# Saving Chrysler for Daimler-Benz: 1980s Wage developments in the U.S. auto industry and the U.S. Federal Government Chrysler loan guarantees

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## Abstract

In 1979, the U.S. Federal Government directly intervened in the domestic auto industry by providing guaranteed loans to save the Chrysler Corporation from bankruptcy. In 1998, Chrysler effectively ceased being a U.S. corporation through its global partnership with Daimler-Benz. This paper explores factors that affected auto industry employee wage developments within the U.S. auto industry in the 1980s as a test of the theory that fundamental changes have occurred in the U.S. national industrial relations system. The unprecedented government intervention in the Chrysler crisis of the late 1970s suggests that "strategic choice" is not simply a new mode of decision-making by U.S. management, but that the U.S. government is also capable of interventions in the market for strategic ends. With the current globalization of the auto market, and the legal internationalization of auto industry, the paper concludes by specifying factors that might bring about a future intervention into market conditions at the U.S. Federal level, should the market make such intervention essential.


## Introduction

By the time this paper appears in published form, Chrysler Corporation will have very likely ceased to be a strictly U.S. corporation in any sense of the term. Internationalization of the automobile industry and market no longer concerns only the percentage of domestically produced parts in a Chrysler product - indeed, this seems now a remarkably trivial issue! The issue now is very clearly ownership of a firm in a nationally vital industry and the relationship this ownership has to national welfare: to the commonweal.

We may think that we are now witnesses to the proper, inevitable, and invisible hand of the market as it expands to global scale. Yet, even recent history indicates this historic linkage, effectively eliminating one of the Big Three from the U.S. auto industry, is far from a mere market function.

Interdisciplinary studies, such as the course of studies we pursue at the International Studies Department of Bunkyo University, attempts to analyze complex societal phenomena. The analytic process involves deriving theory about the causal factors influencing what we observe, from a multi-disciplinary framework, and then testing the validity of the proposed theory in as rigorous a framework as can be developed.

Economic changes in the United States during the 1980s were marked enough to fuel a research literature claiming that a fundamental transformation in the nation's industrial relations system was underway (Kochan, Katz, McKersie, 1986). These authors claimed that relations among and between employer, employees, and government, along with their respective representatives, were undergoing a fundamental change. Significantly, the authors claimed that it was the U.S. employer that was spearheading this "strategic choice" trend. This was a trend away from the long-established post-World War II accord in which employers ran the U.S. firms, avoiding union-busting behavior, and unions negotiated safely over wages and working conditions without fear that the employer would arbitrarily re-locate the plant to a foreign country.

Among domestic manufacturing sectors, the motor vehicle manufacturing ("auto") industry has historically been recognized as a key manufacturing sector. Claims of a fundamental transformation ought to imply a significant change in this industry, if no other. This paper is offered to remind us, among other things, that that in the late 1970s Chrysler was very formally, and very explicitly, rescued from bankruptcy by the Federal government of the United States of America. And now, some 20 years later, we are faced with the question of what, precisely, this rescue intended.

The following pages explore wage developments in the 1980s auto industry in reference the broader changes being observed within the increasingly global auto market. Several levels of explanation for these developments will be offered in reference to the three significant actors in an industrial relations system: workers, management, and government - along with their representative organizations (Dunlop, 1958). Finally, an assessment will be made of the degree to which these changes support claims of an industrial relations transformation, and a speculation will be offered about potential future government intervention in the new global economy.

## The U.S. Motor vehicle manufacturing industry in the 1980s

The U.S. motor vehicle manufacturing industry accounted for approximately 3.6% of U.S. gross national product throughout the decade under examination (Motor vehicle facts and figures, 1988). Three firms dominate domestic motor vehicle manufacture: Chrysler, Ford, and General Motors. These firms will be the primary focus of wage development review throughout the decade. As a group, all three sustained nationwide ranking within the top ten U.S. firms in terms of sales during the period under study

(Hanson, 1989). Their earnings histories were mixed (Table 1).

