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Can the U.S. Remain an Attractive Host for FDI in the Auto Industry? New Labor Policy and Flexible Production

by
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President Obama has been supporting a new bill, the Employee Free Choice Act, designed to promote the labor unions' drive for unionization. This bill, if enacted, will surely be a big boon for unions as it helps enlarge their membership, enhance their bargaining power vis-à-vis businesses, and enrich their coffers to wield political clout. An important issue here, however, is how such reinforced unionism contributes to the U.S.'s much needed industrial competitiveness and employment—and, more specifically, how this new policy will affect the U.S. as a host to FDI in the auto industry.

In 2008, GM yielded its world's top position to Toyota. Unfortunately, Detroit's woes have been caused in significant part by the ever-restrictive work rules and legacy costs (i.e., generous wages and retirement and healthcare benefits) obtained by the United Auto Workers union. For this, however, the UAW alone should not be blamed. It has been acting in its own interest within an institutional setup that was created by the National Labor Relations (Wagner) Act of 1935, a law that was legislated amid the Great Depression and in understandable sympathy with the plight of massively laid-off workers, the victims of then unbridled capitalism. U.S. unionism was thus fostered by Congress as a way of giving workers countervailing power against "uncaring" management that considered them mere cogs in the machine. Unfortunately, however, labor and management have ever since been trapped in a relationship that was inherently antagonistic and adversarial—that is, a sort of an institutional curse. True, such unionism helped secure unprecedented benefits for tens of thousands of U.S. workers—so long as Detroit enjoyed unchallenged competitiveness. The UAW and automakers both shared the spoils of industrial dominance.

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It was, however, not long before the rest of the industrialized world had caught up, altering the competitive environment. Most importantly, Fordism-cum-Taylorism came to be outcompeted by flexible production that was initiated by Toyota. Toyotism is now being emulated across industries worldwide—even the US Postal Service has been endeavoring to adopt flexible techniques in its efforts to raise efficiency and to serve customers better.

Auto FDI in the U.S. (known as "transplants") is centered in non-unionized southern states. Foreign multinationals there can produce automobiles cost-effectively largely because of a flexible workplace that is unencumbered by restrictive union rules. Japanese transplants in particular thrive on Toyota-style management and production. They are known for their workplace "democratization" where the supervisory structure is flattened and where *both* management and workers share common facilities (such as parking lots, cafeterias, and restrooms) and common activities (group calisthenics and recreations), all designed to promote informal communication and a teamwork spirit. The pay/compensation gap between executives and the rank-and-file is much smaller than that in comparable U.S. companies. Also, the transplants treat workers as "brain" workers who perform multi-tasks on a rotation basis to avoid monotonous single task assignments, and actively suggest ways to improve on work practices (i.e., *kaizen* approach). This is in sharp contrast to the status of workers as "brawn" workers who are assigned to simplified repetitive tasks under mass production (as satirized by Charlie Chaplin's *Modern Times*). Moreover, they minimize layoffs and furloughs during a downturn, retaining and retraining workers. Also, flexible production relies on "just-in-time" delivery (instead of "just-in-case" inventories) of parts and components. The workers at the transplants have so far been turning down the UAW's offer for unionization.

Some of these practices are emulated by U.S. automakers, but their management culture in general and the restrictive work rules in particular are in their way. True, the NUMMI's labor union accepted many of Toyotist techniques, and the factory's efficiency became far better than its GM counterparts. But it has never attained Toyota's (or the transplants') benchmark and remained unprofitable—and is set to close despite an ardent plea from Governor Schwarzenegger to save it. Also, from the start, Saturn's UAW collaborated to eliminate most of its work rules, though decried by its traditionalists. In 2004, however, Saturn's union voted to dismantle such a Toyotist arrangement and went back to the standard UAW contract. It is headed for closure unless a white knight is found.

All in all, the transplants' competitiveness derives fundamentally from Toyotism, though "no legacy costs" certainly help. Flexible production is not intended to exploit labor but to *create* a larger pie to share with workers. Wagner Act-enabled collective bargaining disregards the size of a pie, even if it shrinks because of workplace inflexibility and disruptive strikes. Actually, the transplants pay higher compensation (about 20% more) than the national average--currently employing more than 400,000 Americans at the average annual pay of $63,538.[1] At least, southern members of congress, governors, and mayors—and workers themselves--understand the benefits of flexible production and are eager to attract more auto FDI so as to create well-paid manufacturing jobs locally. This is the reason why even some Democrats in Congress are opposed to the EFCA.

[1] "What is an 'American' car?," by Matthew J. Slaughter, *Wall Street Journal*, May 7, 2009, A 17.

It is critical for lawmakers—and management, as well as labor—all to realize that the antagonistic mode of labor relations institutionalized by the Wagner Act is utterly outdated. A more cooperative relationship is called for. Simply expanding the power of unions by making unionization easier cannot enhance the U.S.'s competitiveness. Since Detroit is already unionized, Detroit South will naturally be the new target of unionization. Detroit-style unionization discourages foreign multinationals from coming to the U.S. and encourages the U.S.'s own companies to outsource production overseas. It is high time for the President and Congress to treat unions not merely as an electorate but as a vital economic player who can contribute to industrial efficiency and to devise policies for flexible labor. As part of the Detroit bailout conditionality, the UAW agreed to allow for flexibility and cooperation. This type of mandate, at least, ought to be explicitly incorporated into the new bill.

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