Class War by Other Means

September 12, 2016

In 2008, the governments of the city of Chattanooga, Hamilton County, the state of Tennessee, and the United States all collaborated to provide Volkswagen (VW) with a $577 million subsidy package, the largest taxpayer handout ever given to a foreign-headquartered automaker in U.S. history. The bulk of the subsidy package, $554 million, came from local and state sources. The federal government also threw in $23 million in subsidies, bringing the grand total of taxpayer money that VW received in 2008 to $577 million.

According to the Subsidy Tracker at the website of watchdog group Good Jobs First, the package provided to VW included "$229 million from the state for training costs and infrastructure; $86 million in land and site improvements from the city and the county; state tax credits worth $106 million over 30 years; and local tax abatements worth $133 million over the same period." In exchange for this massive infusion of public wealth onto Volkswagen's corporate balance sheets, the company promised to create 2,000 jobs in Chattanooga, bringing the price tag for each promised job to $288,500.

When asked to respond to concerns about VW's record-shattering subsidy package, then-Tennessee Governor Phil Bredesen, a Democrat, unabashedly replied, "I don't know whether it's fair that a Mercedes Benz costs $90,000, I just know if I want one that's what I've got to pay." Tennessee's U.S. Senator Lamar Alexander, a Republican, applauded the deal as another significant mile marker on the way towards "Tennessee's future" of becoming the "the No. 1 auto state in the country."

The political logic is pretty clear: massive subsidies are just the price that the public is expected to pay in exchange for the limited number of jobs made available to them within the "free enterprise" system. The VW subsidy deal is just one example of how large corporations leveraged the widespread suffering caused by the Great Recession, the longest and deepest economic crisis since the 1930s, to bleed the funds of state governments in exchange for jobs. In a 2013 report studying the rise of "megadeals"—subsidy deals with a local and state subsidy cost of $75 million or more—Good Jobs First found that "since 2008, the average number of megadeals per year has doubled (compared to the previous decade) and their annual cost has roughly doubled as well, averaging around $5 billion." This was certainly the trend in Tennessee, where VW was the first of three separate megadeals negotiated in the state from 2008 to 2009. The same year that the VW deal was announced, Hemlock Semiconductor received over $340 million in government giveaways to develop a $1.2 billion polycrystalline silicon manufacturing plant in Clarksville, Tenn. By 2014, the plant was shuttered and all 500 promised jobs evaporated. Wacker Chemie received over $200 million in subsidies to build a billion-dollar plant in Bradley County, just outside of Chattanooga, to produce materials used in solar panels and semiconductors. Another megadeal was brokered with

Amazon, which received over $100 million in local and state subsidies to build a distribution center in Chattanooga's industrial development park, which is shared with the Volkswagen plant.

The Bipartisan Consensus

The subsidy deals with Volkswagen, Hemlock, Wacker, and Amazon were all originally negotiated by Tennessee Governor Phil Bredesen, a Democrat, and U. S. Senators Lamar Alexander and Bob Corker, both Republicans, and was approved by the Tennessee General Assembly, which in 2008 came under Republican control for the first time since Reconstruction. These deals were drafted in collaboration between state politicians (both Democratic and Republican) and business elites in total secrecy. Tom Rowland, mayor of Cleveland City in Bradley County, the location for the Wacker plant just outside of Chattanooga, revealed the frequency of such secret meetings: "You don't know how many times we have slipped Gov. Bredesen, Sen. [Bob] Corker and [Tennessee Economic and Community Development commissioner] Matt Kisber into the Chamber office."

By 2010, the state was firmly under the control of a Republican governor, Bill Haslam, and a Republican super-majority in the General Assembly. By 2012, the Republicans held over two-thirds of all state government offices in what they called a "super duper majority." The parties might have changed, but the love for corporate welfare did not, as the Republicans continued to build upon and extend all of the agreements from the previous governor's administration.

In fact, President Obama came to Chattanooga to join in on Tennessee's bi-partisan economic consensus. During his 2013 jobs tour, the President delivered a speech at the Chattanooga Amazon distribution facility, praising the company for doing its part to restore the middle class through "good jobs with good wages." The starting wage at the Chattanooga warehouse is $11.25 an hour.

"Good Jobs" and Concessionary Unionism

Shouldering the Subsidy: Tennessee's Regressive Tax System

Tennessee has one of the most regressive tax systems in the country. Currently, Tennessee has no state income tax and a constitutional amendment, passed by referendum in 2014, prevents the state government from ever establishing an income or payroll tax. Moreover, earlier this year the state legislature passed a bill to phase out the state's tax on dividends and income from bonds by 2022, resulting in millions of dollars in tax revenue being stripped from city budgets. This will likely result in city governments raising revenue by hiking property taxes, further shifting the burden of raising revenues for the state onto the working and middle classes.

