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The dis-structuration and mexicanisation of labor relations in the American auto industry: Two-tier-labor systems in play & the reconfiguration of governance compromises.[1]

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Introduction

The recovery of the American auto market, along with the revival of the Detroit 3, has been as dramatic as the collapse they experienced through the 2008-2009 global meltdown. Back then, USA auto output plunged by 50%, a drop three times larger than that of the world market. On the demand side, sales declined in about six million units. At the firm level, by 2008 Ford post a loss of $ 1.5 billion, GM of $ 3.1 billion, and Chrysler of $ 0.8 billion, precipitating the filing for bankruptcy in the following year and their bailout by the Obama administration.[2]

Nevertheless, by 2010 a U-turn was in progress. Output grew 35.4% and sales mounted to 11.7 million units. Likewise, since 2010 the Detroit 3 has gotten back into the black numbers. From 2010 to 2012 GM's profits reached $ 18 billion, Ford's $ 2 billion, and Chrysler's $ 2 billion[3]. Furthermore, propelled by these positive numbers, between 2010 and 2011, they invested 17.4 billion alone in the US and Canada to introduce a set of new vehicles and cutting edge technologies.[4] How can we account for such a stagy recovery of these emblematic firms? To answer this question is the main objective of this paper.

While there may be a clear correlation between the bound back of the auto market and the financial improvement of the American automakers, we believe there have been additional variables working at the firm level that can tell us something more about their re-launching during these years. In this work, I focus on the intensification of the restructuring process that the Detroit 3 have been forced to undergo since the outburst of the financial crisis and their bailout by the American government. Particularly, I aim at showing that Detroit automakers' labor markets and relations restructuring has taken a hectic pace, as it was defined as cornerstone for their financial and productive revival. I also show that in so doing, they have been following after two-tier-labor systems taking place in their Mexican facilities that decrease wages and benefits.

Indeed, throughout these years the Detroit 3 accelerated restructuring to the point of completely dismantling the last pillars that still remained of the old labor market. I refer to the three key features that served to structure labor relations in the American auto industry and allow the UAW autoworkers to become a rolling model at the national and international level over the second half of the past century. According with Katz seminal work (1985), and Kochan et al. (1986) such features were: mechanisms that continuously improved compensations and labor protection, through an annual improvement factor (AIF) and a cost-of-living adjustment (COLA) that allowed wages to increase every year; they included also supplementary unemployment benefits to protect employment and reduce the consequences of layoffs;[5] connective (or pattern) bargaining that allowed the standardization of wages and work rules within and across auto firms; and job control unionism that set up an extensive web of rules allowing for a detailed job classification system, seniority rights and work contents and conditions (Katz, 1985: 13-39).

The oil-shocks of the 1970s and the Detroit 3's loss of market while Asian and European automakers were progressing in both foreign and domestic contexts motivated the beginning of the era of concessionary bargaining. While American automakers were looking for resuming competitiveness and cutting costs, labor started to cope with wage freezes, lay-offs, and employment decline.[6] Yet the United Autoworkers (UAW) largely managed to keep in place the three critical trails of the old pattern of labor relations.[7] All of these, as I mean to demonstrate, have fallen apart under a set of arrangements set up by Detroit 3 and the state-led-rescue agencies appointed by the U.S. government directed to turn them competitive with the transplants. I argue that this has implied an entire de-structuration of the American auto industry's labor relations as we know them in substitution for precarious wages and rules, leading a race to the bottom. Given the fact that the bottom is in Mexico, a sort of Mexicanization of the American auto market & labor relations system is taking place. This means that the Detroit automakers are increasingly introducing in their USA facilities similar precarious rules in their USA facilities; the ones that in their Mexican counterparts have caused not only low wages but also more insecure jobs.[8]

Our argument in this regard is reminiscent of Beck's (2000) "Brazilianisation" of the Occident. Yet, whereas Beck thought developed countries would be imitating precarious labor practices from Brazil, Mexico turned out to be the rolling model to benchmark.[9]

The paper is based on the detailed study of collective bargaining agreements in the U.S and Mexico auto sector from 2006 to the present, and interviews carried out with labor representatives of the Detroit 3 in each country over the last three years.

I elaborate my argument in three parts. First, I describe why and how Ford in 2005 decided to set up in Northern Mexico its more important productive and labor strategy to refresh its portfolio of vehicles while downplaying workers compensations and fringe benefits by setting up a two-tier labor system. Second, I work on the negotiations between Detroit 3 and the UAW taking place from 2007 to 2011 to show how in these few years all the mainstays of the enduring labor relations pattern of the auto industry were taking down one after another one after another. In both parts, I identify key environmental and institutional factors surrounding labor and management negotiations in every stage that they were going through and then I analyze each contract negotiation and its outputs. In the last part, I wrap up my main findings and point out some remarks and conclusions that may motivate further research.

Ford CD3 Project and the Two-Tier Labor System in Northern Mexico

The environment and the institutions

In 2005 Mark Fields took office as new North American Operations chief, presenting "Ford's The Way Forward" plan, calling for idling 14 plants and getting rid of 30,000 jobs. Since the beginning, he made it clear that – in order to get back to profitability – he planned moving further manufacturing to Mexico along with closing factories and cutting jobs in the U.S.

