-based auto producers over the past decades.

Repair reputation. Part of the problem faced by the Big Three automakers is that their *reputation* lags behind the actual quality levels of the units produced in North America, as indicated in the J.D. Power surveys (Helper and Macduffie 2008). Restructuring aid can provide the crucial bridge needed for domestic automakers to expose consumers to newer, high-quality models and to rebuild their brand names.

Adopt world class manufacturing and design practices. Helper and Wial, along with John Paul Macduffie of the MIT Motor Vehicle Program, have proposed several innovative approaches to car and vehicle parts procurement. They suggest addressing core quality issues by adopting “world class manufacturing and design practices,” also known as the Toyota or “lean enterprise” system (Helper and Wial 2009).¹ Such practices help reduce defect rates and thus help lower parts costs—the biggest line item in the automakers’ cost budget—by emphasizing engineering performance, commonality, and flexibility across plants and supplier relationships. They also suggest expanding the federal manufacturing assistance program, funding an industry-wide research consortium, and requiring manufacturers, workers, and suppliers to use the knowledge of each to eliminate waste and improve quality.

Greater fuel efficiency. Growing concerns about the risks and costs of global climate change also will require the auto industry to produce smaller, more fuel efficient vehicles in the future, including production of more hybrid and electric vehicles. However, such a fundamental transition would need to be coupled with consumer incentives to buy them. Supply-and-demand-side policies must reinforce each other, especially if the United States wants domestic automakers to benefit from a more efficient transport system. Helper and Wial (2009) also recommend that the federal government phase in a substantial gasoline tax increase (or a border-adjustable carbon fee system, which could have similar impacts), with increased rebates and refundable, earned income tax credits to offset the impacts on low- and moderate-income families.

These measures should be reinforced with policies to help domestic auto companies retool to produce advanced and fuel efficient vehicles in the United States. There are two current policy laws or proposals that include retooling aid for automakers. First, Section 136, the Advanced Technology Vehicles Manufacturing Incentive Program, gives assistance to auto companies for retooling facilities in the United States to produce advanced vehicles and their key components.² Congress has already approved \$25 billion for this program, but another \$25 billion will be needed. President Obama spoke in favor of this additional funding during the campaign. Congress and the administration need to increase funding for this program now.

Second, some of the revenue generated by climate change legislation should be used to fund the retooling of the U.S. auto industry to produce cleaner, more fuel efficient vehicles. For example, the Boxer-Lieberman-Warner bill from the 110th Congress included a program to auction carbon allowances and allocated 1% of the auction revenues to fund retooling for the U.S. auto industry. Similar provisions should be included in any *new* climate change legislation, including auctions of carbon allowances or establishment of a carbon fee system. Although this proposal is similar to the Section 136 program, it can also be expanded to include overall retooling to meet the higher fuel economy standard (not just advanced vehicles) and help produce plug-in hybrids.

There is also growing interest in so-called “cash-for-clunker” programs that are being used in some countries to encourage consumers to scrap old cars and buy new, fuel efficient models (Marr 2009). Germany offered its drivers several thousand dollars to trade in old cars, and sales there rose 21% in February. Representative Betty Sutton has introduced a similar proposal in a bill submitted to Congress that would provide higher subsidies for cars made in the United States.

If the United States is to get the full benefit from these types of investments and policies, it is essential for it to maintain a viable, domestic-based motor vehicle industry. In order for GM and Chrysler to benefit from lean production and the associated sharing of information between workers and suppliers, it will be essential to maintain a large and growing production base in the

United States especially of the small, fuel efficient cars that are the market of the future. Unfortunately, recent trends and the transition plans submitted to the government in February indicate that GM and Chrysler are turning away from production in the United States. Furthermore, as shown below, they have already ceded a large share of the automobile market to foreign producers and, until gas prices increased in 2007 and 2008, were diverting a growing share of their resources into production of trucks and sport utility vehicles (SUVs). As truck production plummeted in 2008, they began to ramp up production of cars and small SUVs in Mexico.

Trends in North American vehicle production

Sharply rising gasoline prices in the first half of 2008 combined with the deep recession and credit market freeze in the second half of the year caused U.S. sales of cars and light trucks in 2008 to drop by 18% from 2007 levels. This decline worsened as 2008 progressed, punctuated by a 36% drop in year-over-year sales in December.