The latter half of the 1970s and early 1980s evidenced extremely high rates of inflation. As shown in Table 2; the prime rate paralleled this trend. Virtually all new car purchases in the United States are financed: purchased with money borrowed from a lender, to be paid back over the term of the borrowing agreement with interest paid for the transaction. The loan rates for these financing agreements are dependent, in turn, upon the prime rate. Accordingly, exceptionally high charges faced those seeking to finance motor vehicle purchases during the early 1980s. The impact of

(Table 1) Net Earnings History for Chrysler, Ford and General Motors, selected years

| Year | Chrysler[1] | Ford[2] | General Motors[3] |
|---|---|---|---|
| 1980 | (1710.0) | (1545.0) | ( 762.5) |
| 1981 | ( 475.6) | (1060.0) | 333.4 |
| 1982 | ( 68.9) | ( 657.0) | 962.7 |
| 1983 | 528.5 | 1866.9 | 3730.2 |
| 1984 | 1496.1 | 2906.8 | 4516.5 |
| 1985 | 1635.2 | 2515.4 | 3999.0 |
| 1986 | 1403.6 | 3285.1 | 2944.7 |
| 1987 | 1289.7 | 4625.2 | 3550.9 |
| 1988[4] | 1143.3 | 5300.2 | 4632.1 |
| 1989[4] | 925.0 | 4506.0 | 4495.0 |

Note: Net profit (loss) in U.S.dollars ( millions).

1 Chrysler had net losses in 1974, 1975, 1978 and 1979.

2 Ford did not have net losses between 1974—1979.

3 General Motors did not have net losses between 1974—1979.

4 Value line estimate.

Source: Value line, 22 December 1989.

(Table 2) Inflation and Prime Interest Rates, selected years

| Year | Inflation Rate | Prime Rate |
|---|---|---|
| 1978 | 7.7 | 9.06 |
| 1979 | 11.3 | 12.67 |
| 1980 | 13.5 | 15.27 |
| 1981 | 10.4 | 18.87 |
| 1982 | 6.1 | 14.86 |
| 1983 | 3.2 | 10.79 |
| 1984 | 4.3 | 12.04 |
| 1985 | 3.6 | 9.93 |

Source: Albert (1986).

interest rates upon purchasing decisions is difficult to underestimate. One industry analysis observed, "consumers are statistically more likely to make or defer a purchase decision based on interest rates than on other obvious factors, such as new car unit prices or monthly loan payments" (Value Line, 22 December 1989, p.102).

Due, in part, to the linkage between purchasing propensity and interest rate levels, the U.S. auto industry entered the 1980s in a domestic recession, the worst year being 1982. Yet the interest rate was itself affected by broader market, economic, and societal forces. This auto market was complicated further by industry-specific problems.

The first significant internationalization of the domestic auto market began in the 1960-1965 period, when Japanese imports jumped from 9.8 to 23.8% of all new motor vehicles registered in the United States (World motor vehicle data, 1989). The U.S. auto industry, at the beginning of the 1980s, was by then experiencing the accumulated effects of severe market penetration by foreign firms, primarily Japanese, who were able to offer higher quality products at lower prices (Ruben, 1986). Throughout the decade, for example, Japanese imports averaged 39.4% of all new motor vehicles registered (World Motor Vehicle Data, 1989). It should be noted, however, that a steady decline in this figure can be traced throughout the decade, from a high of 44.4% in 1981, to 33.9% in 1987.

The import price advantage in these years was due to a combination of factors: lower overseas per unit labor costs, higher technical production efficiency, favorable currency trends due to a strong dollar and changing U.S. customer preferences for which the domestic manufacturers were not prepared (Ruben, 1986). Despite profitable years later in the decade, Chrysler, Ford and General Motors continued, "to operate under a variety of economic factors that precluded any clear projection of their eventual role in the increasingly internationalized industry" (p. 4).

Chrysler dramatically illustrates the economic straits of domestic motor vehicle manufacture in the 1980s. It was so close to bankruptcy by the end of the previous decade that only U.S. Congressional action, in the form of Federal loan guarantees, could prevent its demise. In response, President Jimmy Carter signed the Chrysler Corporation Loan Guarantee Act of 1979 on 7 January, 1980. This Act provided $1.5 billion in federally guaranteed loans provided the firm could acquire other loans amounting to $2 billion. Chrysler borrowed $1.2 billion from the government, repaying all obligations by 1983, 7 years earlier than scheduled. By 15 August 1983 the loan agreement with the government was terminated (Hanson, 1989).

Thus, a combination of severe domestic conditions and industry-specific internationalization of the U.S. motor vehicle product market prompted a historic crisis in the U.S. auto industry. One result was an unprecedented government intervention in support of Chrysler, one of the "Big Three" firms. The impact of this intervention upon wages and their determination for the industry, and the Big Three in particular, was nd. Prior to a detailed examination of this issue, a review of general wage levels for the industry during the 1980s is appropriate.