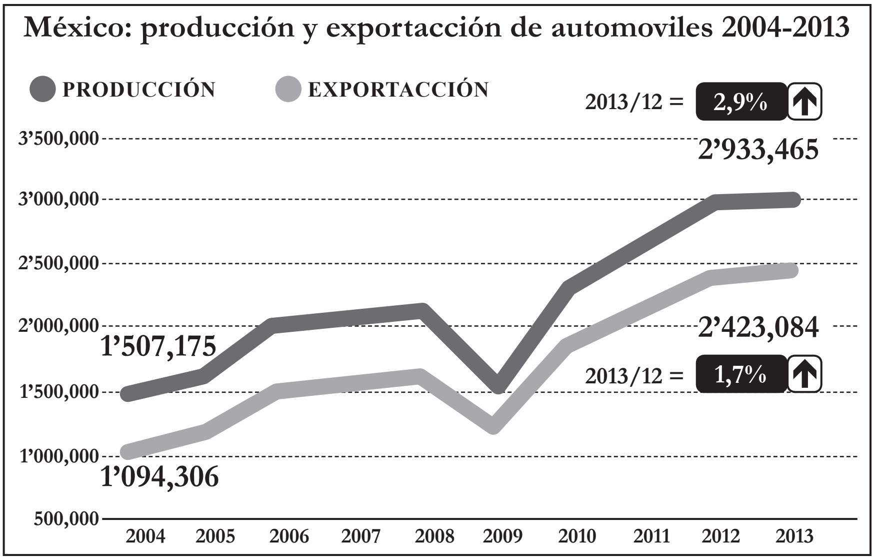
Ford Hermosillo Assembly and Stamping Plant (HSAP) started operations in 1986. It was part of the first wave of export manufacturing facilities Detroit 3 located at northern Mexico seeking quality production with cheap labor to fight back foreign transplants in the small-size segment. To this end, they produced lower-end-cheap vehicles, such as the Ford Escort, the Mercury Tracer, and the old Fiesta and Focus, as well as the GM Cavalier and the Chrysler Neon. These facilities also served for filling The Corporate Average Fuel Economy (CAFE) regulations, allowing Detroit 3 to improve their average fuel economy of cars and light trucks sold in the United States.

Fields' manufacturing strategy included launching a Global Production System (GPS), and consolidating platforms such as the CD3 to support a renewed line of products. A few months later, the CD3 project would be located at HSAP to manufacture a car meant to substituting for the Taurus – i.e., the Fusion. Launched in 2006, it would become one of Ford`s strongest and more successful products in the new century.

Being a small-size manufacturing facility, HSAP received $1.2 billion for upgrading its assembly lines to manufacture a mid-size vehicle, adding up 1,800 more jobs to its extant 2,000. The CD3-Fusion brought along a modular production system of nineteen-first and second tier suppliers, employing 5,000 workers, aligned all together through synchronic manufacturing. These in turn attracted third and fourth-tier suppliers, hiring about 6,000 additional jobs.

In the meantime, Mexican auto sector was blooming, particularly since the North American Free Trade Agreement (NAFTA) came into force in 1994. Throughout NAFTA era, Auto output in Mexico has gone from 1.1 million units in 1994 to 1.9 million in 2000 to 3 million units in 2013. This year, employment reached 600,000 jobs, of which around 70,000 were from stamping and assembly factories. Due to such a spectacular growth, Mexico is already the 8th auto-producer and the 4th auto exporter at a worldwide level.

Figure 1



Source: EL Economista (http://eleconomista.com.mx/industrias/2014/01/09/industria-automotriz-liga-cuatro-anos-batir-records). González, Lilia: 01/09/2014.

As is well known, the driving force of the Mexican auto sector has been the American auto market and the leading OEMs, chiefly the Detroit 3, which have been increasingly pouring FDI toward both the parts and components as well as the terminal sectors in the country. After two decades of NAFTA, Mexican auto exports to the US market have grown more than 260%. As a result, Mexico has become the worldwide auto supplier leader of the American market, overtaking its Asian and European counterparts.

After the 2008-09 financial crisis, the expansion of the auto industry in Mexico has been paramount. Over these last five years, OEMs have invested more than $ 20 billion in Mexico, creating 20,000 new jobs. Roughly half of that amount has come from Detroit 3 (Covarrubias, 2014) (Map 1). A number of new plants have initiated operations in newer green-fields, particularly in the "Bajio Region" (which is by now named "the Mexican Detroit"), such as GM San Luis Potosi, Nissan

Aguascalientes, and Mazda and Honda Guanajuato. In other cases, automakers have either retooled assembly lines and/or introduced new ones to deploy innovative platforms. In most of the cases they have signed contract agreements with local labor unions that allow them to either operate two-tier systems in extant brownfields or start afresh with minimum labor costs. This has been facilitated by the fact that the Mexican auto industry does not have a national or unified labor union, but labor organizations operating at the factory level.

Thus, while the auto industry has been expanding along with employment all over the country (in 2013 Mexico summed up fourteen assembly plants, nine of which belong to Detroit), labor unions have become more fragmented, and the variance in labor costs has grown between regions, firms (at inter and intra levels) and even factories. (Figure 2 and Figure 3).

The 2006 Contract and its outputs

The CD3 and the Fusion became well known in Mexico also because they enticed an entirely transformed labor relations system at HSAP. Management introduced a new collective bargaining agreement that created two parallel employment subsystems for workers meant to carry out the same tasks. The contract set up a web of additional rules for new workers, defined as second tier, cutting in half their wages, opportunities for promotions and job security.

A two-tier labor system came into being. HSAP was born as a highly flexible manufacturing factory, with a flat structure of a single job classification, multitask workers, and as-needed work-station rotations, nurtured by a cheap-malleable workforce coming from North Mexico green-fields. Yet after two decades of operations, labor has been accruing better wages and benefits, along with better security and seniority rights. Not only would the two-tier system decrease the costs of blended wages (by 30%), but also clean legacy costs, because it would bring in a younger workforce. The next table illustrates these changes.