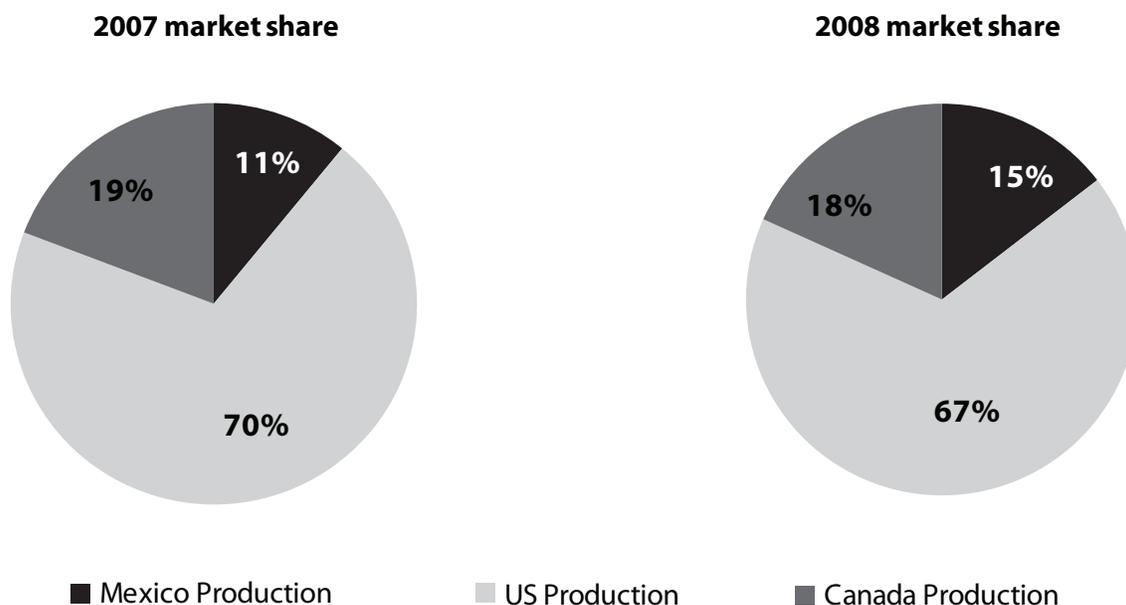
Sales of Big Three autos made in North America have been declining for many years. U.S. sales of Big Three vehicles produced in North America have fallen from 67.4% of the U.S. market in 1999 to 46.3% in 2008. For cars only, the figures were 54.8% in 1999 and 31.5% in 2008. Both foreign and domestic companies have played a role in this decline. Over the past decade, the Big Three have also become major importers of vehicles made outside North America and sold here under their own nameplates.

However, while U.S. auto production foundered—with production falling 24%—the number of light vehicles assembled in Mexico actually *increased* by nearly 5%, as shown in **Figure A1**. As a result, the Mexican share of Big Three vehicle production in North America rose 4 percentage points, while the U.S. share fell 3 points and the Canadian share fell 1 point. Simply put, the Big Three automakers increased their use of Mexican rather than U.S. labor to produce their vehicles.

As **Figure A2** makes clear, the rise in the Mexican share of the North American market in 2008 was largely the result of falling production elsewhere—Big Three

FIGURE A1

North American market share of the Big Three autos



SOURCE: EPI analysis of wardsauto.com.

FIGURE A2

North American units of production for the Big Three autos



SOURCE: EPI analysis of wardsauto.com.

U.S. vehicle production fell 24% and their Canadian production was off 25%. However, the recession was not the only cause of this production collapse; it also reflects a shift in corporate strategy. GM, Ford, and Chrysler all opted to permanently close numerous plants in the United States and Canada in recent years while maintaining or increasing production in Mexico and planning further expansion in Mexico and elsewhere.

Although it has yet to participate in the federal restructuring process, Ford is a leader in the race to move production to low-wage locations, especially for small cars. In May 2008, it announced that it would invest \$3 billion in three of its manufacturing plants in Mexico—a message that was reaffirmed by the company in February 2009 (Mexbiznews 2009). Over a third (34.4%) of all Ford cars built in North America last year were made in Mexico, a far greater share than either GM (5.7%) or Chrysler (0%) (see **Table 1**).

