Lessons From Three UAW Locals

Craig Livingston
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Abstract
[Excerpt] When plants close down, workers are usually desperate for a remedy. In these tragic circumstances, the prospect of a worker buy-out to keep the plant operating has overwhelming appeal. The role unions play can determine whether or not the rescue attempt is successful.

If unions stand on the sidelines debating the merits of a buyout attempt while financiers and corporate managers put together a deal, they will pay dearly for their passivity. If they take the lead in organizing the rescue attempt, however, they can create viable enterprises that will give their members job security.

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South Bend Lathe in Indiana represents one of the most dramatic examples of an ESOP gone wrong. Because the union responded to a management initiative at South Bend rather than organizing a buy-out on its own, the buy-out deal included terminating the union pension plan. The ESOP plan also prohibited employees from voting their stock. The management at South Bend Lathe has recently shifted a significant portion of the company's production to South Korea.

At Dan River, Inc.—a 12,000-employee, Virginia-based textile manufacturer—an ESOP was used by management as a defensive tool against a hostile takeover. While the managers succeeded in keeping their jobs, the union workers had their pension plan terminated, received a class of stock that was ten times more expensive than management’s stock and gained absolutely no influence over their company.

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The experience of three UAW locals suggests that strong and active unions can structure companies that maximize worker ownership, control and democratic participation on the shop floor. More importantly, by becoming the dominant force in the buy-out, unions can effectively protect their members' jobs and structure a fairer deal for the workers.

In August 1980, when General Motors announced it would sell or close its Hyatt Roller Bearing Plant in Clark, New Jersey, the leaders of UAW Local 736 thought of buying the plant as a last ditch effort. They asked their members to fund a feasibility study—the first step in determining if an enterprise is economically possible. The local membership was divided, and the proposal was defeated by sixteen votes out of nearly 1500 votes cast. Failure to get the full support of the members at this early stage weakened the influence the union was able to exercise throughout the process.

At Hyatt-Clark, however, local General Motors executives joined with the union leaders to form a Job Preservation Committee with every member voluntarily paying $100 to join. Soon the committee had $120,000 and was ready to begin the process.

After a corporate law firm was hired, a major consulting firm did the feasibility study, which showed that the future of the company was promising if wages and benefits were reduced, the workforce diminished and management made more efficient. With the favorable feasibility study, $53 million was obtained from local banks, insurance companies, and General Motors to buy and operate the company.

When the company was formed in 1981, the workers took a cut in pay and benefits in exchange for a bonus plan and an incentive plan written into the collective bargaining agreement. Three out of thirteen seats on the Board of Directors were allotted to union members, and stock was distributed on the basis of service. In 1991, when the major loans are paid off, the union will have increased its number of seats on the Board of Directors to six, the same as management, with the thirteenth selected jointly.

Although the buy-out has kept 1400 employees working, the involvement of corporate attorneys in the takeover prevented the workers and their union from having control of the deal and, hence, of the new company. This has resulted in the continuation of the internal struggles between union and management that characterized the company prior to the takeover. The struggle has been between management wanting the usual hierarchical, undemocratic system and the union pressing for as much worker control as possible. The union has continued with some success to work for 1983, the un of the comp. The collec on January control over wage increa tools of coll corporate fin has never b.

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suggests that strong and consistent worker participation on the shop floor that maximizes worker voice and maximizes worker control over the company as a last resort to fund a feasibility study is economically sound, and the proposal was 1500 votes cast. Failure at this early stage weakened the union's strategy throughout the process.

General Motors executives joined the Retention Committee with the committee's active support of the International Union, the local union led the buy-out from beginning to end. It was the local union's leaders, working with their lawyers, who sculpted the new company. From the very beginning, the union and its leaders were in charge. The local management, the corporate lawyers, the accountants, and the other consultants were never the decision-makers. The local union raised the money to hire the professionals, approached the lending institutions, and lined up bi-partisan political support in Washington and Harrisburg.