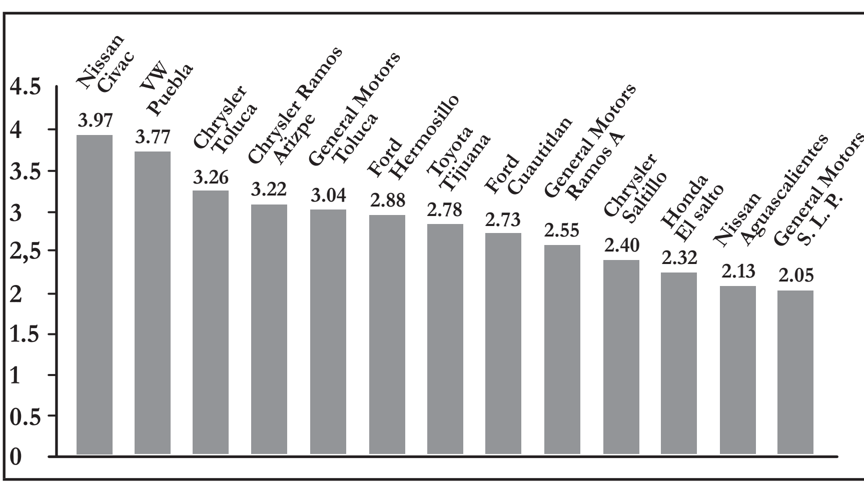
Figure 2

Mexico 2013, Assembly plants and Employees

Source: Author's with data from ProMexico, 2013; SE, 2013; and PcW Mexico, 2013.

Figure 3.

Mexico 2013-2014. Hourly Wages by Co.'s Assembly Plants



Source: Author's. From firms/unions' Collective Bargaining Agreements 2013-2014.

At the same time, Ford Labor Union was in the middle of intra-exhausting disputes as an unusual number of conflicting groups were fighting each other for overtaking office. This would end with a divided organization. Henceforth, each Ford Mexican facility – i.e., HSAP, Chihuahua and Cuautitlan – would have its own labor union; a movement influenced somehow by management and state intervention.

Related to this, both the CTM-local unions and the HSAP one were prevented from organizing workers belonging to first and second-tier suppliers. Workers of these tiers would rather be unionized by Tereso Medina's "Responsible Unionism."[10]

When wages keep goingdown and tiering labor is multiplied

Table 1

Ford Hermosillo. Two-Tier L System 1998-2006/7

	Ford 1998	**Ford 2006/7**	**Ford 2006/7**	**Ford 2006/7**
Dimension		**Tier 1**	**Tier 2**	**Blended**
Workers Total	2,100	2,000	1, 800	3, 800
Vehicles P/D Output	672	-	-	1,200
Vehicles P/D productivity	0.32	-	-	0.31
Job classifications & ladders	One Ten Ladders	-	-	One Fifteen Ladders
Entry ladder	Third		First	-
Time for advancing ladders	Six months	Six months	A year	-
Hourly wages	1.88	4.21	1.68	2.94
W mean Age	29.6	40	26	33
W Years of service	7.9	17	2	9.5
W Education ys	12	11	12	11.5

In 2013 HSAP workers were again cashing more than the average in the industry, namely $ 3.6 per hour vs. $ 2.9, respectively. Two related facts account for such an evolution. First, as noted, the new and retooled plants that initiated operations have decreased wages. Second, during these years, compensation in the manufacturing industry in general and in the auto sector in particular has been going down. In fact, between 2008 and 2012 labor costs in the Mexican auto industry dropped by 10.3%.

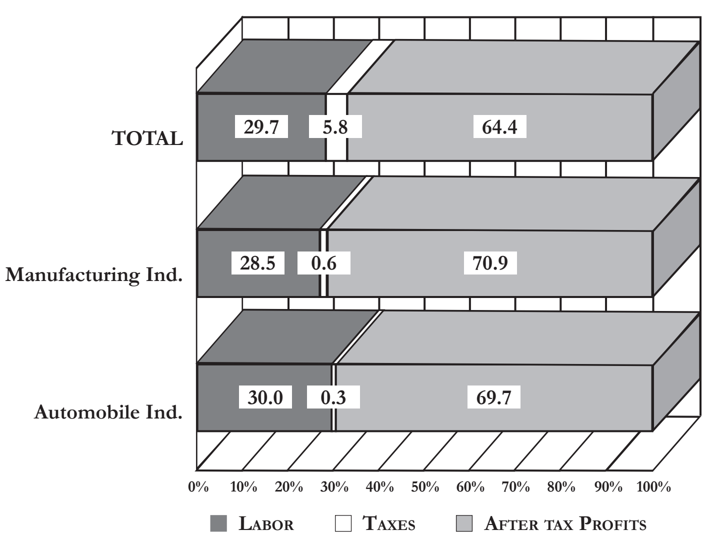
Ford Hermosillo. Two-Tier L System 2013/4

Dimension	Tier 1	Tier 2	Blended
Workers Total	2000	1, 866	3866
Vehicles P/D Output	-	-	1035
Vehicles P/D productivity	-	-	0.27
Job classifications & ladders	-	-	15
Entry ladder		First	--
Time for advancing ladders	Six months	A year	--
Hourly wages	5	2.1	3.6
W mean Age	46	24	35
W Years of service	24	3	13.5
W Education level	13	12	12.5

Source: Author's from Collective Bargaining Agreements of HSAP for each year.

Figure 4

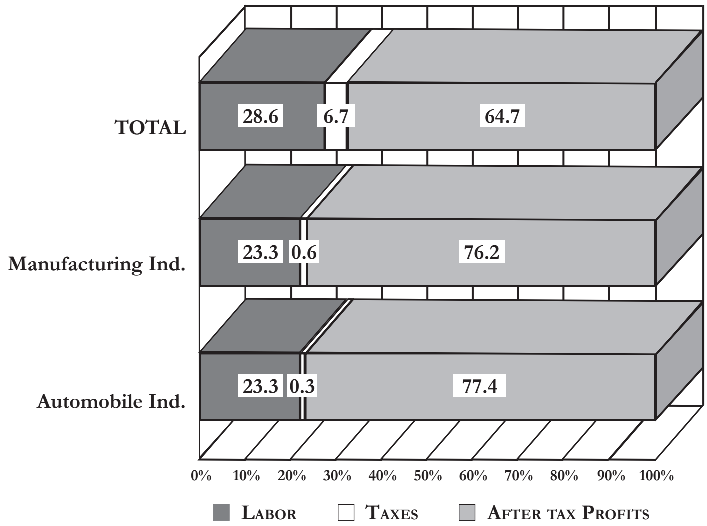
Added Value. Structure of participation 2006.