Ford’s decision to shift car production to Mexico has not insulated it from the effects of the financial crisis. It

experienced after-tax losses of \$11.8 billion in 2007 and \$14.6 billion in 2008 (Ford 2009). It has so far avoided the need to apply for government restructuring aid only because it essentially mortgaged its entire capital stock before the financial crisis hit in 2008, giving it larger reserves relative to cash flow than GM or Chrysler. Given current forecasts for the economic outlook in 2009, Ford will likely need government restructuring aid by the end of 2009.

Chrysler (20.1%) and GM (23.5%) built over one-fifth of all trucks they assembled in North America in Mexico. In the past, most of the vehicles these companies built in Mexico were trucks. Ford followed the opposite strategy, and 90% of the vehicles it built in Mexico last year were cars, as shown in the last three rows of **Table 1**.

It is also important to note in **Table 1** that fewer than half the vehicles built by the Big Three in 2008 were cars. Only 27% of vehicles built by Chrysler were cars, only 36% by Ford were, and 48% by GM. The concern is that GM and Chrysler have both announced plans to increase production of cars and small vehicles in Mexico, while the

TABLE 1

Mexico played important roll in North American vehicle assembly in 2008
(Units assembled, by region)

Production of:	Mexico	North America	Mexico's share
Cars			
<i>Chrysler</i>	-	501,251	0.0%
<i>Ford</i>	272,754	793,101	34.4
<i>GM</i>	94,149	1,652,215	5.7
<i>Big Three</i>	366,903	2,946,567	12.5
Light trucks			
<i>Chrysler</i>	272,787	1,356,610	20.1%
<i>Ford</i>	30,829	1,384,361	2.2
<i>GM</i>	413,444	1,761,012	23.5
<i>Big Three</i>	717,060	4,501,983	15.9
Total light vehicles			
<i>Chrysler</i>	272,787	1,857,861	14.7%
<i>Ford</i>	303,583	2,177,462	13.9
<i>GM</i>	507,593	3,413,227	14.9
<i>Big Three</i>	1,083,963	7,448,550	14.6
Car share of totals			
<i>Chrysler</i>	0%	27%	
<i>Ford</i>	90	36	
<i>GM</i>	19	48	
<i>Big Three</i>	34	40	

SOURCE: Wardsauto.com and Economic Policy Institute.

restructuring plans they submitted to Congress and the Obama administration focus on cutting production in the United States. Thus, each of the Big Three is increasing its capacity to build small cars in Mexico, which could mean an even greater share of Big Three's U.S. sales being sourced from Mexico. Should demand for small cars grow in the future, either because of higher fuel prices or through regulation, then U.S. car companies will be ill-prepared to meet that demand with U.S. vehicles.

Trade and job loss

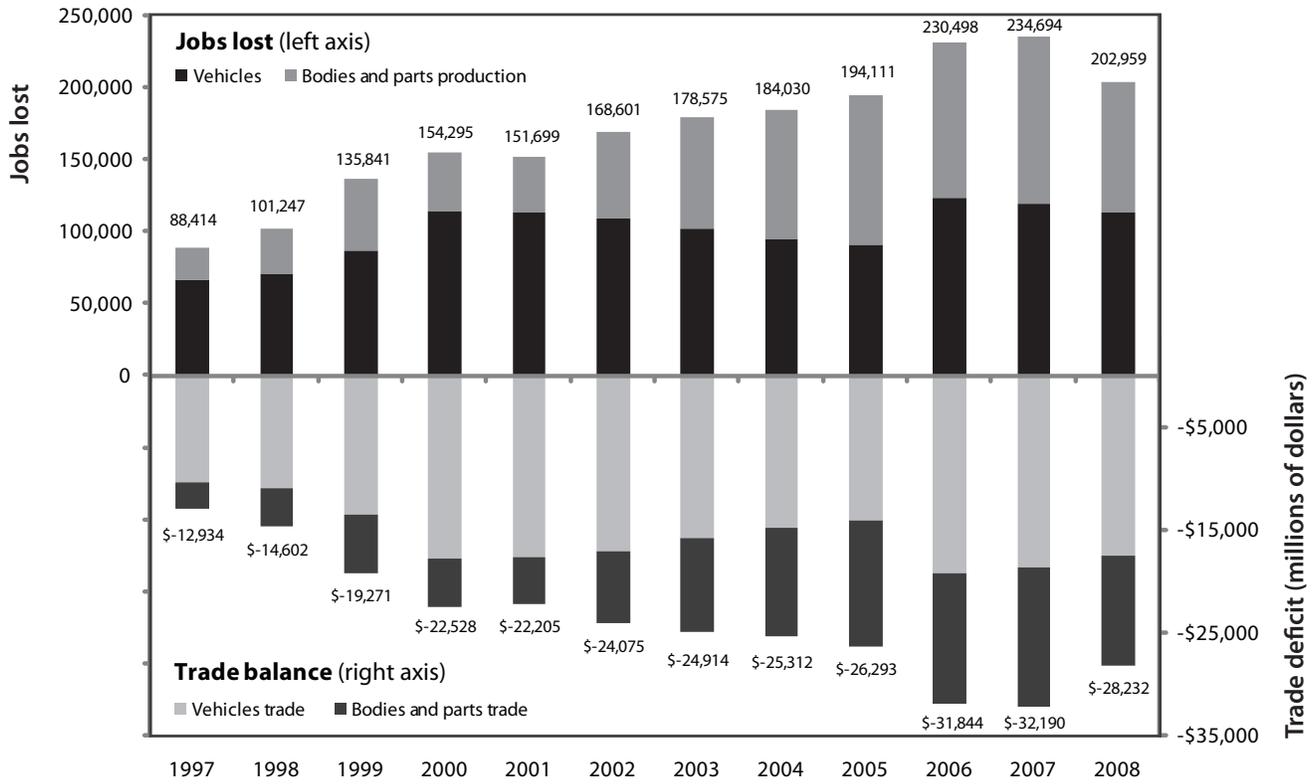
The shift in auto production to Mexico has been very costly to the United States in several ways. It has contributed to rapid growth of the U.S. trade deficit and to trade-related job losses in both autos and auto parts, as shown

