from The President's Desk

Debunking the myth of the $70-per-hour autoworker.

The New Republic Assembly Line
by Jonathan Cohn
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If you've been following the auto industry's crisis, then you've probably read or heard a lot about overpaid American autoworkers--in particular, the fact that the average hourly employee of the Big Three makes $70 per hour.

That's an awful lot of money. Seventy dollars an hour in wages works out to almost $150,000 a year in gross income, if you assume a forty-hour work week. Is it any wonder the Big Three are in trouble? And with auto workers making so much, why should taxpayers--many of whom make far less--finance a plan to bail them out?

Well, here's one reason: The figure is wildly misleading.

Let's start with the fact that it's not $70 per hour in wages. According to Kristin Dziczek of the Center for Automotive Research--who was my primary source for the figures you are about to read--average wages for workers at Chrysler, Ford, and General Motors were just $28 per hour as of 2007. That works out to a little less than $60,000 a year in gross income--hardly outrageous, particularly when you consider the physical demands of automobile assembly work and the skills most workers must acquire over the course of their careers.

More important, and contrary to what you may have heard, the wages aren't that much bigger than what Honda, Toyota, and other foreign manufacturers pay employees in their U.S. factories. While we can't be sure precisely how much those workers make, because the companies don't make the information public, the best estimates suggests the corresponding 2007 figure for these "transplants"--as the foreign-owned factories are known--was somewhere between $20 and $26 per hour, and most likely around $24 or $25. That would put average worker's annual salary at $52,000 a year.

So the "wage gap," per se, has been a lot smaller than you've heard. And this is no accident. If the transplants paid their employees far less than what the Big Three pay their unionized workers, the United Auto Workers would have a much better shot of organizing the transplants' factories. Those factories remain non-unionized and management very much wants to keep it that way.

But then what's the source of that $70 hourly figure? It didn't come out of thin air. Analysts came up with it by including the cost of all employer-provided benefits--namely, health insurance and pensions--and then dividing by the number of workers. The result, they found, was that benefits for Big Three cost about $42 per hour, per employee. Add that to the wages--again, $28 per hour--and you get the $70 figure. Voila.

Except ... notice something weird about this calculation? It's not as if each active worker is getting health benefits and pensions worth $42 per hour. That would come to nearly twice his or her wages. (Talk about gold-plated coverage!) Instead, each active worker is getting benefits equal only to a fraction of that--probably around $10 per hour, according to estimates from the International Motor Vehicle Program. The number only gets to $70 an hour if you include the cost of benefits for retirees--in other words, the cost of benefits for other people. One of the few people to grasp this was Portfolio.com's Felix Salmon. As he noted yesterday, the claim that workers are getting $70 an hour in compensation is just "not true."

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Of course, the cost of benefits for those retirees--you may have heard people refer to them as “legacy costs”--do represent an extra cost burden that only the Big Three shoulder. And, yes, it makes it difficult for the Big Three to compete with foreign-owned automakers that don’t have to pay the same costs. But don’t forget why those costs are so high. While the transplants don’t offer the same kind of benefits that the Big Three do, the main reason for their present cost advantage is that they just don’t have many retirees.

The first foreign-owned plants didn’t start up here until the 1980s; many of the existing ones came well after that. As of a year ago, Toyota’s entire U.S. operation had less than 1,000 retirees. Compare that to a company like General Motors, which has been around for more than a century and which supports literally hundreds of thousands of former workers and spouses. As you might expect, many of these have the sorts of advanced medical problems you expect from people to develop in old age. And, it should go without saying, those conditions cost a ton of money to treat.

To be sure, we’ve known about these demographics for a while. Management and labor in Detroit should have figured out a solution it long ago. But while the Big Three were late in addressing this problem, they did address it eventually.

Notice how, in this article, I’ve constantly referred to 2007 figures? There’s a good reason. In 2007, the Big Three signed a breakthrough contract with the United Auto Workers (UAW) designed, once and for all, to eliminate the compensation gap between domestic and foreign automakers in the U.S.

The agreement sought to do so, first, by creating a private trust for financing future retiree benefits--effectively removing that burden from the companies’ books. The auto companies agreed to deposit start-up money in the fund; after that, however, it would be up to the unions to manage the money. And it was widely understood that, given the realities of investment returns and health care economics, over time retiree health benefits would likely become less generous.

In addition, management and labor agreed to change health benefits for all workers, active or retired, so that the coverage looked more like the policies most people have today, complete with co-payments and deductibles. The new UAW agreement also changed the salary structure, by creating a two-tiered wage system. Under this new arrangement, the salary scale for newly hired workers would be lower than the salary scale for existing workers.

One can debate the propriety and wisdom of these steps; two-tiered wage structures, in particular, raise various ethical concerns. But one thing is certain: It was a radical change that promised to make Detroit far more competitive. If carried out as planned, by 2010--the final year of this existing contract--total compensation for the average UAW worker would actually be less than total compensation for the average non-unionized worker at a transplant factory. The only problem is that it will be several years before these gains show up on the bottom line--years the industry probably won’t have if it doesn’t get financial assistance from the government.

Make no mistake: The argument over a proposed rescue package is complicated, in no small part because over the years both management and labor made some truly awful decisions while postponing the inevitable reckoning with economic reality. And even if the government does provide money, it’s a tough call whether restructuring should proceed with or without a formal bankruptcy filing. Either way, yet more downsizing is inevitable.

But the next time you hear somebody say the unions have to make serious salary and benefit concessions, keep in mind that they already have--enough to keep the companies competitive, if only they can survive this crisis.

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