Source: INEGI, 2013.

Figure 5

Added Value. Structure of participation 2011.



Source: INEGI, 2013.

Furthermore, over these years the participation of labor compensation in the total value added sank from 30 to 22.3%, whereas the participation of firms' operation surplus increased from 69.7 to 77.4% (Covarrubias, 2014: with data from BLS and INEGI). In other words, while labor compensations have been shrinking in the Mexican auto sector, companies' profits have been growing.

On the other side, complex industrial projects as HSAP modular-synchronic manufacture set to work together at the assembly line not only a number of suppliers from different tiers, but also a number of different layers of workers belonging to them. Because of this, in the Mexican auto industry there is a third-tier wage system for workers overlapping with second and first tiers inside assemblers and suppliers. This started to be apparent at HSAP and other industrial complexes like GM Silao, where workers belonging to suppliers ("third-party contractors") perform work inside the plant, at the limits of the assembly lines, such as logistics, material handling, parts sequencing, quality inspection, etc. These workers make half the wages of their second-tier assemblers counterparts. In other cases, they work as temporary workers with scant benefits and no job security. In some instances there is even a fourth-tier of employees working for peripheral subcontractors to perform "service jobs" such as cleaning, surveillance and janitorial tasks; and, again, their wages are even smaller than those of their third-tier counterparts.

The Tiering of Work in an Auto Industrial-Modular Complex

Firm/ Dimensión	Union-Affiliation				Hourly Wages
Ford	Sindicato Nacional Progresista de Trabajadores de Ford Motor Co.				Blended $ 3.6
First & Second Tier Suppliers	**Lear:** Sindicado de trabajadores Industriales del Municipio de Hermosillo: Ariel Burgos O.	**IACNA:** Sindicatos presididos por Arnulfo García Pichardo: Nacional de Trabajadores de la Industria Metal-mecánica y Similares (Toluca)	**Faurecia:** Sindicatos presididos por Abel Domínguez Rivera: Federación de Trabajadores Sindicalismo Nuevo (Edo. De Mexico)	**Magna:** Sindicatos Presididos por Tereso Medina: Nacional de Trabajadores de las Industrias Metalmecânica Automotriz y Proveedores de Autopartes en General. (Coahuila)	Lear= 2.3 IACNA= 1.4 Faurecia= 1.6 Magna= 1.7
Third and Fourth Tier Suppliers	Pensky DHL Local-fragmented CTM Unions				1.1

A major corollary from all of these organizational and working arrangements is that the tiering of wages is becoming a permanent fixture of the Mexican auto industry. It in turn imposes a straightforward rule: The lower the tier, the lower the wage.

The de-structuration of labor relations in the United State

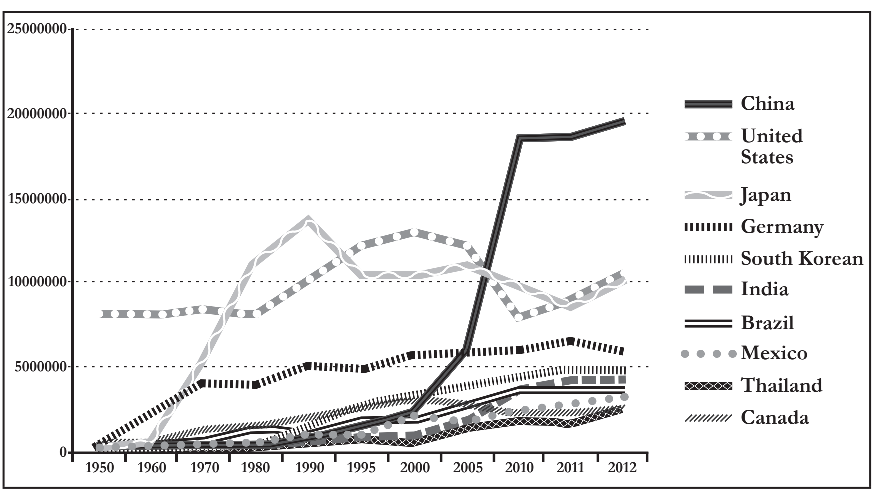
The environment and the institutions

Concessionary bargaining tried to restrain continuous improvement in wages and benefits, along with employment protection gained for the UAW throughout the golden age of Detroit. Yet, there still was room for some progress in compensation. In 2007, total labor cost of Detroit 3 totaled $ 78 per hour, more than four times the one they had back in 1979 ($ 15.25). Furthermore, still in 1984 the UAW and Detroit 3 made a leapfrog framework for protecting job security when agreeing on “Jobs Banks provisions”. Automakers wanted the UAW to support new flexible manufacturing and workers wanted to protect job security as the industry modernized. Workers who were laid-off due to modernization or restructuring programs agreed on the fact that they would continue to be paid, as long as they either kept in contact with job banks or kept looking for a new job (see: http://www.autoalliance.org/index.cfm?objectid=F1A1D510-9E3F-11E3-AB0B000C296BA163).[11]

The first decade of the new century drew a quite different geography for the auto industry. While Detroit 3 added up three decades of losing market share at both abroad and home, new countries and players have been progressing. For the first time, emerging economies appeared at the forefront with the BRICs adding themselves to Asian and European competitors. China alone took advantage of the impacts of the 2008-09 financial crisis on Western auto players to overcome them in both total production and total sales worldwide (Figure 6).

Figure 6

Auto Output (1950-2012)



Source: Covarrubias/Reyna. Data from Organisation Internationale des Constructeurs d’A utomobiles (2012) y Ward’s A utomotive Group (2013).