in **Figure B**. The overall U.S. trade balance in finished vehicles has been relatively stable over the past decade, with a deficit that increased from \$-7.3 billion to a peak of \$-10.9 billion in 2006 (an increase of 48%), before improving slightly to \$-10.3 billion in 2008. At the same time, the trade deficit in parts grew much more rapidly, rising from \$-1.8 billion in 1997 to \$-12.6 billion in 2007, more than a six-fold increase. The recession in 2008 had a large, negative impact on parts imports in 2008, as the demand for parts used to build cars in the United States dropped rapidly.

Overall, the vehicles and parts deficit increased from \$-12.9 billion in 1997 to \$-31.9 billion in 2007, an increase of more than 150% in a decade. The growth of imports displaced domestic production that resulted in substantial job

FIGURE B

Rising U.S.-Mexico trade deficits and job losses in vehicle and parts production, 1997-2008



SOURCE: EPI Analysis of U.S. international Trade Commission and U.S. Bureau of Labor Statistics data.

losses.³ The growth in imports far surpassed the growth of exports, which would otherwise have supported jobs in the United States.

Job losses resulting from growing trade deficits in autos and parts are shown in the top half of Figure B. Total jobs displaced by trade deficits with Mexico in these sectors rose from 88,414 in 1997 to a peak of 234,694 in 2007, a net increase of 146,280 direct and indirect jobs displaced.⁴ Although estimated trade-related job losses declined slightly in 2008 along with the trade deficit, this should not be interpreted as a net gain for the United States. Rather, the recession reduced demand for vehicles in the United States (primarily affecting imports of auto parts from Mexico), so the jobs were still displaced. When the economy recovers, trade-related job losses will

recur unless production is shifted back from Mexico to the United States. But this shift is not likely, based on Big Three’s restructuring and expansion plans. When the economy rebounds, they plan to increase parts and vehicle production in Mexico, which is likely to lead to a surge in trade-related job losses in autos and parts.

All three auto producers are extending their supply chains in Mexico, as shown in **Table 2**. Each of the Big Three produced more engines in Mexico in 2008 than were needed to build all the cars and trucks assembled there, as shown by comparing the first three columns. For example, Chrysler assembled about 272,787 vehicles in Mexico, along with 400,157 engines. Thus, its engine production exceeded vehicle assembly by 47% (as shown in column 3). Engine production at Ford and GM also

TABLE 2

Mexico was also an important producer of key auto parts for the Big Three in 2008

