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1 of 10 Israel's Gaza Surge

2 of 10 Max Boot: Israel's Tragic Gaza Dilemma

3 of 10 Funny Business in Minnesota

OPINION | DECEMBER 30, 2008

Why Detroit Has an Especially Bad Union Problem

Collective bargaining agreements mean the UAW can make or break Big Three CEOs.

Article

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By LOGAN ROBINSON

It's easy to blame the problems of the Detroit Three on their CEOs. Yet the three leaders come from different business backgrounds, with only Rick Wagoner at GM an industry man. Alan Mulally was a star at Boeing and has only two years at Ford. Robert Nardelli comes from General Electric by way of retailing (Home Depot), and has only about a year at Chrysler.

How is it that successful executives become so unsuccessful as soon as they move to Detroit? Also, how can we explain that whenever GM, Ford and Chrysler leave our shores, they compete well in foreign markets as varied as Europe, South America and China? What makes them viable competitors as soon as they cross the border?

One can point to state franchise laws, or to the federal government's Corporate Average Fuel Economy (CAFE) regulations. But the most striking difference appears to be that the Detroit Three are unionized, and the foreign transplants are, overwhelmingly, not. (The exceptions are the transplants that have historic ties to the Detroit Three, like NUMMI, the GM-Toyota venture in California.) Yet the issue can't just be about wage rates. The foreign transplants pay well, and the UAW has given significant concessions in recent bargaining.

It is perhaps the mode of doing business in a unionized company that remains a crippling disadvantage. The UAW is arguably the most successful industrial union of all time. But its very strength has allowed it to permeate into every aspect of manufacturing in the Detroit Three.

The collective bargaining agreement with the UAW is a heavily negotiated document the size of a small telephone book. It is virtually identical for each of the Detroit Three, owing to "pattern" bargaining, but it doesn't exist at all in their U.S. competition, the nonunionized transplants. Not only work rules, but fundamental business decisions to sell, close or spin-off plants are forbidden without permission. That permission may come, but only at a price, since everything that affects the workplace must be negotiated.

Both the UAW and the Detroit Three maintain large staffs of lawyers, contract administrators, and financial and human-resources representatives whose principal job is to negotiate with the other side. These staffs are at all levels, from the factory floor to corporate headquarters and the UAW's "Solidarity House" in downtown Detroit.

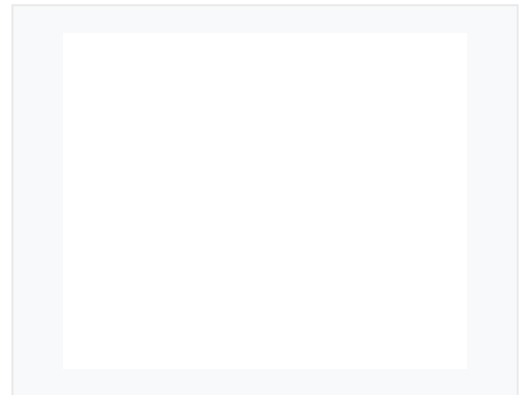
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cost-savings to vehicle improvements, the local union president will listen politely, and then say something like, "We can help you with this, but what's in it for my guys?"

Typically, he will have a list of things he wants, some understandable (better cafeterias) some questionable (hire my nephew), but there is always a quid pro quo. These mutually sustaining

The collective bargaining agreements are now renegotiated every four years; in each negotiation the power and penetration of the union grows. If the company asks to change the flow of work for any reason, from



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bureaucracies exist to negotiate with each other.

In an environment of downsizing, the problem is exacerbated, as the entrenched bargaining structure causes innumerable inefficiencies. Typically each plant or warehouse is a "bargaining unit" and has a union president, who has a staff. If the company consolidates facilities, there will be no need for two presidents and two staffs. Since neither president wants to play musical chairs, they will both point to the bargaining agreement and resist consolidation. As a result, unnecessary facilities are not sold, but kept open, lit and heated, just to preserve a redundant bargaining-unit president and his team.

The UAW also has tremendous influence over the management. The current head of the UAW, Ron Gettlefing, is respected. His predecessor, Steve Yokich, was downright scary.

As an officer in a UAW organized company, you knew when you were talking to Yokich (who died of a stroke shortly after retiring in 2002) that he would have your job if you made him angry. He ate vice presidents for breakfast, and many promising former executives learned this the hard way. The ability to "get along" with the union is critical to the success of a manufacturing executive. Some of this is showing appropriate respect, but some is simply catering to the union's leaders.

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- [Global View: Hamas Know One Big Thing](#)
– Bret Stephens
- [Main Street: New Jersey Is the Perfect Bad Example](#)
– William McGurn

COMMENTARY

- [Samuel Huntington's Warning](#)
– Fouad Ajami
- [Why Detroit Has an Especially Bad Union Problem](#)
– Logan Robinson
- [Obama Will Ration Your Health Care](#)
– Sally C. Pipes
- [The FDA Is Killing Crohn's Patients](#)
– Gideon J. Sofer

One could see this in the extreme deference paid to Mr. Gettlefing by the CEOs of the Detroit Three during the congressional hearings, as they heaped praise on all that he and the UAW had done to help. The Detroit CEOs indulge the head of the UAW as they would a boss, because, like a boss, he can make or break their careers.

It is a good thing that Congress and the Bush administration wish to save the domestic auto industry, because without help from Washington the industry isn't capable of saving itself. It isn't capable of dealing with the legal impediments that have grown up around it, like franchise and CAFE laws, and it's not capable of dealing effectively with the UAW.

The Bush administration's bailout listed as "additional targets" that work rules, as well as wages, become competitive with the transplants by Dec. 31, 2009. In reaction, Mr. Gettlefing said that the UAW has already made "substantial sacrifices" and "will work with the Obama administration and the new Congress to ensure that these unfair

conditions are removed." As an elected official, he cannot say otherwise. If he did, his members would quickly find someone more radical to lead them.

As the Obama administration takes the helm, the key political question is whether the Democratic Party, which has so benefited from union support, will have the courage to push the UAW into a more reasonable relationship with the Detroit Three. Namely, a relationship in which employee relations and entitlements approximate those found in the "financially viable" sector of the U.S. automotive industry -- i.e., the foreign transplants. If the Obama administration does not force the UAW to make further concessions, it will not be able to save the Detroit Three, no matter how many green cars they roll off the assembly line.

Mr. Robinson is a professor of law at the University of Detroit Mercy. He is former general counsel of Delphi, ITT Automotive and Metaldyne, and former head international and commercial lawyer for Chrysler.

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