Steadily losing losing market share along with the financial crisis looming in the horizon and the threatening consequences of going into bankruptcy, Detroit 3 believed that the time for a game-changing contract had come. On the one hand, between 2005 and 2007 GM posted losses of $ 50 billion, Ford of $ 14 billion and Chrysler approached insolvency. On the other, the bankruptcy of Delphi in 2005 created a critical precedent for the UAW, as a federal judge granted the company to overrule its contract (Cf. Hoffman, 2012).

Henceforth, management was posting that in order to survive and reassure competitiveness, Detroit 3 had to close the cost disadvantage with transplants, and they felt in position to demand either “meaningful concessions” from labor or accelerate the transfer of production to Mexico.

At the same time, UAW signed “New Competitive Operating Agreements” (COAs), accepting management restructuring programs to make them more competitive with transplants in the U.S. In 2006 forty-four of these agreements were in place, affecting such issues as work rules and break times, while enlarging the band to determine how many outsourced employees were allowed in each plant. Next, firms introduced a system to rate plants on their ability to meet COA targets, pushing labor and management to compete on degrees of COAs compliance (Cfr. http://labornotes.org/2011/07/will-auto%E2%80%99s-three-tier-wages-be-table#sthash.GZpC7g4o.dpuf).

Table 2

Detroit 3 Net After-Tax Profit (Loss). Billion

Co./Year	General Motors	Ford	Chrsyler
2004	2.7	3.5	1.9
2005	-10.6	1.4	2.2
2006	-2	-12.6	- 3
2007	-38.7	-2.7	(¿)
2008	-30.9	-14.6	-8 (¿)
2009	-1.2 (3Q)*	2.7	-4.9 (¿)
2010	4.7	6.6	0.65
2011	7.6	20.2**	0.18
2012	4.9	5.7	1.7

Source: CAW, 2012 and Author’s from companies annual financial reports.
*”Complete public financial reports were not issued.” ** “Including a one-time $ 12.4 billion deferred tax gain; after-tax profit without that item was approximately $ 8 billion” (CAW, 2012: 8).

Then it was the legacy costs issue. In 2006 Ford’s retiree health care amounted to $ 23 billion; GM’s $ 51; Chrysler $ 8.8 billion. GM alone had 400,000 retirees plus their spouses. UAW was pressured to help clean the financial sheets of the companies, taking on responsibility for retiree health care. Thus, automanufacturers came to the idea of creating voluntary employee's beneficiary associations (VEBAs) allowing firms to be freed from responsibilities with pensioned and retiree healthcare.

In a context of declining production, sales[12] and employment, moving further manufacture to Mexico had proven dramatic for UAW membership. From 2001 to 2005 Detroit 3 employment declined around 70,000 jobs, from 408,701 to 340,065. A year later, 42,000 jobs more were eliminated. In fact, UAW membership has depended heavily on Detroit 3 employment. In 1978 Detroit 3 had around a million jobs. Three decades later, in 2008, employment declined to less than 200,000 jobs. Likewise, in 1987, UAW membership summed up around a million. In 2009 it reached its lowest point at 355,000, nevertheless, it added up 21,000 in 2010 (376,000). 29.5% out of this total belongs to Detroit 3 (Chrysler, 23,000; Ford, 41,000; and GM, 46,000).

Indeed, eliminating jobs and shrinking production in America became the new buzzword in management lingo. In 2003 Ford alone closed five plants and cut 21,000 jobs. In 2005, Mark Fields, new North American Operations chief, presented "Ford's The Way Forward" plan calling for idling 14 plants and getting rid of 30,000 jobs. The next year, Detroit 3 voiced that their U.S. factories had 40,000 redundant workers. The closings kept going. According to Klier& Rubenstein (2011) in 2010, Detroit 3 had nineteen assembly plants operating in eight states, down from the fifty-six that were running in eighteen states in 1980. Likewise, a 2008 CAR study described that from 2005 on Detroit 3 increased the process of closing factories, firing and downsizing employment. Just between 2005 and 2011 they closed sixty-nine facilities. By contrast, as aforementioned, auto factories and employment keep rising in Mexico.

Later on, the outburst and the global character of the financial crisis surprised everyone and everywhere. Auto output in the U.S. sunk by 50%, a drop three times larger than that of the world market. On the demand side, sales declined about six million units. As Detroit 3 were asking for public funding to both curve bankruptcy and support investment on more advanced and fuel efficient auto manufacturing, Congressmen and public officers alike were exerting pressure on both labor and management.

Table 3

Employment. Chrysler, Ford & General Motors (1995-2012)

	Chrysler		Ford		General Motors	
	World	**North America**	**World**	**North America**	**World**	**North America**
2012	214,836	65,535	171,000	80,000	213,000	101,000
2011	197,021	55,687	164,000	75,000	207,000	98,000
2010	199,924	51,623	164,000	75,000	202,000	96,000
2009	190,014	47,326	198,000	71,000		
2008	52,191	52,191	213,000	79,000	243,000	116,000
2007			246,000	94,000	266,000	139,000
2006	80,735	79,568	283,000	128,000	280,000	152,000
2005	83,130	82,321	300,000	140,000	335,000	173,000
2004	84,375	83,542	325,000	126,000	324,000	181,000
2003	93,062	92,034	327,531	130,174	326,000	190,000
2002	95,835	94,903	323,813	128,094	338,000	198,000
2001	104,057	101,027	354,431	165,787	366,000	202,000
2000	121,027	118,024	350,117	164,853	390,000	213,000
1999	129,395	125,549			391,000	173,000
1998	126,816	122,602	345,175	173,899	594,000	226,000
1997	112,300	94,300	363,892	189,787	608,000	237,000
1996	114,200	93,700			605,000	245,000
1995	112,500	91,000	346,990	185,960	649,000	434,000

Source: Author's with Annual Financial Reports: Chrysler, Ford & General Motors (1995-2012).

Between April and May 2009 GM and Chrysler filed for bankruptcy, calling for government intervention to save them. While the terms of the bailout were led by the Presidential Task Force on the Auto Industry and the Obama administration turned into the new GM owner,[13] UAW was asked to accept labor concessions, including ending job banks, further VEBAs restructuring , and aligning wages and work rules with the foreign transplants.