The lack of an income tax means that the Tennessee state government relies to a large degree on sales taxes to raise revenue. The sales tax is especially regressive due to the state's refusal to exempt essentials like groceries (though groceries are at least taxed at a lower rate than the overall sales tax), while completely exempting luxury goods such as "attorneys' fees, services such as haircuts and massages, and goods for horses and airplanes." Additionally, the state fails to offer any tax credits to low-income taxpayers to offset either sales or property taxes.

This means that the primary form of wealth for the working and middle classes—a family home—is taxed to provide the vast majority of revenue for local governments. Meanwhile, major forms of wealth for the ruling class—corporate stocks and bonds—are not. Tennessee's working and middle classes are being squeezed under the highest average combined state-local sales tax rate in the country, while the owners of capital skirt any responsibility for paying their share.

This regressive system is compounded with every tax abatement given to a large multinational corporation, such as Volkswagen. When the state increases its reliance on sales taxes to offset the holes punched into the budget by corporate tax breaks, this increases the overall tax burden on the poor and working class. The only other option to raising revenue through regressive taxes is for the state to cut services. Cuts to services, such as healthcare, public education, infrastructure, and transportation, are just another way to shift the burden onto the working class. While public services diminish, highly profitable multinational corporations, such as Volkswagen, benefit from direct state supports, like state-financed job training and capital-improvement grants, which improve their bottom-line and further entrench wealth inequality.

The federal tax system, on the whole, is progressive, according to a 2016 Tax Policy Center report. Economists with the Federal Reserve Bank studied the impact of state taxes on income inequality and found that Tennessee's regressive tax system "reverses around one-third of the compression [in the income spread] caused by federal taxes"—the most of any state in the country.

According to a 2015 study by the Center for Automotive Research, auto workers at VW in Chattanooga had the lowest hourly pay and benefits of any employees in a U.S. car factory. The starting hourly wage rate for an assembly line worker at Volkswagen is about $15 an hour, or approximately $31,000 a year. A full-time production employee can top out their pay in seven years at a wage rate of $23 an hour, or about $48,000 a year. That makes the top pay at Volkswagen less than 80% of the estimated annual median income for Hamilton County. Third-party contractors hired by Volkswagen to work on the line in the plant and the network of auto suppliers servicing the factory pay even lower hourly wage rates. Yet U.S. Senator Corker describes production jobs at VW as "good paying," Hamilton County Mayor Jim Coppinger prefers the term "family-wage jobs," and Chattanooga Mayor Andy Berke describes VW as providing "living-wage jobs" that are helping to "build our middle class."

Tennessee's billionaire governor, Bill Haslam, who happens to be the richest politician in the country, has expressed little concern over whether or not the jobs brought to the state were high paying. In fact, it appears that he is proud that they are not. In official material directed to foreign companies by the Haslam administration, the governor touted a pro-business environment in which companies can exploit a "low-cost labor force" thanks to the state's "very low unionization rates." (That's alongside the boon of state and local taxes that are "some of the lowest in the region.")

Since the Great Recession, the United Auto Workers (UAW) has been overseeing the erosion of gains made by auto workers in previous decades. The union has been able to maintain higher wages and benefits for the auto workers they represent when compared to manufacturing overall, but the difference has shrunk dramatically in recent years. According to the Detroit Free Press, "Back in 1960, a Detroit Three UAW autoworker was paid 16% more than the average U.S. manufacturing worker. By the early 2000s, that wage gap had grown to nearly 70% in favor of the UAW worker, but shrank back to 33% by this year."

The union, to be sure, is operating under difficult conditions in the auto industry: trade deficits in manufacturing that were growing even prior to the Great Recession, the relative increase of jobs in parts plants that pay less than assembly plants, the growth in auto employment at nonunion “transplants” (belonging to non-U.S. headquartered companies like Volkswagen and Toyota), and the rise of temp agencies and “just in time” production as part of the overall lean production management processes in the industry. All of these changes, however, have taken place in the context of the UAW’s top-down brand of business unionism, which has led to its deeply concessionary approach to collective bargaining and new organizing. For example, an Economic Policy Institute (EPI) report jointly authored by a former UAW leader, a former vice president from Ford, and an academic expert on “workplace innovation,” lauded the UAW for being “a full partner for more than a decade in experimenting with innovations in work organization” and working with corporate management at the Big Three to reduce a “major portion” in the “cost differential” with non-union foreign-headquartered auto makers:

> In 2005, there was a gap of $3.62 between the average hourly wage of $27.41 at Ford and $23.79 for the transplants. When fringe benefits, legally required payments, pension benefits, retiree health care, and other post-employment labor costs are added in, the gap grew to $20.55 ($64.88 versus $44.33) …. In 2010, following the 2007 introduction of the entry wage and concessions made during the 2009 government bailout, the wage gap stood at $4 ($28 for Ford versus $24 for the transplants), and the gap when including fringe benefits and post-employment costs stood at $6 ($58 for Ford versus $52 for the transplants).

