Rodney's Take

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The UAW Has a Point

Last week the United Auto Workers Union (UAW) presented their list of demands for the upcoming contract negotiations. Tops on the list is a 40% bump in pay, with 20% due upon ratification and the rest spread over the four-year contract. This might sound like highway robbery, but the union bosses figure that if CEO compensation has jumped 40% across the big three automakers since the last contract negotiation, then why shouldn't hourly workers get a commensurate bump? Of course, management could argue that they deserve a greater share of the spoils because of their top-notch leadership, but that's going to be hard to prove.

Nothing screams "management competency" louder than a stock's long-term price trend, but for the legacy carmakers, it's not even a whisper. After bankruptcy in 2009, GM went public again in 2010 around $33. At the time, Ford Motor Company traded around $15. Today, GM trades around $36.50 and Ford at $12.80. Management has provided no growth for stockholders, even though the general indices are up almost 300%. We don't have to talk about Chrysler, the automaker that saved itself several times by selling itself to anyone who would have it. Since the late 1970s, Chrysler has been the hot potato that no one wants to hold.

And it's not like car companies can't find the cash to pay the workers. Through government channels, auto manufacturers have a direct line into the pockets of taxpayers and consumers.

GM intends to spend $10 to $13 billion per year through 2025 to remake itself into an electric car company but will recoup billions of those dollars from the U.S. taxpayer. Our generous Uncle Sam already has a plan that will pay GM around $5,000 per vehicle, and then there are emission credits and domestic battery production credits. It won't be a wash, but it's better than bearing all that cost alone.

And let's not forget where GM and Ford reap the most profits: pickups and SUVs—or, rather, the consumers who buy such vehicles. It's no accident that car companies earn about a 25% profit on pickups. That's the tariff placed on pickups through the "chicken tax." In the early 1960s, the U.S. had dramatically ramped up chicken production and was selling chicken cheap in Europe. The European countries responded with a tariff on chicken, and President Johnson shot back with a tariff on pickup trucks. The European tariffs eventually faded, but the tariff on imported trucks remained, driving several importers to ship trucks to the U.S. in pieces, to be assembled domestically. Some foreign carmakers decided to build trucks in the U.S.

The situation is reminiscent of a poker game. If you sit down at the table and don't recognize the "mark," or the person likely to lose money, then it's you. We're sitting down with the U.S. government, automaker executives, and autoworkers, and we're the mark. We're supporting the car companies with tax dollars as they transition their power trains, and we're providing beaucoup bucks in excess profits because of a 50-year-old tariff. Both of these situations are controlled or mandated by the government. CEOs are cashing in by the millions, and line workers want a bigger part of the pie.

Who can blame them? At least they work and produce results, which is more than I can say for management or Congress.

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Got a question or comment? You can contact us at info@hsdent.com.