	<u>Total light</u>	<u>Engines</u>		<u>Transmissions</u>		<u>Stamping lines</u>	
	<i>Vehicles assembled</i>	<i>Number</i>	<i>Share of vehicles assembled</i>	<i>Number</i>	<i>Share of vehicles assembled</i>	<i>Number</i>	<i>Share of North American total</i>
<i>Chrysler</i>	272,787	400,157	147%	0	-	4	6.2%
<i>Ford</i>	303,583	332,555	110	0	-	2	2.3
<i>GM</i>	507,593	525,910	104	459,963	90.6%	6.76	4.3
Total Big Three	1,083,963	1,258,622	116	459,963	42.4	12.76	4.1

SOURCE: Harbour Productivity Report (2008) and Economic Policy Institute.

exceeded total vehicles assembled in Mexico, though by a smaller fraction.

GM has gone much further than Ford or Chrysler in developing complete parts production lines in Mexico. It is the only company that made transmissions in Mexico in 2008, and its transmission production was sufficient to supply 90% of the vehicles it built there—a huge capacity. GM built the largest number of vehicles in Mexico, and it also had more parts stamping lines (nearly seven full lines) than either Ford (with two lines) or Chrysler (with four).

The Big Three produced a substantial share of their own parts in Mexico in 2008. This trend is likely to accelerate as they buy back parts of Delphi and Visteon. Given this, the growth of the auto parts deficit is even more surprising and indicates that the auto supply sector is outsourcing to Mexico even more rapidly than the final assemblers. This is reflected in the rapid growth of the parts trade deficit, as shown in Figure B.

Are the Big Three ceding the U.S. car market to foreign suppliers?

Car production is responsible for less than half the vehicle output of each of the Big Three, as shown in Table 1. Foreign multinational companies (MNCs) have surpassed the Big Three in the total number of cars built in the United States, as shown in Table 3. GM, Ford, and Chrysler made only 49.2% of the cars built in the United States in 2007

and 47.5% in 2008. Foreign assemblers built 3.3 million units in the United States in both years. In addition, a total of about 2.2 million cars and 1.3 million light trucks were imported into the United States in 2008. Many came from Mexico and Canada, but approximately 40% of the total imported vehicles, on a value basis, were from outside of North America, and a larger share of those imports from the rest of the world were cars.⁵

It is clear the Big Three have made their bet on truck production at home, as shown in Table 3. They built nearly twice as many trucks in North America as cars in 2007. In 2008, the truck market collapsed, and yet 60% of the vehicles built by the Big Three in North America were still trucks. If the composition of U.S. vehicle sales permanently shifts toward cars—and especially small, fuel-efficient vehicles—the Big Three seem to have little interest in retaining production of those vehicles in the United States. What GM undoubtedly thinks is best for GM is no longer best for the United States in terms of jobs, output, investment, research and development, and all the other benefits associated with maintenance of a substantial manufacturing base in this country.

A plan to invest in America

If we are to avoid loss of significant car production by the Big Three in the United States, the restructuring plan will have to include specific provisions that will steer them back toward production in this country. Since the survival

TABLE 3

Trends in North American vehicle production (millions of units)

Vehicle	2007	2008	% change
Car production			
<i>Big Three</i>	3.2%	2.9%	-7.5%
<i>Other (foreign) producers</i>	3.3	3.3	-1.1
<i>Total North American car</i>	6.5	6.2	-4.3
<i>Big Three share</i>	49.2%	47.5%	-3.4%
Light truck production			
<i>Big Three</i>	6.3%	4.5%	-28.0%
<i>Other (foreign) light trucks</i>	2.3	1.9	-17.5
<i>Total North American light truck</i>	8.5	6.4	-25.2
<i>Big Three share</i>	73.2%	70.4%	-3.8%
Total light vehicles			
<i>Big Three</i>	9.4%	7.4%	-21.1%
<i>Other light vehicles</i>	5.6	5.1	-7.8
Total N. American Light Vehicle	15.0	12.6	-16.2
<i>Big Three share</i>	62.8%	59.1%	-5.9%

SOURCE: Wardsauto.com and Economic Policy Institute.

of GM and Chrysler as independent companies depends on access to \$22 billion (or more) of additional public loans, it would behoove them to pay attention to the national interest in the maintenance of production and jobs in this country. But this will not happen in the absence of specific requirements from the public. The plans and statistics reviewed here make that clear.

