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Abstract
The United Auto Workers (UAW) strike at General Motors in the summer of 1998 had a large impact on both the microeconomy and the macroeconomy of the United States. GM's total sales, profits, and market share all have declined because of the strike. Not only did the strike have an adverse effect on GM's financial status, but the nation's total output, sales, price level, consumer spending, trade deficit, and employment were all affected. Many satellite businesses depend on GM for sales, service, products, and supplies. The combination of the losses GM incurred, the losses of satellite businesses, along with other adverse ripple effects accounts for a significant part of the decline in U.S. GDP growth.

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By Korey Harlyn Coon

The United Auto Workers (UAW) strike at General Motors in the summer of 1998 had a large impact on both the microeconomy and the macroeconomy of the United States. GM's total sales, profits, and market share all have declined because of the strike. Not only did the strike have an adverse effect on GM's financial status, but the nation's total output, sales, price level, consumer spending, trade deficit, and employment were all affected. Many satellite businesses depend on GM for sales, service, products, and supplies. The combination of the losses GM incurred, the losses of satellite businesses, along with other adverse ripple effects accounts for a significant part of the decline in U.S. GDP growth.

Many different perspectives exist on the effectiveness of and need for unions. The difficulties of the UAW at General Motors have raised questions on the use of unions in modern society and in the future. In 1998, a bitter battle raged between the union and the company. The company needed to increase efficiency to remain competitive in their market. Therefore, lower-cost outsourcing seemed inevitable to the company. Outsourcing involves the selling off of business divisions in order to have a more focused and profitable company. The very strong UAW fought for retaining quotas and union jobs. They were opposed to outsourcing as a means of cost-efficiency.

The foremost reason underlying the conflict between GM, who desired a more efficient, lower-cost company, is the utilization of major outsourcing and the UAW's attempt to force GM to retain unionized jobs. The company had been unable to take advantage of new equipment investments because of work rules put in place by unions. As GM explained, workers in many sectors work, "under a quota system that allows them to stop work once their production targets are met. This means workers can put in 4.5 to 6.5 hours but get paid for 8 hours of work. As a result, production lines are running at only slightly more than half of capacity" (Nauss, 1998). The UAW is scared that GM's goal of outsourcing its parts-supply operations is their way of ridding the company of union workers. GM asserts that this outsourcing is a necessary and vital step in order to cut its costs down to the level of its main competitors (Ford and Chrysler), both of whom already went through this spin-off process in the early 1980's. If GM does not outsource, they will have a difficult time staying competitive and will give Ford and Chrysler a comparative advantage. According to *The Washington Post*, "GM builds about 70 percent of its parts in-house, compared with 50 percent at Ford and 30 percent at Chrysler," (Brown, 1996). However, the main issue of the strike does not really involve the striking workers. The moves GM wants to make would not cause the present workers to lose their jobs (Smith, 198). The UAW was not striking for their own jobs but for the jobs of workers of future generations. This particular strike illustrates the decline in power of unions. The disadvantages unions cause in this increasingly modern, global economy are beginning to outweigh their advantages.

The direct effects on General Motors Corporation are not slight in measure. Although the strike began in June, most of the effects of the strike were felt in the third quarter of 1998. Compared to the corresponding months in 1997, GM's U.S. sales fell 38% in July and 37% in August (*Peoria Journal Star, 1998*). September saw only a 3.1 percent drop in sales compared to September 1997 (*Reuters-Detroit, 1998*). The total cost of the strike to GM in the third quarter was $1.2 billion, causing a net loss of $809 million compared to a net gain of $973 million in 1997. Worldwide market share for GM in the third quarter fell from 16.6% last year to 14.2 percent this year (Ellis, 1998). Its U.S. market share went from pre-strike levels of 31% to a level of about 21% in July and August 1998 (*Reuters-Detroit, 1998*). Obviously, the UAW strike that halted vehicle production for approximately 8 weeks had an enormous impact on GM.

The strikes also had a large ripple effect in many various industries that saw sales and profits drop because of the strikes. For example, the earnings of steel companies lowered in the third quarter because the GM strike brought demand for steel down (*Reuters-New York, 1998*). Also, H.B. Fuller, who makes adhesives, sealants, coatings, and paints saw lower earnings because of the GM strike (*Reuters-St. Paul, 1998*). Companies not even in the manufacturing sector saw effects as well. For example, *TheWashington Post's* earnings were slowed by the GM strike because of a decline in advertising revenue on its television stations and in its Newsweek Magazine (*The Washington Post, 1998*). In addition, many auto suppliers reported reduced earnings because of the GM strike. These include Dana Corp, an engine component supplier, Excel Industries, a doorframe maker, Gentex, a car mirror manufacturer, and Westcast Industries, an exhaust system maker (Eldridge, 1998).

