



The Other American Auto Industry

Plenty of car makers make a go of it in this country--they're just non-union and not headquartered in Detroit.

by Fred Barnes

12/22/2008, Volume 014, Issue 14

West Point, Georgia

Drew Ferguson IV is a 42-year-old dentist whose family has lived in this town, population 3,300, "since God put us here." To be precise, the family arrived eight generations ago. Ferguson went off to the University of Georgia, then on to dental school, after which he came back to West Point. He and his wife, whom he met in college, have four kids. A year ago, Ferguson was elected mayor. "There's a reason I live in West Point," he says. "I love it. There's a sense of place here." No doubt, but West Point is located in what might also be considered the middle of nowhere. It's pinched between I-85 and the Alabama border. Atlanta is a good hour's drive away.

West Point today isn't the same town Ferguson grew up in. Textile company executives used to live here. But when the textile industry collapsed in the 1980s, the victim of foreign competition, they moved away. Thousands of jobs were lost. A few small technology firms took up some of the slack. But the high-tech bust of the late 1990s proved to be another job killer. "We survived without a federal bailout," Ferguson says sarcastically. Now, while much of America wallows in the gloom of a recession, there's great joy in West Point. "West Point will have more economic growth in the next 24 months than anywhere else in the country," Ferguson boasts. And he may be right.

KIA has come to town. The Korean automobile manufacturer is building a huge assembly plant, which will employ 2,900 workers when it begins turning out cars a year from now. KIA suppliers will employ thousands more nearby. When KIA accepted applications last winter--only online, not in person--43,000 people applied. Just last week, a 2.5-mile, four-lane road that runs along the 2,200-acre plant site was completed. Naturally it's called KIA Parkway. A Korean barbecue restaurant opened a year ago, as Koreans began moving into West Point. It was formerly a Pizza Hut.

KIA donated one of its cars to Georgia governor Sonny Perdue, who is said to drive it occasionally. Ferguson drives a KIA Sorento. "I had to buy mine," he says. In the election last year, Ferguson ousted Billy Head, who is 30 years older and was a two-term incumbent. Ferguson says the voters in West Point "were ready to take a new direction. We have a chance to completely reinvent this town. For an old textile town, we've really done pretty well." Ferguson recently hired a second dentist to join his practice.

West Point has entered the auto industry's alternative universe. Foreign car manufacturers, the so-called transplants, have been setting up shop in the South for a quarter century now, starting with the plant that Nissan opened in Smyrna, Tennessee, in 1983. It's still operating. Nissan added a second plant in Canton, Mississippi, in 2003. Two years ago, Nissan moved its American headquarters from southern California to Cool Springs, Tennessee, just south of Nashville.

The auto production numbers in the South are staggering. A dozen years ago, Alabama produced zero cars. Now it turns out 750,000 annually at Mercedes, Honda, and Hyundai plants. Three years after Mercedes opened its SUV factory near Tuscaloosa in 1996, it doubled the size and output. A Honda plant halfway between Birmingham and Atlanta went on line in 2001, and the next year the company spent \$450 million to expand it, adding 2,000 more workers.

The southern auto industry mocks Detroit. The transplants make money and aren't asking for help from Washington. The recession has curtailed car sales temporarily, causing the transplants to slow production. But they are expected to expand again once the economy recovers. Volkswagen is currently building a plant outside of Chattanooga, which will produce 150,000 cars a year. But VW, with ambitious plans to increase its American sales, obtained an environmental permit that allows it to make 512,000 autos at the site. Volkswagen, by the way, has moved its main American office from Auburn Hills, Michigan, to Herndon, Virginia.

Embarrassed by the success of the foreigners, the Big 3 carmakers and the United Auto Workers (UAW) claim the tax and other "incentives" the transplants get from state and local governments in the South are no different from the subsidies they're seeking in Washington. But that's not quite true. "There's a big difference between a subsidy and an incentive," says Michael Randle, president of Southern Business and Development and an expert on the southern auto industry. "A subsidy pays to

keep jobs. An incentive pays to bring them. If you're paying to keep them, it means somebody wants to leave."

Southern officials don't apologize for luring foreign companies, nor should they. "The distinction between foreign and domestic cars is totally gone now," Democratic governor Phil Bredesen of Tennessee told me. "Most Volks-wagens are just as American as a Chevy. They're built here. They're built by Americans. The management at the [Chattanooga] plant is largely American. They're not bringing in parts from Germany." The plant manager happens to be a Texan named Don Johnson.

It's no longer politically risky for a governor to offer transplants costly incentives. Alabama's Democratic governor Jim Folsom Jr. was criticized for the \$250 million package the state gave Mercedes, and the issue contributed to his defeat in the 1994 election. But when Bredesen and other Tennessee officials, including Republican senators Lamar Alexander and Bob Corker, attracted VW with \$577 million in tax breaks and other enticements, they drew cheers.

Government payouts aren't the only inducement to automakers or even the most important one. There's also the attraction of a pro-business political community, relatively cheap labor, inexpensive or free land, lower cost of living and of doing business, warm climate, and the big one that the auto companies are wary of talking about--no UAW.

The southern auto belt from South Carolina to Texas, home to eight German, Japanese, or Korean plants (plus three more under construction), is right-to-work country. In these states, workers can't be compelled to join a union or pay dues, and not many are inclined to sign a union card anyway. The result: The UAW has failed miserably to organize workers. No Mercedes, VW, Honda, Toyota, Hyundai (KIA's parent), BMW, or Nissan plant in the South is unionized.

