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TOM WALSH

Detroit 3 close ranks in Michigan

BY TOM WALSH • FREE PRESS COLUMNIST • JUNE 4, 2008

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We don't -- or shouldn't -- take any joy in Detroit today that General Motors Corp. is shutting down factories in Canada, Mexico, Wisconsin and Ohio that make pickup trucks and SUVs.

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Still, it's OK for the home team to feel good about GM adding a shift and 1,100 workers in Orion Township, planning to build a new turbocharged, four-cylinder engine in Flint and launching the Chevrolet Volt electric car in 2010 from the Detroit-Hamtramck plant.

Michigan, in fact, is faring better lately than other states at holding onto jobs and investment from the Detroit Three auto companies as

they execute another wrenching round of downsizing.

And that's no fluke.

While Michigan has absorbed plenty of pain from GM, Ford Motor Co. and Chrysler LLC cutbacks over the past 30 years, the state has benefited recently from a trend dubbed "retreat to the core" by Sean McAlinden, chief economist for the Ann Arbor-based Center for Automotive Research. The Detroit Three, McAlinden says, are clearly clustering what's left of their smaller companies in the core region around their headquarters.

The numbers tell the story.

In 1991, GM, Ford and Chrysler employed more than 600,000 workers in the United States. By last year, the total was barely 240,000. Six of every 10 Detroit Three jobs had vanished.

Prior to 2005, McAlinden says, more than 45% of that job loss was in Michigan.

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But in the past three years, only 26% of the Detroit Three job cuts were in Michigan, where more than half of all GM's, Ford's and Chrysler's U.S. workers live.

Why retrench in Michigan?

Several key reasons:

- Skyrocketing fuel prices make it more costly to ship parts from the Detroit region, where the Detroit Three supply base is still concentrated, to isolated plants far away.
- Changes in the recent UAW contracts, especially to jobs bank provisions that pay idled workers, have sharply reduced the cost of shutting down plants far from Michigan.
- Rising costs in low-wage countries like Mexico, and the weakness of the U.S. dollar against the currencies of Canada and other nations, have made Michigan more attractive.

"The bloom is off the rose as far as the offshoring of jobs trend goes," says David Cole, chairman of the Center for Automotive Research. "Cheap labor doesn't stay real cheap for long."

More attention being paid

Government officials in Michigan, meanwhile, have become more attentive to the auto companies in recent years. As they should, given the relentlessly bleak economic news in the state.

One example was a long-term deal in 2006 between the state and Ford, shortly after Ford decided to close its Wixom Assembly Plant.

The state provided Ford with 20 years of tax breaks worth up to \$151 million in return for a promise of \$1 billion of investment in Ford plants and retention of nearly 14,000 jobs in Michigan.

GM's new investments in Michigan, announced Tuesday, all carried the caveat, "subject to final negotiations with state and local authorities." In other words, the talks about tax breaks are already well under way.

"We meet quarterly with the auto companies," says Jim Epolito, president and chief executive officer of the Michigan Economic Development Corp., the state's business-attraction and retention agency. "If they have to downsize, we want them to consolidate in Michigan. We try to be good partners. We don't want any surprises, from either side."

Patrick Anderson, chief executive officer of the Anderson Economic Group in East Lansing, is not a fan of big state tax incentives to lure or retain companies. "In general, incentives are not effective in expanding states' economies," he says.

One exception: a huge incentive package, like the \$153-million package dangled by Alabama to win a Mercedes-Benz plant in 1993, can succeed in creating an industry where none existed before.

By and large, Anderson says, the only effective strategy is to have an attractive business climate and a skilled workforce. Michigan has the skilled workers.

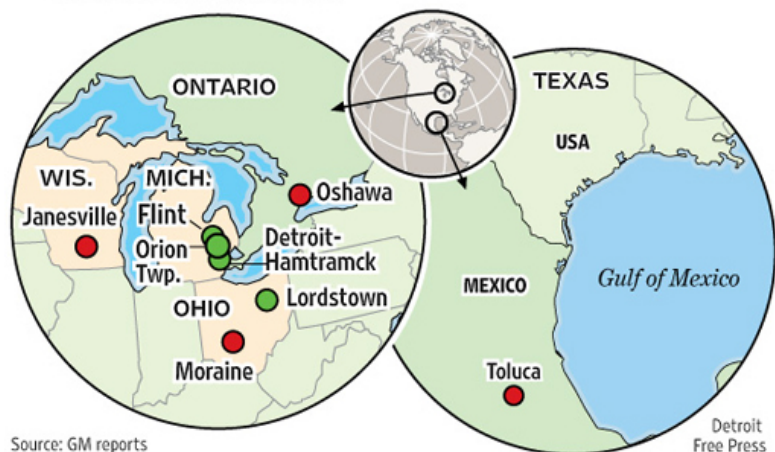
And although it is not a low-cost state, Anderson says, it can make a case for being a productive place for automotive investment because of the advantage of clustering with related technology firms. The new UAW contract with the Detroit Three is a big help, too, he says.

For GM and the rest of Detroit's automotive community, there's no end in sight to rocky times. But every dollar invested and job created in this area in the meantime preserves hope that the demise of the Motor City is not inevitable.

Contact **TOM WALSH** at 313-223-4430 or twalsh@freepress.com.

GM production to shift

- Truck plants in Moraine, Ohio; Oshawa, Ontario; Janesville, Wis., and Toluca, Mexico, will be idled.
- Third shifts will be added at an Orion Township plant that manufactures the Chevrolet Malibu and the Pontiac G6 and a Lordstown, Ohio, plant that builds the Chevrolet Cobalt and the Pontiac G5, a small car. GM also has approved funding for the Chevy Volt to be built at its Detroit-Hamtramck plant. A new small turbo engine will be built in Flint.



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