## Wage trends in the motor vehicle industry

Table 3 presents annual weekly wage rates for production and non-supervisory workers in two categories. First, the annual average weekly earnings for all private industry workers shows a slow, steady rise through the decade. Rates are also given

(Table 3) Nominal Wages (Average weekly per year)

| Year | Total Private Industry | Motor Vehicle Manufacture and Equipment |
|---|---|---|
| 1980 | 310.78 | 394.00 |
| 1981 | 343.31 | 450.72 |
| 1982 | 355.27 | 470.61 |
| 1983 | 382.17 | 525.66 |
| 1984 | 403.24 | 557.57 |
| 1985 | 416.12 | 582.47 |
| 1986 | 424.98 | 572.97 |
| 1987 | 433.26 | 570.97 |
| 1988 | 447.68 | 609.00 |

Source: Handbook of Labor Statistics (August, 1989)

(Table 4) Real and Relative Wages (Average weekly per year):
Motor Vehicle and Equipment Manufacture—Total Private Industry

| Real | Relative | | Year | |
|---|---|---|---|---|
| | CPI[1] | MV+EQ/CPI | TPI/CPI | MV+EQ/TPI |
| 1980 | 82.4 | 4.78 | 3.77 | 1.26 |
| 1981 | 90.9 | 4.96 | 3.77 | 1.31 |
| 1982 | 96.5 | 4.88 | 3.68 | 1.32 |
| 1983 | 99.6 | 5.28 | 3.84 | 1.36 |
| 1984 | 103.9 | 5.37 | 3.89 | 1.38 |
| 1985 | 107.6 | 5.41 | 3.87 | 1.40 |
| 1986 | 109.6 | 5.23 | 3.88 | 1.35 |
| 1987 | 113.6 | 5.03 | 3.81 | 1.32 |
| 1988 | 118.3 | 5.15 | 3.78 | 1.36 |

[1]Consumer Price Index.

Source:Handbook of Labor Statistics(August,1989) for the motor vehicle manufacture and motor vehicle equipment industry. These suffered a rate drop in 1986. This decline does not seem to be explicable by reference to wage developments in the motor vehicle manufacturing component of the composite average which is our focus. It may be the result of increased outsourcing in parts manufacture, a means by which auto firms sought to reduce labor costs. This is an issue to which we will return shortly. Overall, the generally higher wages in the industry under study, in contrast to private industry averages, is notable.

Real wages are reviewed in Table 4, and a relative wage index is also calculated. While real wage rates for the total private industry average show some change due to improved business conditions in mid-decade, those for the topic industry appear more volatile over the decade. Data for the motor vehicle and equipment manufacture industry that are listed in these columns include categories of workers and types of firms beyond the expressed focus of Chrysler, Ford and General Motors. Additionally, some workers are covered by collectively bargained agreements; others are not. According to data from the Current Population Survey (Voos, 1990), 58.2% of workers within this category were covered by collective bargaining agreements in the years 1983–1985. In the years 1986, 1987, 1988, this coverage rate was 57.0, 55.9 and 56.2.

In consequence, the data tends to understate generally higher wages paid motor vehicle plant employees. Williams (May, 1985) reviewed hourly pay of auto production workers, finding an average rate of $12.13. In contrast, that of parts manufacturers amounted to only $8.20/hour. He cited a number of factors to account for this difference: location, product and occupational class differences, along with the extent of labor–management agreement coverage. Regarding the last point, he stated, "Virtually all workers in the auto plants studied were covered by such agreements, compared with about three–fifths of the parts producing workers" (p.38). Thus, production workers in motor vehicle manufacture and their higher union coverage are associated with higher wage levels.

We have so far reviewed general economic conditions and wage rates for the motor vehicle manufacture and equipment industrial sector. This provides a framework of meaning to permit a direct review of wage developments at Chrysler, Ford and General Motors.

## Wage developments at Chrysler, Ford and General Motors

Pattern bargaining between the United Auto Workers (UAW) Union and the major motor vehicle manufacturers after World War II constituted an "accord" (Edwards, Garonna, Todtling, 1986), effectively taking wages out of competition. In 1947, for example, General Motors established a 3 percent guaranteed annual improvement factor for wages: combining cost–of–living and productivity adjustments. This "became a de facto standard for settlements in many other unionized industries" (p. 35).