As a result of the broad political and community support Local 271 gathered for the buy-out, one-third of the debt was borrowed at an average fixed interest rate of 4.5% annually, with a partial deferral of principal repayments. Through this leadership role the union chose the president of the company, negotiated his salary, nominated four of the seven directors on the Board, and assured that the stock of the Atlas Chain Company would be distributed on the basis of service rather than salary. In August of 1986, the union membership will, at its regular meeting, choose the entire Board of Directors of the company on the basis of one person, one vote.

The union-picked president of the company has demonstrated a management style that is all too unusual in American business—he actually is the leader of the company. His and the union's leadership has made the first year of Atlas Chain Company's
financial life far better than could have been predicted during the six-month period the plant was shut down prior to the takeover. At the end of 1984, Atlas had some 80 people working and was hiring.

At Seymour Specialty Wire Company (formerly Bridgeport Brass), UAW Local 1827 initiated the buy-out as a result of a suggestion by the Connecticut Area Director of the UAW, Tom Curtin. The financing for the feasibility study and the consultants was obtained from the seller of the company. An elected steering committee was chosen and, in October of 1984, five of the nine directors were elected by all of the employees of Seymour. (Four of five of those directors were members of management.) At this writing, the employee buy-out at Seymour is scheduled for early 1985—amid high hopes that 200 of the company’s 250 union employees will retain their jobs. Both the new tax law, which makes loans to ESOPs very attractive for banks, and the experiences of its sister UAW locals have made Local 1827’s path to the buy-out far smoother.

**Lessons**

The lessons from the experience at Hyatt, Atlas and Seymour are as simple to state as they were difficult to accomplish. Worker ownership, control and shop-floor participation will be achieved only through strong, democratic unions.

Practically, this means unions must initiate and continue to be the leading force in the buy-out. The union alone, and not management, should raise the funds to hire the consultant for the feasibility study. If the study determines that the buyout is feasible, it is the union that must assemble the team of accountants, corporate lawyers and investment bankers to put the deal together.

The union must hire the best possible management team and negotiate the salaries they will receive. The structure of the ESOP and of the new company must institutionalize workers’ ownership, control and participation.

The main fiscal task the union faces is to persuade lending institutions that the proposed new company, with worker ownership and control, will be well-run and profitable. The raising of capital is a critical task that should never be delegated by the union and its labor counsel. More than any other part of the transaction, these negotiations with lenders ultimately determine the nature of the company and the power relations within it. ESOPs need to be studied and mastered by America’s unions. Local unions should be able to go the International Unions for...
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advice and assistance. Every international union has the potential for becoming a resource center and planner. Ultimately, ESOPs can become one part of a capital strategy that labor should master to empower unions and workers.

The UAW workers at Hyatt-Clark Industries, Atlas Chain, and Seymour Specialty Wire provide an important lesson for the labor movement. Unions that are informed about the potential of employee ownership can play an important role in dealing with plant closings and capital flight.

How ESOPS Work

In a worker buy-out, an Employee Stock Ownership Plan (ESOP) may be illustrated as follows:

The workers of the closing company (we’ll call it “Oldco”) establish a new company (“Newco”), which, in turn, creates an ESOP Trust. The ESOP Trust borrows $100 million from a bank.

(The 1984 tax law provides that commercial banks can take a 50% deduction for interest income which they receive for loans made to ESOPs. As a result, certain asset-based lenders are offering commercial loans at interest rates as low as 77% of the prime interest rate. The loan is secured by the assets of the old company and a guarantee of repayment by the new company.)

The ESOP then uses the loan to purchase $100 million worth of Newco stock. The $100 million Newco receives for the sale of this stock to the ESOP is used to buy Oldco’s plant, equipment and inventory for $80 million, and $20 is left for working capital. Each year thereafter, Newco makes a contribution to the ESOP so that the ESOP gradually pays off the bank loan. As the loan is repaid, stock passes into accounts for individual workers.

Unlike conventional financing mechanisms, an ESOP permits a company to repay both principal and interest in pre-tax dollars, resulting in obvious tax savings to the new company.