By taking all the above-mentioned data into perspective, it can be seen that the GM strike had a negative impact on the United States' GDP, the best measurement of economic growth. As previously shown, vital statistics and data involving the impact the strike made on the GDP, production, buying power, trade deficit, and employment are evident. An effect was even felt globally as exports decreased. GM could very well have the largest influence on the U.S. economy compared to all other companies. With over $178 billion in sales per year and the employment of over 600,000 people, GM has a huge impact on the economy. Obviously, when a nearly complete shutdown of business occurs for a company providing that large of a share of the nation's wealth, GDP is significantly effected. The GM strike halted production in almost all of their plants. Therefore, a shock to supply occurred in the U.S. economy. That can be shown as an upward shift in the SRAS (short-run aggregate supply) curve in the economic model shown below in Figure 1.

According to this model, leaving all other factors (such as Federal Reserve monetary policy) constant, the GM strike would reduce Y (GDP), and raise the price level in the short-run. Stagflation

Figure 1: Aggregate Demand-Aggregate Supply Model

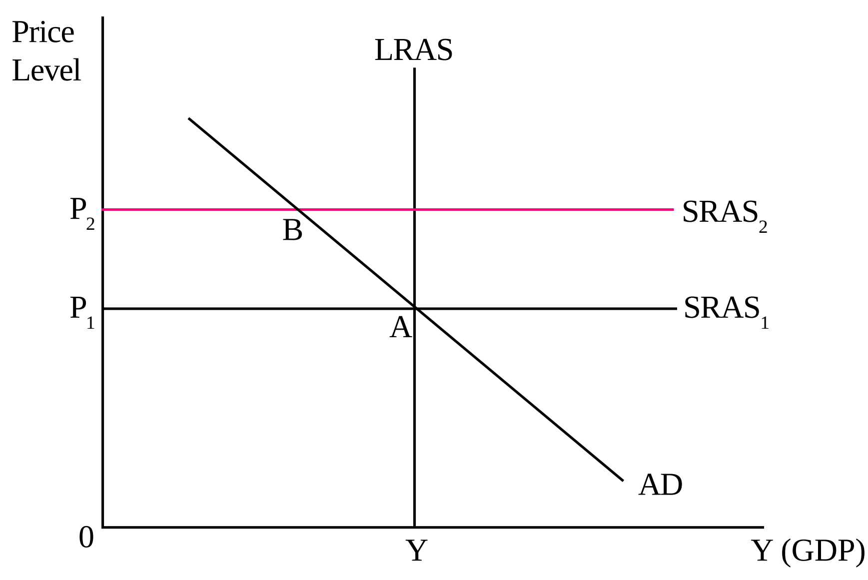
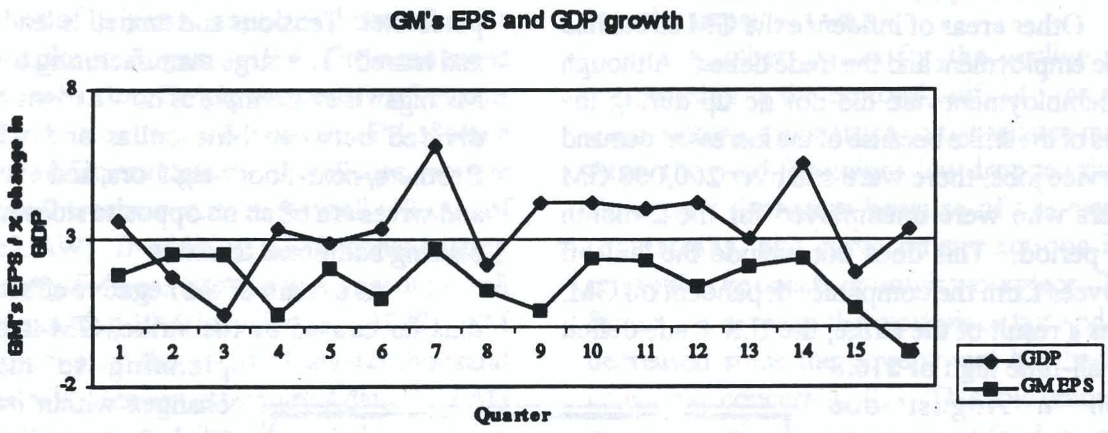