By 1980 pattern bargaining had collapsed under the weight of economic difficulties reviewed above. American Motors and Volkswagen had already reached independent settlements when Chrysler sought and received Federal intervention. On 6 January 1980, the UAW agreed to Federal legislation relating to the loan guarantees. The result was $243 million dollars of concessions on previously signed contracts with Chrysler, effectively breaking from pattern contracts established with Ford and General Motors (Current wage developments (hereafter CWD), January, 1980). At the time, approximately 100,000 workers were covered by Chrysler-UAW contracts. Ford and General Motors, in contrast, held contracts with the UAW respectively covering about 124,000 and 462,000 workers.

The extent of the concessions granted was prfound: not only short-term wage reductions but labor union gains long fought for were surrendered (CWD, January, 1982). Scheduled 3% wage increases were postponed for later years. Paid personal holidays were eliminated for the new contract until 14 September 1982. Three paid personal holidays were to be reinstated in late 1982, but were presumed to be part of the next contract. A one-day pay bonus set for December, 1980 was cancelled. In return for these mandated concessions, Chrysler was obliged to distribute $162.5 in common stock to employees covered by the UAW over a four year period beginning November 1980.

Coincident with these developments, decaying economic conditions nationally led to threats by President Jimmy Carter in April to impose mandatory wage price controls. By October, he had extended anti-inflationary guidelines to the end of the calendar year, beyond a scheduled 1 September termination.

Chrysler moved closer to bankruptcy in 1981, leading to further UAW concessions of $622 million (CWD, February, 1982). The deferred wage increase of 3% was cut, along with current $1.15/hour cost-of-living allowance increases. Three paid personal holidays also were eliminated, together with a paid 5 minute extension of lunch hour. In exchange, the UAW won a Chrysler commitment to institute a profit-sharing program if and when the firm resumed profitability. The new agreement covered 64,000 workers, with some 40,000 on layoffs.

Ford and General Motors were still bound by the pattern contracts negotiated before the decade began. Yet, by April of 1981, both firms were publicly claiming a need for significant labor cost cuts in the face of foreign competition (CWD, April, 1981). Despite these claims, by the fourth quarter of the year all three firms had profitable results (CWD, August, 1981). For Chrysler this return to profitability obliged fulfillment of the profit-sharing promise earlier made. The program involved three parts: a one time cash distribution ($50), a drawing for purchase certificates and a distribution from excess earnings in any given year in the form of common stock or vehicle purchase discounts.

The year 1982 opened with early talks between the UAW and Ford/General Motors

(CWD, January, 1982). Both firms claimed an $8/hour disparity in labor costs with Japanese motor vehicle producers. By March an agreement on a three-tier labor structure was reached between Ford and the UAW, effectively ending the history of uniform agreements which had begun in the mid-1950s (CWD, March, 1982). Pay increases were withdrawn, due to lack of profitability (See Table 1). New employees were hired at 85% of full pay, increased to standard wages after 18 months. In return for savings in labor costs, Ford offered to make a number of non-wage commitments. These included a two year moratorium on plant closings due to outsourcing decisions on the part of management, an equality in sacrifices made by white-collar and blue-collar employees, mutual growth forums, firm-financed counseling to those being laid off, profit sharing, and a jointly run training/retraining program. Ford also agreed to experiment with a Guaranteed Income Stream commitment to production employees having 15 years with the firm. General Motors entered into early negotiations and also settled quickly, signing a 30 month contract similar to that of Ford. The number of workers covered in 1983 by UAW COLA agreements with each of the automakers were: Chrysler, 41,500; Ford, 160,000; General Motors, 470,000 (CWD, January, 1983).

Chrysler reached a 13-month agreement with the UAW in January of 1983, only after an earlier proposal had been rejected by the membership because it did not include a wage increase and did not commit to modification of an absentee-monitoring program. The new agreement narrowed a $2.50/hour drift from Ford and General Motors claimed by UAW President Fraser. In this contract, profit-sharing programs were scrapped in return for direct wage increases. This switch would later become an issue which would in later years result in sharp differences in the overall compensation levels between Chrysler and Ford/General Motors workers. Chrysler also agreed to explore lifetime job security plans similar to those being instituted at the other two automakers.

In September, according to the Chrysler-UAW contract, wages were increased $1.00/hour, thus ending the existing wage disparity with Ford/General Motors (CWD, September, 1983). Chrysler had by then turned a 6-month profit of $482 million. In contrast, Ford and General Motors were granting small cost of living increases on a quarterly basis. In 1984, Chrysler increased wages by 3% in June, in accordi with the bargained agreement (CWD, June, 1984). August saw completion of Chrysler's Employee Stock Option Program (ESOP): 1,661,611 shares were distributed to over 80,000 employees, 63,000 of whom were UAW members (CWD, August, 1984).

