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Policy Backgrounder: US Auto Workers Threaten Strike at Big Three

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Insights for What's Ahead:

US auto workers in the United Auto Workers (UAW) union plan to strike on Friday, September 15, unless new contracts are agreed with Detroit's Big Three automakers.

- Following high auto profits over the pandemic and stagnant compensation since the 2008 financial crisis, the union demands substantial increases to wages and benefits, in addition to structural changes on tiering of employees, retiree medical benefits, and union representation at new battery plants.
- Some automakers have been slow to respond, with the UAW filing a complaint last week of unfair labor practices against Stellantis and General Motors for failing to make counteroffers. The companies are expected to push back significantly as full union demands could potentially reduce the Big Three's operating margins in 2026 by one-third.
- The negotiations also reflect tensions in implementing federal initiatives focusing on domestic production while maintaining high-quality jobs, as automakers face increasing cost pressures in their shift towards launching electric vehicle (EV) fleets.

UAW Strike Looms as Negotiations Continue

On Wednesday, September 6, the United Auto Workers (UAW) union warned of plans to strike against Detroit's automakers unless a new deal is reached by 11:59 pm September 14, when the current four-year contracts with General Motors, Ford, and Stellantis expire.

In August, UAW members voted overwhelmingly to authorize its leaders to call for a strike. Canadian autoworkers, whose contract ends on September 18, have followed, designating Ford as their target. The UAW has not indicated whether it would select one company for the strike; however, analysts suspect Stellantis could be the focus given its substantial profit margin. A UAW strike against all three automakers could involve a total of 146,000 workers but risks depleting the union's strike fund in under three months. Estimates suggest that a 10-day strike would cost the three automakers nearly a billion dollars, according to the Anderson Economic Group. During a 40-day strike in 2019, GM alone lost $3.6 billion.

For a number of years following the financial crisis, the union gave up general pay raises and cost-of-living increases to help the auto companies control costs. In addition, workers hired after 2007 no longer receive defined-benefit pensions and are offered less generous health benefits.

UAW President Shawn Fain, who was elected this spring in the first direct election by members, has set high expectations for what even he calls "audacious" demands. Those include a 46 percent pay raise, a 32-hour week with 40 hours pay, and the restoration of traditional defined-benefit pensions. Under the existing contract, top scale UAW assembly plant workers make $32 an hour, while temporary workers start at roughly $17, in addition to annual profit sharing checks that ranged this year from $9,716 at Ford to $14,760 at Stellantis. Ford's opening offer last week proposed 15 percent wage increases, lump sum payments, and improved benefits; however, it rejected demands that would raise structural costs, including on pensions and converting temporary workers to full-time.

The Big Three have a combined forecasted operating margin of 9 percent for 2023, which is expected to fall to 7.7 percent by 2026. Meeting the UAW's wage demands, including shortening the time for workers to reach the highest pay band and converting temporary workers to full-time, would reduce 2026 operating margin by 1.5 percentage points, or one-fifth. If a 32-hour work week were included, extra hiring to make up lost production would reduce 2026 margins by one-third.

An apparent sticking point in negotiations surrounds the demand for union representation at 10 electric-vehicle battery plants. Many of those plants are joint ventures with South Korean battery makers and face significant global competition to keep down costs. "These battery workers deserve the same wage and salary standards that generations of auto workers have fought for," Fain told members.

That negotiation highlights growing tensions surrounding implementing the Inflation Reduction Act's green industrial policy measures. Automakers are seeking with overhauling their fleets to reach the Administration's goal that 50 percent of all new vehicle sales be electric by 2030. However, margins are low or negative for many EVs, and Ford expects a loss on electric vehicle sales this year, though margins on these vehicles . For the union, the switch to EV production offers the possibility of new jobs in US battery factories. However, many of those production sites have been announced in right-to-work states. Further, gas and diesel engines and transmissions represent half of current vehicle manufacturing capacity, showing the importance to the union of getting a foothold in EV production.

Earlier this week, the UAW hinted at the possibility that a deal could avert the strike, acknowledging that the union will have to give up some of its demands to reach agreements. That acknowledgement is a sign of positive movement in the negotiations, raising the possibility that one automaker might reach an agreement to set a template for the others. Last week, the UAW filed charges of unfair labor practices against GM and Stellantis for their delayed counterproposals, also stating that Ford's offer fell far short of union demands. The union met with GM on Thursday to hear its response to UAW demands, while discussions are underway with Ford on wages and benefits. Stellantis has yet to make a counteroffer on wage and benefits, which it has said will come by Friday September 8.

Even if agreements are made, the new deals threaten to raise the cost of US-made vehicles, already affected by inflation. However, the UAW has argued worker pay has not been the driving force in inflation in vehicle prices. "In the last four years, the price of vehicles went up 30%," said UAW President Shawn Fain. "Our wages went up 6%. There were billions of dollars in shareholder dividends. So our wages aren't the problem."

The President downplayed the prospects of an auto strike in a Labor Day speech, saying "[n]o, I'm not worried about a strike until it happens… I don't think it's going to happen." To help stave off possible UAW strikes and apply more federal incentives to the green transition, the Administration last week announced $15.5 billion in financing to help existing factories retool for electric vehicles while retaining high-quality jobs.

Conclusion

In some ways, the negotiations with US automakers mirror labor tensions that were recently resolved for railways, West Coast ports, and UPS. In each case, union leaders have sought to recoup for workers a portion of record pandemic-era profits while addressing new concerns related to new technologies and industry shifts. Companies have responded that pandemic profits were a unique and do not represent future performance.

The negotiations also reflect tensions in implementing federal initiatives to spur domestic manufacturing as a foundation for the green transition. Companies face new cost pressures as they seek to scale down production of profitable legacy technologies and shift to new products that are currently incurring significant losses. While the Administration has showed a continued willingness to help ease those tensions with dedicated federal funding, union wage negotiations continue to push the cost of the transition higher for businesses, while at the same time the Administration has so far declined to intervene in averting a possible strike.

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