# Strike Is About More Than Pay and Benefits

**Boeing's increasing reliance on foreign suppliers for jetliner parts is resulting in the loss of skilled manufacturing jobs at home.**

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Garth Luark took a job at Boeing Co. in Seattle a decade ago hoping for a well-paying career that would last until retirement and provide medical benefits for his diabetic wife.

But now the 36-year-old logistics specialist is unsure whether his position will survive even a few more years, which is one reason he's walking a picket line.

For Luark and other members of the International Assn. of Machinists and Aerospace Workers who voted to go on strike two weeks ago, the global economy is an increasingly powerful presence at the negotiating table. At issue in this contract dispute is more than just pensions and healthcare. Boeing workers, union leaders and their supporters now wonder whether even the most sophisticated U.S. manufacturing jobs can survive in an increasingly brutal global economy — and what, if anything, can be done to protect what remains.

Two decades ago, most of the parts for Boeing's aircraft were produced in the United States, primarily in the Seattle area. But 60% to 70% of the airframe of the company's next-generation 787 Dreamliner will be made overseas, including key parts such as the fuselage and wings, analysts say. Only one part, the vertical fin, will be manufactured in the Puget Sound area.

Luark understands that Boeing benefits from open borders: Foreign airlines buy three-quarters of its planes. But he is convinced that those same global forces are pitting him in a losing battle against overseas workers whose companies can offer lower costs or are willing to buy airplanes in exchange for a piece of the production.

"What at one point I thought was going to be a secure job is no longer secure," said Luark, a Seattle native who fears that his position will be eliminated as Boeing begins shipping outsourced parts directly to its assembly line. "Someone else will be doing what I used to do."

Decades ago, America's low-paid factory workers making toys, shoes and T-shirts felt the brunt of cheap foreign competition. Then it was higher-paid auto workers and shipbuilders. Now, aided by foreign technology and capital, countries such as China and India have pushed themselves even further up the industrial ladder, expanding the competition to more skilled professions such as Boeing machinists and engineers, Silicon Valley software engineers and Hollywood animators.

Aerospace manufacturing was considered less vulnerable to outsourcing because of the high entry costs, the sophisticated manufacturing processes and its ties to national security. But lower trade barriers and rising cost pressures have made it more attractive for companies such as Boeing to look to emerging economies such as those of Russia and China, where they have found skilled engineers and production workers willing to work for a fraction of U.S. wages.

Much of the concern about outsourcing has focused on the threat of U.S. jobs fleeing to low-cost locations. But less attention has been paid to the effect global competition has had on the wages and working conditions of those workers left behind, who face growing pressure to increase their productivity or risk seeing their jobs disappear.

"What's new about the global economy is First World productivity combined with Third World wages," said Harley Shaiken, a labor economist at UC Berkeley. "That can create some real downward pressure on high-wage countries."

The last time the machinists union struck Boeing, in 1995, it had 32,500 members in Boeing facilities in the Seattle area, Portland, Ore. and Wichita, Kan. Today, the union is down to 18,400 members, with more than 30% of those job cuts occurring after the Sept. 11, 2001, terrorist attacks.

Those numbers represent a dramatic shift in Boeing's strategy, analysts say. Boeing, long the symbol of U.S. industrial preeminence, is getting out of the business of manufacturing. Instead, the firm is becoming a designer, marketer and assembler of airplanes from parts produced by thousands of suppliers scattered around the globe.

By focusing on "large-scale systems integration" and outsourcing other work, Boeing has developed a more efficient, lower-cost model for commercial airplane production, said Chaz Bickers, a company spokesman.

Boeing's new direction seems to paying off. Although it has slipped into the No. 2 spot behind Europe's Airbus in aircraft produced, last year's $1.87 billion in profit was more than double that of the previous year. After shipping 281 airplanes in 2003, the company is on schedule to deliver 320 planes this year and 395 in 2006. In the last year, it has added 7,000 jobs in the Puget Sound area, but fewer than half of them were filled by union members.

Boeing, which employs 153,000 people worldwide, is still America's leading exporter and much of its outsourced work is going to lower-cost suppliers in the United States. But the company is also importing a much larger share of each plane.

In the case of the 200-to-300-seat 787, that means more manufacturing positions in Nagoya, Japan, and Chengdu, China, and fewer jobs in Everett, Wash., where the plane will be put together. The 787 assembly line is expected to have 850 to 1,200 employees, far fewer than were required to build its 747.

"If a company outsources, whether it's Boeing or Kmart, and it costs American jobs, it's not good for the existing employees," said Scott Hamilton, managing director of Leeham Co., an aviation consulting firm. "But I think the companies don't have a choice. If a company can go to China and get a widget for 10 cents an hour, and it costs $1 an hour in the U.S., what's the company to do?"