Management was asked to set up encompassing programs to restructure and turn into competitive manufacturers. Labor advocates and the UAW itself were asking for commitments to protect domestic employment.

UAW proved willing to trade COLA and AIF for basing income on gain sharing, performance bonuses, and the like. The same held true for keeping the two-tier system. UAW, in brief, lent support to more "temporary cost-cutting measures" in exchange for more employment and investment at home.

When the crisis receded, the American auto industry and its firms were back in business by 2010. Output grew 35.4% and sales mounted to 11.7 million units. Likewise, since 2010 the Detroit 3 have gotten back into the black numbers. From 2010 to 2012 GM's profits reached $ 18 billion, Ford's $ 2 billion, and Chrysler's $ 2 billion.

Labor and management resumed regular contract negotiations in 2011 with Detroit 3 promising to commit themselves to in-house product and job investment on the conditions UAW help keep at bay labor costs. Management posited that despite the fact there were still too many factories and workers sticking to generous contracts, they could protect manufacturing U.S. facilities and increase employment, inasmuch as they get "the right contract."

UAW maintained that they were too weak to fight back concessions and drawbacks and overwhelmed by non-union competitors. Therefore, it held as a target "Jobs for America" so that they welcomed receiving more Detroit 3 plants at low-entry-level wages.

The 2007 Negotiations. The turning points

In brief, Detroit 3's management arrived at 2007 negotiations with a shared mission, namely to get rid of legacy costs and clean their burden from their financial sheets. Not only did they manage to get it, but they also achieved a deal to introduce a two-tier wage system that would prove vital to crunch the old pattern of income improvements.

As mentioned, UAW consented a trust to assume responsibility for retiree healthcare , funded with automakers extant obligations. Thus the voluntary employee's beneficiary associations (VEBAs) were born, transferring the load of further pensioned workers and retirees responsibilities to the labor union. Moreover, Detroit 3 would be able to pay part of their obligations with stock instead of cash and get further time to do it. For instance, UAW granted GM to pay $ 4 billion with stock and three years to pay its remaining obligations. Ford covered only $ 17.4 billion, 40% of that with cash and the rest with stock on the promise it would invest the saved money in U.S. factories.

As for wages, UAW accepted that firms could pay new hires lower wages and benefits, lending consent in practice to a two-tier labor relation system. The customary right to "equal pay for equal work" was putting down. There were some differences among firms. GM and Chrysler could place new hires at a second tier as long as their perform "non-core jobs". Ford, by contrast, could place new hires at a second tier regardless of their job as long as they do not pass a cap of 20% of the total workforce. In practice, this showed how pattern bargaining was fading and UAW forced to cutting different deals for each automaker.

In average, entry level wages were set at $ 14 per hour; plus a signing bonus of $ 3,000. Additionally, they agreed on the no pay increase clause for extant workers. This meant that seniority workers would not have a raise in nine straight years.

Job banks terms were also modified. Workers could stay in the program for just one year, and could only say no to just one job offer.

The 2009 Negotiations: All to save the companies

The financial crisis, the bankruptcy of GM and Chrysler, the state-led rescue, they all mix together to bring back labor to the bargaining table. Negotiations were lead this time by state officials. They were requiring UAW to do whatever was needed to save the companies. Hence:

- UAW accepted more stock in lieu of cash to ease GM's VEBA obligations, becoming GM's owner, converting its debt into equity. Same thing happened with Chrysler.
- UAW accepted more flexible work rules, including reduced break time, a new formula to calculate overtime, and the elimination of the Easter Monday holiday.
- UAW accepted to waive the right to strike as a negotiating tactic for 2011 for both GM and Chrysler; though, Ford workers voted down on the same proposal.
- COLA was suspended.
- UAW accepted a freeze on wages for entry-level workers along with keeping the no-pay increase measure for extant workers. The $ 3,000 signing bonus remained.

In brief, a variable compensation system made further inroads taking the place of the old-fixed mechanisms for income and employment improvements. As for the management commitment to create in-house employment, Ford offered to manufacture a small car, the New Focus, in a retooled-old Michigan Plant in Wayne, Detroit.

The 2011 Negotiations: Freezing the new labor relations system

Employment and job security suffered as firms announced plant closings (Ford's Twin Cities, Cleveland Engine, and Walton Hills; GM's Shreveport) and job banks were eliminated. On the other side, however, Detroit 3 committed to invest and create jobs at home − i.e., Chrysler 2, 100 jobs with a $ 4.5 billion investment; Ford 5, 750 with a $ 16 billion investment; and GM 6,400 jobs with a $ 7.1 billion investment. This means that Detroit 3 would create jobs at a 2.3% annual rate from 2011 to 2015.

Both sides agreed on holding the line with two-tier systems, but AIF only for entry level: $ 14.78/15.78-19.28, within the next four-year progression. The same deal remained for no increase pay for first tier and COLA suspension. The variable component of income took more prominence as the contract introduced the signing of bonuses, profit sharing and lump sums, as well as quality, attendance, and competitiveness bonuses.

They also agreed on no pension increases − a situation never seen, since pension system initiated back in 1950. Pensions remained an unsolved problem for both GM and Chrysler. Despite the 2011 negotiations, at the end of the year GM underfunded obligations added up 8.7 billion and Chrysler $ 1.7 billion[14] − by contrast, Ford paid its obligations in full. Through VEBAs, UAW retained equity stake in both automakers, i.e., 41.5% in the case of Chrysler, and 10.3% in the case of GM.

3 key features that structured LR in the American Al (Katz; KKM)
1. mechanisms for improving compensations and labor protection: ALF; COLA; Jobs Banks; etc. 2. Job control unionism: Extensive web of rules allowing for a detailed job classification system, seniority rights and work contents. 3. Connective bargaining that allowed the standardization of wages and work rules within and across auto firms.