Figure 2: GM's Earnings Per Share vs. U.S. Gross Domestic Product



is the economic term for the occurrence of lowered GDP growth and a higher price level. Did this occur? Indeed it did. The strike, which occurred in the months of June and July, contributed to the lowest GDP growth in over 3 years. The GDP growth figure for the second quarter of 1998 (April, May, June) was 1.8% compared to 5.5% in the first quarter of 1998 and 4.0% in the second quarter of 1997. Some of this slowdown in growth was a result of the Asian crisis. Yet, the Commerce Department, when releasing the data on economic growth, said the GM strike took at least a full percentage point from GDP growth (*Indianapolis Star, 1998*). Still, it is hard to determine the exact effect either the GM strike or the Asian economic crisis had on the U.S. economy. However, some post-strike data gives us some insight into the effect the GM strike. When the strikes ended, GM kicked up their production level. This led to the biggest surge in industrial output in more than 14 years during the month of August (Investor's Business Daily, 1998).

Recall from the model that the supply shock would also raise the price level in the short-run. In fact, an increase in prices did occur. The personal consumption expenditure price index, taken from GDP data, grew 0.5% in the third quarter of 1998 compared with negative or minimal rises in the first part of the year (Goozner, 1998). The Labor Department recorded a .2 point rise in the CPI (1984 dollars) for all the months June-September (U.S. Dept of Labor). In September of 1998, after the effect of the strikes on prices could be felt, the Producer Price Index went up 0.3%. The Labor Department attributed this to recovery prices on automobiles due to the summer strike (LA Times, 1998).

Figure 2 compares GDP growth levels and GM's earning per share for the last 16 quarters (fourth quarter 1994 through third quarter 1998). A fair correlation exists between these two sets of data. In fact, Gregory Duffee and Steven Prowse of the Federal Reserve were so intrigued by the relationship between auto companies and GDP that they did a study using auto industry stock returns to forecast business cycles (Duffee and Prowse). They found that the auto industry can be a decent forecast for business cycles, but can never be a pure indicator of when the highs and lows of the economy will occur, especially as economies become more and more global.

GM's influence on GDP was shown by the recent strike at their plants. However, the GM strike had effects on much more than GDP. It has already been shown that the strike influenced the price level. A decline in consumption is another result of the GM strike. A drop in consumption occurred as striking workers were able to spend less and also as the total purchasing of automobiles declined. In July 1998, consumer spending fell 0.2% (CNNfn, 1998). This effect is shown on Figure 1 as part of the movement along the AD curve from point A to point B after the supply shock shifts the SRAS curve.

Other areas of influence the GM strike had include employment and the trade deficit. Although the unemployment rate did not go up during the months of the strike because of the increased demand for service jobs, there were still over 200,000 GM workers who were unemployed for the 2-month strike period. This does not include the laid-off employees from the companies dependent on GM. Also as a result of the strike, the U.S. trade deficit hit an all-time high of $16.8 billion in August due partially to increased imports of automobiles and decreased auto exports caused by the strike (Goozner, 1998). The depreciation of the Japanese yen also caused car imports to go up because as the yen decreased in value relative to the U.S. dollar Japanese products became cheaper compared to U.S. products.

The scope of the GM strike goes beyond the financial and economic effect. A huge social impact was felt as well. As the over 200,000 strikers went from $1,000 a week with overtime to a meager $200 to $300 a week in unemployment, hardships resulted. It is easy for workers to become bored and depressed. The downtown cafes and stores where workers used to congregate during lunch break and after work quickly became barren as money became scarce. Changes in family relationships also resulted from the strike. Tensions over finances become an issue during strikes and can lead to friction between spouses. On the other hand, the extra time a striking family person has could allow them more time with their children and/or spouse that they would not normally have. During most strike periods, birth rates go up nine months after a strike has begun. Without a doubt, crime also increases during a strike period. People lose their ambition, morals, and wealth when they are unable to work. Moreover, a strike exacerbates the already sensitive relations between union members and management personnel. Tensions and anxieties lead to tempers and hatred. The large manufacturing town of Flint, Michigan is an example of how a town can become divided between blue-collar and white-collar. Brothers, next-door neighbors, and even husbands and wives are often on opposite sides of the fences causing additional tensions.