Incredibly, the UAW leadership has continued to proudly highlight how contract concessions have induced an ever-closer wage convergence between transplants—located largely in low-wage, Republican-dominated states in the southeastern United States—and U.S.-headquartered automakers in historically union-dense strongholds, like Michigan. They hold this up as proof of their labor-management partnership credentials while simultaneously championing the auto industry as lifting up “good jobs” and “the middle class.” Despite the reality of declining wages, benefits, and jobs, the public appears to believe the same. According to an analysis of several polls by the National Employment Law Project (NELP), a majority of the general public believes that “manufacturing is the most important job sector, in terms of strengthening the economy.”

At the Chattanooga VW plant, workers also face a brutal lean-production management model on the assembly-line floor that works to squeeze higher productivity from a scant and beleaguered workforce. The working conditions on the assembly line are so physically demanding that many production workers cannot see working at VW as a long-term career. Yet in 2013, when the UAW announced that they were seeking to organize the Chattanooga plant, the union decided against organizing around the salient issues in the plant and instead chose to frame their entire organizing campaign around collaboration with the company to form the first German-style “works council” in the history of the United States. The UAW’s strategy was exclusively predicated on advancing what the union championed as an innovative form of labor-management partnership.

The UAW even went so far as to sign a neutrality agreement with Volkswagen which committed the union to “maintaining and where possible enhancing the cost advantages and other competitive advantages that [Volkswagen] enjoys relative to its competitors.” When pressed to account for why the union would make such a shocking concession, then-UAW president Bob King issued this reply:

> Our philosophy is, we want to work in partnership with companies to succeed. Nobody has more at stake in the long-term success of the company than the workers on the shop floor, both blue collar and white collar. With every company that we work with, we’re concerned about competitiveness. We work together with companies to have the highest quality, the highest productivity, the best health and safety, the best ergonomics, and we are showing that companies that succeed by this cooperation can have higher wages and benefits because of the joint success.

Continued Investments, Too-Big-To-Fail, and Too-Big-To-Jail

In July 2014, Volkswagen announced that it was planning to invest $600 million into expanding the Chattanooga plant, adding additional assembly lines for the production of an SUV for the North American market. According to local news reports:

> More than a third of that investment will initially come from state and local governments who agreed to pump more than $230 million of upfront tax dollars into the project to woo VW into expanding in Chattanooga rather than at its other major North American plant in Puebla, Mexico, where labor costs are far lower. Combined with other property tax breaks, TVA incentives, road projects and other potential tax credits, Volkswagen could qualify for more than $300 million of grants, credits and other government assistance over the next decade….

The expansion of the Chattanooga plant brings the total subsidy package provided to Volkswagen up to about $877 million dollars. Following the official announcement of the expanded subsidy deal, Tennessee House Majority Leader Gerald McCormick, whose district includes Chattanooga, told the press, "I think it is a good investment and we will convince the Legislature of that because there are just so many ripple effects from this investment that will help so much of our state." The ripple effects of such an enormous single investment took on a completely different character with the announcement, in September 2015, that the EPA was fining Volkswagen for installing "defeat devices" on their automobiles, allowing the diesel cars produced at the Chattanooga plant to temporarily hide the emissions they produce.

Inequality's Racial Disparities

According to the 2015 report "State of Black Chattanooga," by the Ochs Center for Metropolitan Studies, the median wealth of white households in Tennessee bounced back in the years after the Great Recession, increasing by 2.4% between 2010 and 2013, to $141,900. Contrast that with the median wealth of Black households in the state, which continued to spiral down in the same time period, falling more than 33% to $11,000.

The arrival of Volkswagen, Wacker, and Amazon has failed to fundamentally alter the overall low-wage economy in Chattanooga and Hamilton County. When these "megadeals" combine with the further subsidies provided to land developers for luxury condos and apartments in Chattanooga's urban core and the expanding priority placed by local governments on police and jails, the results are gentrification, displacement, and incarceration. Currently, 27% of Chattanoogans overall live in poverty, almost double the national average, and that number jumps to 36% in the city's Black community. In the eleven lowest-income neighborhoods in the city, in which about three-quarters of residents identify as Black, the poverty rate is 64%. Only 17% of the Tennessee population is Black, yet Black people are 44% of our state's prison population.