Despite record profits at Ford and General Motors in 1984, October contract negotiations focused on job security, due to increased outsourcing by both firms (CWD, October, 1984). No specific wage increases were identified. Instead, performance and attendance bonus programs were established. Furthermore, the Guaranteed Income Stream and Supplemental Unemployment Benefit programs were improved.

Mid-way through the 1980s, the Big three were experiencing the unusual paradox of record profits and considerable market uncertainty; "Some auto industry observers said that much of the profit rise...resulted from the voluntary restraint on shipments to the U.S. accepted by Japanese producers" (CWD, March, 1985). Ominously, these restraints lapsed on 31 March 1985. The UAW, aware of the future market uncertainties, agreed to unprecedented contracts with Mazda and General Motors covering new plants (CWD, July, September, 1985). The Mazda accord set compensation levels below those of domestic producers. The Saturn accord eliminated a fixed contract, establishing instead a "living document," within which workers' base pay would be established on an annual basis. Compensation would be paid semimonthly, and would include a "bridge" period of COLAs comparable to other UAW covered GM plants. The following year envisioned an hourly rate 80% of the industry average: the differential paid on reward. Job categories were greatly simplified, time clocks and separate parking eliminated.

By November, strikes by 70,000 Chrysler workers succeeded in recovering parity with their Ford/General Motors contemporaries, resulting in an immediate 2.25% wage increase (CWD, November, 1985). The new three-year contract would, however, expire a year prior to the other firms UAW agreements. The new contract featured a 3% wage increase in October 1987, COLA and two-tier pay rate matches with Ford/General Motors and a outsourcing limit commitment from management. In this instance, however, the UAW refused to negotiate a reduction in the number of job classifications.

The number of workers eligible for COLA increases in 1986, in contrast to those above for 1983, suggest the extent of workforce reductions occurring in each firm: Chrysler, 63,000; Ford, 100,000; General Motors, 350,000 (CWD, January, April, 1986).

In 1987, differences in the extent of vertical integration within Ford and General Motors may have been a factor in a UAW decision to break off joint contract negotiations and pursue only Ford (CWD, October, 1987). A contract emphasizing job security issues was signed for effect until 14 September 1990. It included a 3% wage increase, COLA, lump sum cash payments and fairly generous profit sharing arrangements. General Motors settled in a similar fashion afterward, following the UAW "divide and conquer" strategy (CWD, November, 1987). By the end of the year, Ford and General Motors were respectively paying COLA to 104,000 and 335,000 employees (CWD, December, 1987).

By 1988, Chrysler further cut operations by announcing the closing of the Kenosha, Wisconsin plant (CWD, April, 1988). In June, it signed a 28-month agreement with the UAW, covering 66,000 workers. This contract finally achieved parity with comparable Ford/General Motors contracts (CWD).

The decade being examined ended with the contracts mentioned above still in force.

## Conclusions

The preceding pages sought to present a framework to comprehend wage developments at Chrysler, Ford and General Motors in the 1980s. Federal intervention on behalf of Chrysler in the late 1970s suggests that, indeed, fundamental changes were occurring in the auto industry. This would support claims of a transformation in U.S. industrial relations, so long presumed to emphasize federal neutrality in respect to free market outcomes. The proximate cause of industrial crisis in the motor vehicle manufacturing industry, and consequent impact of wages, appears to be increased product market competition in an almost thoroughly saturated field.

This transformation is evidenced by and results in managerial strategies such as outsourcing and concession bargaining. On the side of organized labor, the UAW modified a standard emphasis upon wage increases to focus upon issues of job security, ESOPs, and differential negotiation strategies with competing firms. While clearly a transforming time of wage developments, the 1980s also recalls an insight basic to industrial relations theory: expansion of the market (Commons, 1913). Commons wrote then that, "...each (labor organization) represents an internal contention over the distribution of wealth provoked by external conditions of marketing or production" (p. 57).

For the motor vehicle industry in the 1980s, the internal contentions concerning wage developments occurred in the face of crisis conditions brought on by foreign market penetration. Commons point suggests that a secure future for the U.S. motor vehicle manufacturing industry is contingent upon strategies for the global auto industry. Global partnerships, such as that which Chrysler initiated in 1998, may invite yet another type of federal government intervention, particularly if this globalization process begins to severely impact the livelihood of the nation's working class.

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