There are several issues that should be addressed with these requirements. President Sarkozy of France announced that public aid to the French auto industry “would require strong commitment from French car makers to a long-term future and business development in France” (Reuters 2008). The same principle should apply in the U.S. auto restructuring process. The requirements laid out in this section should be applied to any company that applies for government restructuring aid in the auto industry.

Cap imports

First, in return for receipt of substantial public funds, a limit should be set on investments in Mexico by GM and Chrysler (and ultimately, Ford if they require federal support) beyond that needed to maintain Mexico’s share of the North American vehicle market at its 2008 level. This could take the form of a standstill agreement on the number of cars and trucks imported from Mexico, as a share of actual sales; Mexico could share in the benefits of recovery, but not at the direct expense of autoworkers in the United States or Canada.

Stabilize domestic content

The second issue has to do with the growth of parts production in Mexico. This affects the content of vehicles assembled throughout North America, as Mexican parts have become ubiquitous (as indicated in Figure B and

Table 2). There is some interest in Congress to require that the domestic content of cars and trucks sold in the United States, on average, equals or exceeds the 2008 domestic content shares (based on the values reported under the American Automotive Labeling Act (AALA)). This will limit offshoring of parts and vehicle production by GM and Chrysler,

Address labor rights in Mexico

The third issue concerns labor rights in Mexico. The government of Mexico continues to practice systematic violations of labor rights, despite the negotiation of the North American Agreement on Labor Cooperation (NAALC) as a side accord to the 1993 North American Free Trade Agreement (NAFTA). The NAALC is widely regarded as a failure (Solomon 2001; Delp et al. 2004). Reform of labor rights in Big Three plants in Mexico, and ideally in the plants of their subcontractors as well, would accomplish several objectives beyond simply improving wages, working conditions, and democratic rights for Mexican workers; it would reduce the incentives that attract auto industry investment tied to the search for cheap wages and a docile labor force. It would also provide an important arena for testing new approaches that could later be incorporated into future NAFTA reforms. Finally, promoting democratic labor rights in the auto sector would establish an important alternative to the system of corporate-dominated, anti-democratic unions that predominate in Mexico.

President Obama frequently criticized the NAFTA agreement and called for its renegotiation during the presidential campaign and in his first trip to Canada as president.⁶ Labor rights in Mexico suffer from both flawed forms of legal protection and corrupt enforcement practices. The Mexican government continues to apply the corporatist labor policies inherited from 70 years of one-party rule, now adapted to serve the needs of multinational corporations. In exchange for guaranteeing that wage increases will not exceed inflation, leaders of “official” unions are entitled to operate free of any democratic accountability to their members, enabling them to accumulate huge personal fortunes.⁷

International bodies, including the International Labor Organization, the United Nations High Commission for

Human Rights, and the U.S. and Canadian labor departments, have repeatedly drawn attention to systematic deficiencies in Mexican labor law that impede workers’ freedom of association, and they have proposed measures to remedy these defects.⁸ Among the most serious problems:

- *“Protection” contracts.* It is a common practice in Mexico for companies to sign contracts with employer-dominated unions, without workers’ knowledge or participation. Under Mexican law, workers have no right even to a copy of their contracts, nor do they have the right to elect their leaders democratically. Recently, the International Metalworkers Federation (IMF) filed an unprecedented ILO complaint against Mexico, charging that “the vast majority of collective agreements are so-called ‘protection contracts’ which force workers to join unions [selected] by company management rather than one of their own choosing” (IMF 2009).
- *Government control of independent unions.* In Mexico, unions cannot operate without legal recognition by the government (registro). In addition, elected union leaders cannot sign contracts without a government certification of their election (toma de nota). Federal and state labor boards, whose impartiality has been widely questioned, use these weapons to prevent and control independent unions.
- *Abuse of the “exclusion clause.”* Exclusion clauses, which are prevalent in collective bargaining agreements, require workers to be members of the union before an employer may hire them and require employers to dismiss any worker expelled from union membership. While Mexican labor law contains due process guarantees for members facing expulsion, in practice these are ignored. This means that union members can be expelled and fired for demanding democratic participation.