Concerned Citizens for Justice, a grassroots organization dedicated to Black liberation in Chattanooga, describes this underlying systemic approach by politicians and business leaders as "an arrangement that is good for rich financiers and developers and bad for Chattanooga's working class and oppressed majority." The numbers certainly bear out their analysis.

Since the EPA's announcement, VW has acknowledged that it produced over 11 million diesel vehicles worldwide that contained software allowing them to cheat nitrogen oxide tests. This software, installed on 2009–2015 diesel VWs, reduced emissions while the cars were hooked up to testing devices, only to let pollution "spill out of the tail pipe at up to 40 times the allowable level" when cars were on the road. An analysis performed by the Associated Press (AP) estimates that about 100 people in the United States have likely died as a result of the pollution produced by VW's diesel Passat over the last few years. AP's analysis estimates that the death toll in Europe is substantially higher, likely resulting in hundreds of deaths for every year the cars were on the road.

After the EPA's announcement in September 2015; VW's stock price plummeted and VW Group CEO Martin Winterkorn resigned. Volkswagen Group of America President and CEO Michael Horn admitted, during his official testimony before Congress in October, that the defeat devices were installed for the express purpose of beating emissions tests. In November 2015, the Chattanooga VW plant stopped the production of the diesel Passat. More recently, VW has agreed to a partial settlement with federal and state authorities of over $15 billion as new lawsuits and government investigations from around the world continue to make headlines. How have the local and state government responded to the news of VW's rampant criminality and corruption? Speaking to reporters about VW and the scandal, Governor Haslam said, "We're married to them. We want this plant to be a success."

Hamilton County Mayor Jim Coppinger, meanwhile, told reporters, "We need for the plant to be successful. It's important to our economy." The state is too invested in VW—politically and financially—to be in any position to truly hold the company accountable for its actions.

A New Road Forward

Put it all together and we have a formula for maximizing corporate profits that mixes equal parts political opportunism with class collaboration. Following the Great Recession, voters were desperate for jobs. Politicians, campaigning on bringing jobs to voters, are willing to provide massive subsidies to companies willing to locate in their voting districts. The union, desperate to organize new bargaining units from which to collect dues and to be seen as a legitimate partner with corporate and political elites, actually agrees to "maintain" and "enhance" the competitive advantages corporations gain by pushing private business costs off onto the public while providing jobs with lower wages, reduced benefits, and deteriorating working conditions. Meanwhile, the public believes they are getting "good jobs," while the actual quality of those jobs continues to decline. The companies laugh all the way to the bank. With their backs to the wall, unions like the UAW can no longer put off organizing auto makers and suppliers that choose to locate their plants in the South, but they will not succeed by promising to "work in partnership" with the companies. Labor organizers in the South will usually be working in an environment in which both business and government are hostile to unions. When the UAW narrowly lost the VW vote in 2014, the union should have learned a valuable lesson. The company might have formally committed to being "neutral," but the business and political elites in the South made no such agreement. If unions fail to win over the broader working class, they have no chance of winning representation elections—especially in states like Tennessee, where only 6% of all workers belong to a union, and in cities like Chattanooga, where the unionization rate is even lower, at an abysmal 3.4% of all workers.

To win, unions will not only have to jettison the pipedream of courting management with promises of maximizing worker productivity and containing costs. Rather, they will have to return to their militant roots: connecting shop-floor fights with community organizing. This approach has been successfully exemplified by the Chicago Teachers Union (CTU) and the Grassroots Collaborative, a labor-community alliance that has become a permanent fixture in Chicago politics and generated immense public support for CTU’s militant fights with the city’s investor class and mayor. CTU’s combination of bottom-up work-site organizing and authentic, non-transactional support for community organizations and their struggles were critical preludes to the union’s relatively successful 2012 strike. A long-term strategy focused on this kind of organizing would go a long way towards building the kind of movement infrastructure that labor needs to win in the South.

All of this is easier said than done. But we are currently faced with the atrocious working conditions and ever-diminishing wages and benefits of manufacturing jobs, the spread of poverty throughout our communities, the deep underfunding of public services, and the rising tide of anger and resentment (especially among young people) towards the economic and political elite. The time is ripe for organizers to begin harvesting the fruits of our exploited labor.

Originally posted here.