<table>
<tr><th colspan="3">From Structuration</th></tr>
<tr><td>Mechanisms for improving compensations and labor protection</td><td>Job control: Web of rules for a detailed job classification system, seniority rights and work contents</td><td>Connective bargaining</td></tr>
<tr><th colspan="3">To De-Structuration 2007-2011 Contract Negotiations and State-led Rescue</th></tr>
<tr><td>- AIF & COLA suspended
- No pay increase clause as of 2001 on
- Responsibility for pensioned and ritirees health care transferred to the UAW-VEBAs.
- Two-tier wage system</td><td>- Flexible work rules
- Multi-task work
- Reduced skills and trades
- New Competitive Operating Agreements</td><td>Right to strike (suspended) weved in 2011</td></tr>
</table>

Some remarks and conclusions

Having started as one of the cheapest labor factories in the Mexican auto industry in 1986, a fact related to the condition of green-fields worksites that Detroit 3 were looking for in Northern Mexico, HSAP labor climbed among the best paid at the end of the century. Its labor union, despite the fact it was CTM (official) affiliated, had been very proactive to demand and get better incomes and benefits for its constituencies. As a result, they were steadily improving and in 1998 Ford workers were making 1.5 times the average compensation of their peers in the Mexican auto industry – i.e., they were cashing $ 1.9 per hour vs. 1.3 of the rest.

A decade later, Detroit 3 thought that moving more capital flows, manufacturing and ambitious projects to Mexico could be a shortcut to all at once circumvent mounting labor cost, enhance quality and fight back and overcome foreign competence at home. In addition, Mexican state-led industrial relation system, could be instrumental to rehearse labor structures that further help to dramatically take down labor costs. Therefore, locating further facilities in Mexico would make the UAW more akin to ease negotiations and commit to management claims. So they did. First, Ford placed a critical project at HSAP, then the others followed suit in other Mexican green fields.

With the Mexican experience as a template for North America, Detroit 3 just took two years to break down the pillars of the old pattern of labor relations at home. The big transformation occurred between the 2007 and 2009 negotiations. Dragged by Detroit 3 threatening scenarios, and pressured by power factors, UAW consented to management demands. UAW arrived at the 2007 negotiations pinned down by the increasing financial losses of automakers, and their towering costs. In 2009 things turned worse. GM and Chrysler had filed bankruptcy and the government bailed them out, so that state representatives would take the lead. Then, they addressed automakers failure to neither ask for nor make concessions. They mandated that automakers get both clean financial and labor sheets. The legacy costs were passed over into the labor union hands through VEBAs. UAW had to accept downgrade wages through a two-tier system, end job banks, waive AIF and COLA, hold the line without seniority workers pay increases, relinquish the right to strike, assume more flexible work rules and assignments, etc.

The 2011 contract made all those previous turning points anything but freezing. As a result, in such a short span of time (2007-2011), management and the U.S. state overcame entirely labor resistance until shattering one after another, all the pillars that structured the old labor relations of American automakers. We refer to the mechanisms to improve income and terms of employment, patterns bargaining and job control unionism.

A key shift achieved by management is that they have brought fixed compensation mechanisms to an end, such as AIF and COLA, substituting them for variable compensation linked to profitability – i.e., profit sharing, signing bonus, and the like. That implies that while reducing and eliminating risk of fixed labor costs, management has transferred to labor the risks of the industry ups and downs along with the cyclicality of firm's financial sheets. The operation of pensioned and retirees fund through VEBAs by the UAW consolidated that critical shift.

When Detroit 3 traded VEBAs obligations for stock, making the UAW co-owner of GM and Chrysler, some scholars hoped that it would grant the UAW a greater voice at both the strategic and the workplace levels of the firms. Neither of them happened. Instead, we came to a situation where the UAW has been taking on more responsibilities and risks for firms' competitiveness, while labor has gained nothing but decreasing wages and uncertain jobs. In brief, like in Mexico, the governance compromises between management and labor have changed in the U.S. auto sector but at labor expense.

While a two-tier labor system was introduced at HSAP Mexico, its former-militant union was deactivated. The rules of the labor game shifted and workers' wages plunged. Overnight they were now making $ 2.9 per hour vs. 3.95 of the rest of the autoworkers. That is, they were cashing 0.74 times the average of the Mexican auto industry.

From 2007 to 2011, Detroit 3's total hourly compensation costs went down from $ 78 to $ 55.3, a 28% plunge. A cornerstone of such an income plunge has been the two-tier compensation system – similar to the Mexican one – introduced in 2007. For one thing, it is the blended wage rate of second and first tiers what accounts for the compression of total hourly compensation costs. On the other side, the estimated savings from the system were in 2011 $ 580 million for GM, $ 588 for Ford and $ 132 for Chrysler (CAR's 2011 estimations). 68% of this comes from retiree health (VEBA) savings; 11% from job security; 14% from wages, overtime and paid time-off; and 7% from others. Consequently, the gap between Detroit 3 and foreign transplants has shrunk (according to data from CAR, 2011). In 2011 the difference between Ford's labor cost, the highest of the industry, and VW's, the lowest, was $ 20 – namely $ 58 vs. $ 38.

This is what I call the Mexicanization of labor relations in the American auto industry. Because at the end of the day Detroit automakers are increasingly introducing in their U.S. facilities the same precarious rules that in their Mexican counterparts have implied not only low wages but also more insecure and uncertain jobs, along with weaker labor unions.

As shown, in the Mexican auto industry, wages have been decreasing while investment and employment has been soaring. Such downgrading is coming from both the freezing and the tiering of wages, from first to second and from these to third and fourth lower layers. Moreover, freezing and tiering are winning salience because they are spreading and becoming fixed features of the sector's labor relations.

Therefore, given the fact that the Mexican system is always looking for diving deeper when it comes to depress wages, American labor unions could be better off asking what is next for them.It is possible that Detroit 3 and the UAW keep pulling together until they entirely close the labor costs gap with foreign transplants. By then, they may realize that their next new challenge is just crossing the U.S. Southern borderline.