Increased global competition was part of the reason that wages and benefits in the U.S. did not rise more quickly after the 2001 recession, economists say. In the past, as the economy picked up speed and unemployment shrank, firms were forced to raise salaries to keep their best workers. Productivity and wages generally rose in tandem.

But technology improvements, trade liberalization and economic reforms in China and India have dramatically increased the potential labor pool, particularly in manufacturing.

Economists say that's been good for the overall economy because it has kept wage inflation in check and interest rates low. Just "the threat of outsourcing" has allowed employers to keep a lid on compensation while increasing productivity and profits, explained Tobias Levkovich, U.S. equity strategist with Citigroup Smith Barney in New York.

But for most Americans, that means wages failed to keep pace with rising living costs in 2004, according to the Labor Department's National Compensation Survey, which was released this month. The overall hourly wage for American workers was $18.09 in July 2004, up 1.9% over the previous year. Over the same period, inflation rose 3%.

Labor experts say it is difficult to determine just how much global competition has depressed wages because there are other factors influencing union bargaining power, such as new technology.

"One of the key ways in which globalization puts downward pressure on wages is through the threat effect," said Thea Lee, assistant director for international economics at the AFL-CIO. "If you increase the mobility of capital, you have increased the credibility of the threat that a company will close down rather than allow unionization or pay higher wages."

In Boeing's case, machinists still have the ability to shut down the assembly line, which is what happened when they went on strike. Analysts say the company can sustain a few weeks without serious damage but will have to delay deliveries if the strike drags on for months.

The union said it wasn't sharing in Boeing's improving fortunes, which is why it urged its members to reject the company's "best and final" offer of a 5.5% wage increase over the life of the three-year contract, $6,000 in bonuses and a 10% increase in the pension multiplier from $60 to $66 for each year of time served. On average, machinists will earn about $62,500 a year by the end of the year, excluding overtime, according to the company.

Wages aren't the issue, said Dick Schneider, the union's chief Boeing coordinator. With the average union member pushing 50 years of age, preserving a secure future is crucial. The union also is unhappy with the company's pension offer, its demand that employees shoulder more of the healthcare costs and the creation of a different wage and benefits scale for employees in Wichita.

Staunching the outflow of work is another priority. In an innovative clause in its 1995 contract, Boeing agreed to provide advance warning on any future outsourcing deals so that the union could produce a competing bid to keep the work in-house. Schneider said that program needed to be restructured so that the union could get involved early enough to produce a serious alternative.

"We know we're in a global economy," Schneider said, "but giving away the farm all in the name of competition is not the way to compete."

Boeing executives say the contract being offered is generous by industry standards but is aimed at streamlining the production process and keeping a lid on costs. Healthcare costs alone rose 30% between 2001 and 2004, according to the company. In a recent memo to managers, Alan Mulally, president and chief executive of Boeing's commercial airplane division, said the union's offer was $1 billion more than the company could provide and stay competitive.

Cost is not the only reason for Boeing to send work overseas. With the price tag for developing a new airplane running into the billions of dollars, the Chicago aerospace giant needs financial partners willing to help fund the development and buy the airplanes. And in return, foreign governments usually want a piece of the manufacturing.

Boeing is engaged in a fierce battle with Airbus for market share in Japan and China, whose governments have targeted the aerospace industry as a priority for development. Of the 263 announced orders for the 787, 140 have come from Japanese and Chinese airlines.

In exchange for shouldering a big share of the financial risk in the 787, Japan's leading aerospace firms were granted a 35% share of the production, including the wings and the fuselage.

In June, Boeing signed contracts with Chinese suppliers to produce $600 million worth of components, including the Dreamliner's composite rudder.

David Pritchard, a research associate at State University of New York at Buffalo, contends that Boeing is sowing the seeds of its own destruction by sharing valuable technology with foreign governments intent on setting up their own aerospace industry.

In addition, he said the U.S. was losing key manufacturing skills and the development of new materials that are crucial to maintaining U.S. industrial and military leadership.

"From a business model standpoint, they're doing all the right things," Pritchard said of Boeing.

"The trouble is, they're not helping the United States."

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Boeing's global range

Boeing will assemble its new 787 Dreamliner using components from around the world. About 60% to 70% of the jet's airframe will be produced overseas. Here are some of Boeing's foreign partners and the components they will supply:

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Japan

Wing box, main wing fixed trailing edge, part of forward fuselage, main landing gear wheel well, tires, cabin services system, lavatories, flight deck interiors, flight deck door and bulkhead assembly

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China

Composite rudder, vertical fin leading edge and wing-to-body fairing

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Italy

Horizontal stabilizer, center fuselage, aft fuselage

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Britain

Engines (Rolls-Royce option), pumps and valves, main landing gear, nose landing gear, flight deck seats, composite mat for wing ice protection system, wing ice protection system

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France

All passenger doors, landing gear structure, global collaboration tools/software, wiring, electrical power conversion, integrated standby flight display, electric brakes

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Source: Boeing