

The Nation.

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The Delphi Oracle

The mid-October decision by Delphi Corp. to seek Chapter 11 bankruptcy protection and massive labor givebacks, followed by General Motors' effort to open its contract with the United Auto Workers (UAW) for other concessions, are watershed events in American labor and economic history. They announce the final shredding of any social contract in industrial relations and drive a long nail into the coffin of our employer-based welfare state. Unless addressed, they promise economic disaster not just for hundreds of thousands of auto workers but much of the American middle class.

While social democracies in Europe and elsewhere built a "social wage" in the postwar years--benefits and guarantees like retirement income, health insurance, childcare supports and training available to all citizens--the United States built a private benefits system, rooted in particular employer contracts. This private system is grossly inefficient as well as inequitable, and it reduces competitiveness with firms operating in more rational systems. Now Big Auto, so crucial in building that system, proposes to dump it without offering an alternative that satisfies health and retirement needs.

Delphi's move could have been predicted from its recent hire of Steve Miller as CEO. He has made a long career, going back to the Chrysler bailout of a generation ago, of using government handouts and corporate welfare in the form of bankruptcy to restructure firms while looting workers' assets. Just before he joined Delphi, Miller was CEO of Bethlehem Steel and a board member at United Airlines (UAL). Before selling off Bethlehem he eliminated health insurance for 95,000 retirees and offloaded the firm's underfunded pension obligations to the government's Pension Benefit Guaranty Corporation. And he offloaded UAL's even larger underfunded pension to the PBGC, itself now underfunded. At the time, *Forbes* announced that this spectacular disappearance of worker savings foretold "the end of pensions"--not just for UAL but the country. It has since been imitated by Delta and Northwest. Miller took the job at Delphi because he thought it offered a "pivotal position to impact the restructuring of America's auto industry," meaning more of the same.

Miller's plan for Delphi is cynical and wildly greedy. The bankruptcy is targeted only at Delphi's 51,000 US-based workers, less than a third of its worldwide labor force. It is well financed, with Delphi holding \$1.6 billion in cash and a new credit line for as much as \$4.5 billion in low-interest debt from Citigroup Global Markets Inc. and JP Morgan Chase. Nothing in US bankruptcy law--recently tightened for individuals but not for corporations--says a company actually has to be broke to enjoy its protections. And Delphi is not broke; of its forty-five US plants, only eleven are in a separate holding group of financially troubled enterprises.

As the price of not canceling the workers' contract and liquidating their pension, Miller is demanding a drop in average wages from \$27 to \$10 an hour, concessions that would total more than \$2 billion a year. This is about 25 percent more than Delphi's current losses, counting the money-losing plants, and will be pure profit once those are eliminated.

In responding, the UAW is constrained by GM's dependence on Delphi and the industry pattern-bargaining that was once the union's strength. If the UAW strikes the supplier, it will cripple the old parent and risk even more damage to its members. If it refuses givebacks at GM, it will make Delphi's position worse and increase Miller's bargaining power in the bankruptcy proceedings. If it concedes to either, the givebacks will rapidly become an industry norm. In the contract opening that GM has requested and that the UAW has already agreed to put to a membership vote, GM has asked for \$1 billion in annual givebacks. This is much more than the prescription co-pay deal widely cited in the press. As much as two-thirds of the concession is in forgone wage and cost-of-living adjustments. Ford and DaimlerChrysler have already announced that they will be asking for whatever GM gets on their partial contract opening. Whatever wage cuts Miller gets at Delphi will be a marker in the full Big Three contract negotiations in 2007, when current contracts expire.

So what is to be done? We could replace our private welfare state with a public nonprofit one, including national health insurance and more generous Social Security retirement benefits. This would improve equity and competitiveness while sharply reducing costs, and save automakers about \$2,000 per vehicle. We could re-reform our unique antiworker and corporate-favoring bankruptcy code while giving workers more protection of and control over their own savings. We could help the industry through a sensible energy policy of the sort it has always opposed, which would enlarge its domestic transportation market beyond automobiles and promote design of energy-efficient cars that the rest of the world might actually want to buy.

But doing these things will take time. In the meantime, how to minimize loss of jobs and income? At least two-thirds of the pain will be felt at old plants in Michigan, Ohio and Indiana, with ripples through supply chains in Illinois and Wisconsin. These five auto-parts-intensive Great Lakes states have long needed a coordinated plan on manufacturing. Their governors should stop their Washington hand-wringing about national policy and finally craft a regional strategy back home. This should not aim at saving all manufacturing, much of which is not sustainable or worth keeping. But it should defend the high-wage, high-productivity sector, which is worth saving and growing. Withdrawing support that now goes to poor-performing companies could fund such a policy on a revenue-neutral (or better) basis. Public purchasing is one way to get new orders to better firms, but the governors should also pressure the Big Three to favor upgraded in-region suppliers. The governors should make any public spending on manufacturing--tax breaks, training subsidies, research grants and technical assistance--conditional on enforceable commitments to such purchasing, beginning with the work now done by doomed Delphi plants.

And while they're at it, the Midwest governors should combine their separate efforts at health insurance reform into a giant regional one. Such regional cooperation has often been discussed but seldom achieved. Maybe the shock of what's about to hit these states can interrupt that sorry history. Nothing focuses the mind like the prospect of being hanged.