There's a simple explanation. It's what I call the progressive anti-unionism of the transplants. It consists of one factor: They pay well. Workers not only make far more than the prevailing wage in the rural areas where most plants are located but also considerably more than every state's average wage. With overtime, they can earn \$70,000 or more a year at some plants. Average pay and benefits: roughly \$45 an hour.

Unlike the timid auto executives, politicians in the right-to-work states are quite candid in crediting the enormous appeal of their non-union status. "If you don't have right-to-work laws, you end up like those guys [the Big 3] are today" in Detroit, Corker says. "Right to work," says another top state official, "is a huge issue."

"We don't have a culture that values union organizing," says Haley Barbour, the Republican governor of Mississippi who persuaded Toyota to locate a Prius plant in Blue Springs in northern Mississippi. "Our workers like overtime and pay for performance. They feel like they get a better deal without the union."

The UAW, of course, is partly responsible for lofty non-union wages, though the threat of a successful UAW organizing drive is remote. A union workforce doesn't fit the business model pursued by the transplants. They dislike inflexible union work rules, grievances, an adversarial relationship between management and labor, indeed any intermediary between plant managers and workers at all. And they especially hate strikes.

Michigan, though a union state, made an aggressive bid for the Volkswagen plant that wound up in Tennessee. It was one of three finalists. But when a VW site selection team made its final visit in May, a UAW local in Michigan was striking against a Big 3 supplier. "Fear of the UAW probably drove the final decision," a local business leader told the *Detroit Free Press*.

In truth, the transplants don't have much to worry about from organized labor. The UAW has been able to force only three elections at the foreign-owned plants. The union lost overwhelmingly at Nissan's Tennessee plant in 1989, failed in another election there, and lost at the Mercedes plant in Alabama. The UAW might fare better if "card check" is approved by Congress next year, allowing organizers to succeed without the need to win a secret ballot election. But the transplants should still have little trouble thwarting UAW organizers.

The UAW's problem is that it has little to offer. High pay? The workers have that. "If you're making \$50 an hour, what do you need a union for?" says Randle. Job security? Workers tend to rate a successful company as a better security bet than a union whose members are losing jobs by the tens of thousands. A voice on the assembly line? Transplant workers have that, just not through a third-party like the UAW.

So the UAW is left with a handful of weak arguments about on-the-job accidents, overworked employees, and sweatshop conditions. "Why would a worker in Alabama or Texas making far and away the best wages he ever could want to join the UAW?" says Washington attorney Richard Wyatt, who specializes in labor issues. "The UAW has no story to tell these people that makes any sense."

In courting transplants, southern states have another great advantage besides right-to-work laws and lucrative incentive packages. They try harder because their need--especially to raise the South's standard of living--has been greater. They are better at beckoning business because they've been doing it for decades, first to attract textiles and furniture, now autos. They

treat campaigns to capture transplants like military exercises. Georgia's plan to win over KIA was dubbed Project Pine Tree. Also, nearly all elected officials, Republicans and Democrats, are favorable to business. The efforts are bipartisan.

And they put far more time and ingenuity into charming foreign auto chiefs. When Tennessee officials negotiated with Nissan over shifting its headquarters to Nashville, they learned the wife of the top Nissan executive in the United States was a fancier of African violets. So they arranged to have a new type of the flower named after her. To meet with KIA's chief executive in West Point, Georgia officials replaced their Fords with a fleet of rented KIAs to drive around the proposed plant site.

Since Tennessee's Nissan breakthrough in 1983, states in the southern auto corridor have been willing to up the ante to attract the transplants. Nissan got \$66 million in incentives. Two years later, Toyota accepted \$125 million to put a plant near Lexington, Kentucky. That included \$35 million for buying and preparing the site. The latest was Tennessee's \$577 million package for VW this year.

So far, these investments have paid off handsomely. Michael Randle points to the case of Alabama, which has delivered \$1.2 billion in incentives to four automakers. The companies, in turn, have spent \$20 billion in salaries alone to their employees. "If Warren Buffett took \$1.2 billion and turned it into \$20 billion in 10 years, he'd be called a genius."

Randle argues that the "sum of the southern auto industry is so much greater than its parts." The auto plants have a multiplier effect on local economies. They usually hire younger workers who might not be able to buy a home until their 40s if they worked at Wal-Mart. "With these [auto] jobs, they buy a house at 28 or 29." At least that's Randle's theory.

Drew Ferguson is a believer. He initially got an inkling that KIA was coming from his father, Drew Ferguson III, a banker in West Point who heads the town's economic development commission. "Son, I've got some good news," he said several years ago. "But I can't tell you." The news was KIA's interest in West Point. Georgia officials, it turned out, had tried in vain to sell KIA on a fully developed site outside Savannah. But a member of KIA's site selection team had picked out the West Point site as he drove between Atlanta and Montgomery, Alabama, home of a Hyundai plant.

Once KIA announced its decision, excitement in West Point bubbled over. But there was a problem with the site. It was divided among 35 separate landowners. The elder Ferguson had the job of buying out all of them. It took him just 35 days. The town itself has put \$80 million into the KIA project.

The mayor talked optimistically last week about West Point's future as he drove me around the town and down the new four-lane parkway past the half-built plant. "This community was able to survive when the textile industry went away," he told me. "At the height of the tech boom, we had 2,000 jobs, but we lost a lot of those. Now we have a remarkable opportunity to turn this old textile town into the largest economic development in Georgia's history."

Fred Barnes is executive editor of THE WEEKLY STANDARD.