
November 19, 2010

Unions Yield on Wage Scales to Preserve Jobs

By LOUIS UCHITELLE

MILWAUKEE — Organized labor appears to be losing an important battle in the Great Recession.

Even at manufacturing companies that are profitable, union workers are reluctantly agreeing to tiered contracts that create two levels of pay.

In years past, two-tiered systems were used to drive down costs in hard times, but mainly at companies already in trouble. And those arrangements, at the insistence of the unions, were designed, in most cases, to expire in a few years.

Now, the managers of some marquee companies are aiming to make this concession permanent. If they are successful, their contracts could become blueprints for other companies in other cities, extending a wage system that would be a startling retreat for labor.

Though union officials said they could not readily supply data on the practice, managers have been trying to achieve this for 30 years, with limited results. The recent auto crisis brought a two-tier system to General Motors and Chrysler. Delphi, the big parts maker, also has one now. Caterpillar, back in 2006, signed such a contract with the United Automobile Workers.

The arrangement was a fairly common means of shrinking labor costs in the recession of the early 1980s. At the end of the contracts, however, wages generally snapped back up to a single tier. At G.M., Chrysler, Delphi and Caterpillar, the wages will not be snapping back.

Nor will that happen for workers at three big manufacturers here in southeastern Wisconsin — where 15 percent of the work force is in manufacturing, a bigger proportion than any other state. These employers — Harley-Davidson, Mercury Marine and Kohler — have all but succeeded in the last year or so in erecting two-tier systems that could last well into a recovery.

“This is absolutely a surrender for labor,” said Mike Masik Sr., the union leader at Harley-Davidson, the motorcycle maker, not even trying to paper over the defeat. His union recently accepted a new contract that freezes wages for existing workers for most of its seven years, lowers pay for new hires, dilutes benefits and brings temporary workers to the assembly line at even lower pay and no benefits whenever there is a rise in demand for Harley’s roaring bikes.

When the proposal was put to a vote recently, Harley’s blue-collar employees, most of whom belong to the powerful United Steelworkers, approved it by a decisive 53 percent to 47 percent.

Just up the highway, Mercury Marine, which makes outboard motors and marine engines, has a similar agreement with its factory workers. And the Kohler Company, another manufacturing giant in southeastern Wisconsin, famed for its gleaming bathroom fixtures, is negotiating a contract using Harley’s pact as a template and, so far, getting much of its way.

“The simple economic fact is that we overproduced and now we have to burn off the excess,” Matthew S. Levatich, president and chief operating officer of Harley-Davidson, said in an interview, speaking in effect for all three manufacturers. “You could say,” he added, “that the new contract is a recognition of this truth on the part of our workers.”

Nowhere else in the country has quite so tough a contract emerged at companies that are profitable, the A.F.L.-C.I.O. says.

“Management clearly has the upper hand in negotiations because of the employment situation,” Milwaukee’s mayor, Tom Barrett, said.

Mr. Barrett ran as the Democratic candidate for governor in the Nov. 2 election, losing to Scott Walker, a Republican in a state that usually votes Democratic. In interviews, several blue-collar workers said they had voted Democratic in 2008 and switched to Republican this time — mimicking the blue-collar political shift throughout the Midwest — because the Obama administration, in their view, had failed so far to help them.

The breakthrough labor agreements reflect this antipathy. They capitalize on a particularly difficult set of circumstances for blue-collar workers. In response to falling demand, the big manufacturers here have cut production and laid off thousands of employees. Many people lost jobs that had paid $22 an hour or more. Few can get work that pays as well, if they can get steady work at all, given an unemployment rate of nearly 8 percent in the area. That makes holding a job a higher priority than holding the line on pay and benefits, much less pushing for improvements, Mr. Masik said.

Increasing the pressure, Harley-Davidson and Mercury Marine, a unit of the Brunswick Corporation, publicly declared that they would move factory operations to lower-cost American cities — Stillwater, Okla., for example, or Kansas City, Mo. — if the unions failed to accept the concessions set forth in remarkably similar contracts. One provision denies laid-off or furloughed workers their old pay if they are called back; they must return as second-tier employees, earning $5 to $15 an hour less.

Mercury Marine’s nearly 900 hourly workers voted last fall to reject such terms, but a few days later, they voted again and accepted them. They reversed course after the company announced that its headquarters factory, in nearby Fond du Lac, would be closed and operations consolidated in Stillwater. The Stillwater factory is now being closed instead.

Kohler officials have stopped just short of saying that they, too, will go elsewhere. They declare that if their proposals are not accepted, then “it would be very difficult and challenging for us to sustain manufacturing operations" in Sheboygan County, including those in the town of Kohler, 50 miles north of here, named for the family that founded and still dominates the company.

The alternative for the workers is to strike, thus challenging the companies in their stated determination to relocate — in effect, calling their bluff. The International Association of Machinists at Mercury Marine and the United Steelworkers at Harley-Davidson declined to take that risk, and so has the U.A.W. at Kohler, so far.

The workers themselves are convinced, their union leaders say, that the companies are prepared to move factories from the Milwaukee area, where all three came to life decades ago.

"The company stuck to its agenda," Mr. Masik said of the Harley negotiations, his voice rising, "and we ended up accepting their agenda."

Harley-Davidson actually has two very similar new contracts, one with the Machinists, who represent workers at an assembly plant in York, Pa.; the other with the Steelworkers at an engine-and-transmission factory in Greater Milwaukee. The York agreement, ratified last year and now in effect, has shrunk the core work force there by more than half, to nearly 800 full-timers, while adding 300 "casual" employees, who are union members without benefits.

The Milwaukee agreement, recently ratified, will shrink the full-time payroll to 900 from 1,250 today and more than 1,600 before the recession. Up to 250 "casuals," as in York, will be used to handle surges in demand for Harley bikes. While hourly pay under the current contract averages $31 an hour, that drops to $25 for the second tier, which becomes the only tier once all the veterans have left or retired. Casuals, in contrast, get $18.50 an hour.

The new Milwaukee contract kicks in when the current agreement expires on March 31, 2012. The union balked at negotiating so far in advance, Mr. Masik said, but conceded after the company insisted it would otherwise use the intervening months to prepare to move operations elsewhere, perhaps Kansas City. To guarantee support, Harley also incorporated into the contract $12,000 bonuses for its steelworkers, including those laid off.

Harley's president said the recession left no choice but to reorganize. Motorcycle sales are down 40 percent from their peak in 2006, Mr. Levatich said. Cutting the core staff allows Harley to slow the line during the winter months of lean demand and add "casuals" when demand picks up in the spring and summer.

"What we are doing is not mean-spirited," Mr. Levatich insisted. "We have to retool if we want to survive. We should have started doing this, in small steps, 20 years ago."