Worker rights in the auto industry

Anti-democratic practices are endemic in auto parts production and increasingly problematic in assembly plants. In the past, workers in assembly plants have had some level of participation in contract negotiation although

their ability to democratically elect their leaders has been restricted. However, the officially “registered” unions in some assembly plants where workers had achieved a level of representation have had their registration pulled, and workers in these plants have been handed over to true protection contract unions. Furthermore, the practice of signing a contract with a union selected by the employer (thus denying the workers a choice of representative) continues—specifically at the GM plant in San Luis Potosí that opened in September 2008 and at the Freightliner plant that opened in February 2009.⁹ Overall, there is a disturbing trend of anti-democratic actions in the auto sector, which has very likely been abetted, if not directed, by management.

Key reforms that would improve freedom of association in the auto assembly industry include:

1. Removal of the *registro* and *toma de nota* requirements that perpetuate government control and prevent workers from forming independent unions.
2. Enforcement and strengthening of union members’ democratic rights, specifically due process guarantees.
3. A neutrality policy—adopted by U.S. companies that receive restructuring funds and their first-tier suppliers—that would allow independent unions to have access to their workers in Mexico and ensure that employees can freely choose their bargaining representatives.

These reforms should be applied to both parts suppliers and the Big Three automakers. The administration has awarded \$5 billion in funding to U.S. auto parts suppliers. Large suppliers could obtain the funds for parts shipped to the automakers but not yet paid for (Thomas 2009). Any suppliers with parts operations in Mexico should be

required to comply with the labor rights standards specified above in return for access to government loans.

Conclusion

The data and analysis developed here have shown that the Big Three automakers have shifted production to Mexico. Absent any external constraints, it is likely that they will use the period of relief provided with restructuring aid to continue this shift. The GM and Chrysler restructuring plans call for more plant closings in the United States, which will further reduce their domestic manufacturing footprint.

The United States has a national interest in the maintenance of a vibrant auto sector (Helper 2009b). It is a major source of demand for a host of advanced manufacturing industries including robotics, machine tools, electronics, and computers. The manufacturing sector also generates more than half of all domestic research and development spending, and it employs twice as many scientists and engineers, as a share of its workforce, as the rest of the economy.

The bankruptcy of one or more U.S. auto companies would cost between 900,000 and 3.3 million jobs, adding up to 2 percentage points to the national unemployment rate. If we stand by while domestic automakers shrink their U.S. footprint to a fraction of its former size, something similar will result, but the process will simply be more drawn out (Scott 2008).

The United States cannot afford to let the industry fail, but neither should it finance the auto industry’s abandonment of its domestic production base. An “Invest in America” requirement is an essential component of any further government assistance for U.S. auto companies.

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Endnotes

1. See also Helper and MacDuffie (2008).
2. Section 136 of the Energy Independence and Security Act of 2007 (42 U.S.C. 17013).
3. See Scott (2006) for further details on the EPI trade and job loss methodology. See especially methodology appendix, pp. 24-29.
4. Trade-related job losses are estimated using real domestic employment requirements from the Bureau of Labor Statistics (<http://www.bls.gov/emp/empind4.htm>). Trade data were deflated using data from the same source and updated using BLS PPI statistics. The most recent employment requirements table (for 2006) was used to best approximate current technology and to hold technology constant in the estimation process.
5. Based on analysis of U.S. statistics for trade in vehicles and parts with Mexico, Canada, and the Rest of the World (USITC 2009).
6. On his recent trip to Canada, President Obama explicitly reaffirmed that labor and environmental protections should be included in the text of NAFTA so that they are “fully enforceable.” (Press Release 2009)
7. For an overview of obstacles to worker rights in Mexico, see Lance Compa, *Justice for All: The Struggle for Worker Rights in Mexico*, Washington, D.C.: Solidarity Center, 2003. <http://www.solidaritycenter.org/files/SolidarityMexicofinalpdf11703.pdf>
8. See Davis (2008) for extensive legal documentation of these problems and complaints.
9. The key issue here is not whether the selection of a bargaining representative occurs before the plant opens, but rather who does the selecting. Under U.S. labor law, it is possible in some cases for new employees to be included in a bargaining unit without a representation election under the “accretion doctrine.” However the NLRB and the courts apply well-defined standards to ensure that accretion is not used to subvert employees’ Section 7 right to choose their bargaining representative. Similarly, in the construction industry, prehire agreements are permitted under section 8(f) of the NLRA; however, their scope and duration are limited and a representation election is required to convert a temporary 8(f) agreement into a permanent 9(a) collective agreement. In Mexico, where there is no legal requirement that a majority of employees choose their bargaining representative, the choice of representative has effectively been left to employers with a few exceptions.

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