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Notes

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2 As it is well known, the bailout of GM and Chrysler was a financial operation with no precedent in the industry history, hitting around 80 billion of public funds. Having unleashed a mammoth restructuring process since 2005-2006, Ford could curve bankruptcy. Yet, Ford itself advocated strongly the rescue of the other firms as their breakdown seriously threatened its own survival. It was an extraordinary event showing off how far the interconnectedness of the industry has gone (Covarrubias, 2011).

3 All the financial data of the firms come from their annual financial reports.

4 These technologies include the digitalization of systems across all facets of the vehicle, including security, in-vehicle connectivity and entertainment (innovating urban and electrical design), along with power train systems to downsize energy consumption and emissions.

5 For instance, as of 1967 negotiations laid-off workers received 95% of take-home pay for up to 52 weeks.

6 A number of specialized studies have elaborated on the causes and consequences of concessionary bargaining in the auto sector. Among others Katz, 1985; Florida y Kenney, 1993; Womack et al, 1990; Babson, 1995; Deyo, 1996; Boyer y Freyssenet, 2002; Carrillo, Lung y Tulder, 2004; Covarrubias, 2000; Charrron y Stwart, 2003; Moreira y Covarrubias, 2006; De la Garza y Neffa, 2010; De la Garza, 2010. Though each of them name the process differently, they all coincide that the dismissing of the old pattern of labor relations begun to progress back in the eighties along the end of the expansion and dominance of the American auto industry.

7 A different kind of concessions sought to support management initiatives to improve productivity and quality. For instance in the 1982 negotiations, the UAW committed to back the quality "Job One" program.

8 Bensusan, Carrillo &Ahumada (2013) have shown that "the Mexican model of labor relations" has been highly conductive to the operation of multinational corporations as long as it has allowed them to pick the union they want to deal with and set the flexibility radios they please.

9 Mexico became the largest emergent economy where wages and labor relations have gone more precarious, while Brazil became the opposite. That is, it became the largest emergent economy where wages and labor relations improved the most. The evolution of labor compensation in each country is illustrative. Between 1997 and 2011 labor costs in manufacturing increased from $ 7 to $ 11.6 and from $ 3.5 to $ 6.5 in Brazil and Mexico, respectively. In the auto sector, in 2007 labor costs was $ 11.4 in Brazil whereas in Mexico hardly was $ 3.95 (with data from Bureau of Labor Statistics-BLS).

10 Tereso Medina came from Ramos Arizpe, Coahuila, industrial complex, where he leads the Autoworker Union. He is CTM Coahuila General Secretary, PRI Federal Deputy, and recently leader of a new mining and metal national union. A powerful national factor himself, he advocates for a unionism that fights for wages and employment inasmuch as it contributes to enhance firm competitiveness, productivity and labor peace.

11 In 2006 15,000 workers were in job banks. Two years later they decreased to 3,500. Originally, workers could stay in job banks indefinitely. Then it was ruled a two-year limit, and firms offered buyouts for workers to leave. GM offered buyouts ranging from $ 45,000 for those who agree to retire early to $ 140,000 for those with ten or more years.

12 Since 2003 auto output in the U.S. had been diving while sales were going stagnant. In 2006 output plunged by 6% and sales froze making it crystal clear that the auto market was in the threshold of a crisis.

13 On December 19, 2008, the Bush administration started the financial rescue of GM and Chrysler with a $ 17.4 billion loan. The Obama's continue the same line until completing the largest financial program to bailout any industry. It invested $ 30 billion in GM becoming its owner, whereas it ordered Chrysler to negotiate a merger with Fiat. Ford also received a $ 5.9 billion loan from the Energy Department to fund the introduction of a new line of more cutting-fuel efficient vehicles.

14 The negotiations allow GM not to pay until 2015 ($ 2.3 billion) and 2016 ($ 1.2 billion). At the same time, companies took the "fifteen-year rule" provided by the 2010 Pension Relief Act enacted by the Obama Administration to extend the period for amortizing funding shortfalls and to lower annual contributions. This rule allows companies to amortize funding shortfalls in leveled annual installments over 15 years.

Abstract

How important is labor market restructuring and the downplaying of wages for automakers to overcome the financial crisis and get back to profitability? How far have these processes gone and can go in the foreseeable future? This work shows that labor markets restructuring has played a critical role in the spectacular financial and productive revival of the Detroit automakers after the 2008-09 crisis and their state-led bailout. It also shows that the Detroit 3 have been emulating labor arrangements taking place in their Mexican facilities.

These transformations have brought about an entire reconfiguration of labor that I refer to as the de-structuration and Mexicanization of labor relations in the American auto industry. This means that Detroit automakers are increasingly introducing at home some of the same precarious labor rules that they have in place in their Mexican facilities, lowering wages and eroding job security.

Resumen

¿Cuán importante eslarestructuración de los mercados de trabajo y ladisminución de lossalarios para que las formas productoras de autos puedan superar lacrisisfinanciera y vuelvan a ser rentables? ¿cuántohanavanzadoesosprocesos y quétanlejospuedenllegarenel futuro cercano? Este trabajomuestra que larestructuración de los mercados de trabajo ha jugado un rol critico enlarecuperaciónfinancieraespectacular que han experimentado “lastres grandes” armadoras de autos de Detroit, después de lacrisis de 2008-09 y surescate por laadministración Obama. Muestratambién que “lastres grandes” vienen emulando los arreglos laborales que hanintroducido previamente ensus subsidiarias en México. Esastransformacioneshangenerado una completa restructuración de las relaciones de empleoenlaindustria automotriz Norteamericana, misma que denomino ladesestructuración y mexicanisación de sus relaciones laborales. Ello significa que las firmas de Detroit vienenintroduciendoensus fábricas de casa algunas de lasreglas y acuerdoslaborales que en sus fábricas mexicanas han implicado la precarización delempleo, la caída salarial, y laerosión de la seguridad en el trabajo.