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As a result of the negative effects discussed thus far caused by the strike, GM is making and planning to make many changes within its company. Their first priority is to regain their market share and financial strengths. To retrieve their market share, they are offering more discounts and rebates to attract customers back to their products. Besides the short-term goal of returning its U.S. market share to a pre-strike level of 31%, GM has many other plans in order to ensure the long-run profitability of the company. Presently, GM has too many product lines, supplies too many of its own parts, has an overabundance of workers, has untapped productivity capabilities and has bad union relations. They are currently taking measures to decrease the total variety of automobiles offered while still bringing new innovative models into the market. GM simply must weed out the least profitable models at a faster rate than it is adding new models.

The second problem, having too many of their suppliers within the company, is a sticky issue. Outsourcing was part of the reason for the UAW's strike. Yet, to stay competitive and survive in the modern, global economy, they have to cut costs by outsourcing. As was mentioned earlier, their competitors Ford and Chrysler did much of their outsourcing in the early 1980's. Because GM is trying to currently do this outsourcing the union difficulties are unique to their company. Obviously, because of unions, outsourcing will have to be a slow process. However, GM has already begun to sell off some of its parts suppliers. Soon after the end of the strike on August 3, 1998, GM announced its plans to sell off its Delphi Automotive Systems parts division. Not only will it relieve GM of some of its most inefficient business, it will also remove over 200,000 workers from its payroll (53,000 of which are UAW). In addition, GM is consolidating five marketing divisions into one in order cut payroll costs by eliminating 1000 jobs (Bartash, 1998). GM has also announced the layoff of several thousand employees of its German subsidiary Adam Opel AG in the heavily unionized Europe (WSWS, 1998).

In an effort to increase productivity, GM is re-configuring their manufacturing process by making it faster and more flexible. They recently announced a $1.5 billion engineering upgrade going toward the consolidation and modernization of its operations. As far as union relations are concerned, it will take careful management to achieve its goal of cutting costs while appeasing the UAW. Gradual outsourcing and the elimination of jobs through retirement as opposed to lay-offs would be the best way.

All of this in mind, one might ask where the role of unions in the U.S. economy is headed. Certainly, the influence of unions is decreasing. Nonetheless there will always be a place for unions, even if their influence is reduced from their past place of power. Mark Wilson, a Labor Economist for the Heritage Foundation said, "There will always be a need for unions because there will always be evil employers," (Wilson, 1998). In 1991, 16% of U.S. employment was unionized. Wilson claims the percentage has declined to 9.5% now and expects it to soon be at 5%. In a more specific example, the UAW has lost over half its members since 1979 (Nauss, 1998). What are the reasons for this? First, in the highly competitive global market, companies search for non-union labor in order to cut employment costs. In addition to companies going elsewhere for labor, some union members are forced to disband because they are simply too expensive for their employers. James Martin, Senior VP of Human Resources at TWA, explains that in order to be an employee you have to have an employer (Martin, 1998). He is saying that union members have to realize that companies have to make money in order to pay out wages.

Another reason for the decline in union membership is the sectoral shift of jobs from the manufacturing industries to the service industries. Also, the need for unions has dropped drastically since their formation because of the many laws, regulations, and government actions in place preventing an unsafe or unfair workplace. The need for unions to make the workplace fair and safe has decreased since the government has had a more active role concerning this. This role unions played was one of their main purposes for formation and existence. The last reason for the slippage in U.S. union membership is their lack of success in some recent strikes or negotiations. For example, the UAW dispute at Caterpillar that lasted over six years was a complete loss for the UAW. Granted, although Caterpillar is smaller in size than GM (only 12,000 union members) and does not have as significant of an economic impact, it still stands as an example for companies experiencing strikes in the future. Caterpillar hired temporary and replacement workers that resulted in the company making record profits quarter after quarter while the strike took place. The UAW did not have much of a leg to stand on in their negotiations. These kinds of results show how some companies can ward off union resistance, thus weakening the entire union system in the U.S. In the increasingly competitive global economy, high paying union jobs are rapidly declining in the United States' workforce.

To conclude, the recent strike at GM confirmed that it is a large enough company to have a significant impact on the U.S. economy, society, and unions. Even though the strike left little solved, it brought out information that people might have been overlooking. GM realized that its new strategies for growth and realignment would not be easy to initiate. People were also shown that the U.S. economy is not invincible because of the fragility of GDP growth. Also, many more began to question the advantages of unions in an ever-changing, cost-cutting, global economy.

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