employees but rather (UAW-represented) employees of an outside supplier. Their average hourly labor cost is about $20 per hour, lower not only than that of Tier I GM workers, but also lower than Tier 2 GM workers. As a result of using a significant number of lower cost Tier II workers and (even lower cost) outside supplier workers, GM is expected to be able to reduce the labor cost per vehicle from $1,160 at a now (before bankruptcy and new labor contracts, the labor cost per vehicle would have been higher) typical GM plant to $710 per vehicle. All told, GM could save as much as much as $72 million per year.[69]

Here are some questions to consider:

1. To what extent is the renewed job growth in the automobile industry in the United States due to the use of two-tier wages?
2. To the degree job growth (and increased car sales that come from more competitive labor costs) is based on two tier-wage structures, how sustainable is this approach? Consider, for example, that Fiat and Chrysler CEO Sergio Marchionne stated that "Long term, (the system) is not a viable structure. It creates two classes of workers within the plant. It doesn't work in the same direction we are working . . . to get this organization to work in unison."[70] Why would Mr. Marchionne make this statement? What are the potential drawbacks of a two-tier structure? When would we expect any such drawbacks to materialize?
3. What about the use of non-GM workers at the Chevy Sonic plant? What might Mr. Marchionne think about that approach?
4. Will the two-tier wage structure go away in the near future? Summarize the pressures to eliminate it as well as the pressures to keep it. Be sure to consider labor costs and productivity of workers and plants at other companies and in other parts of the world. You may wish to do some research on the new Volkswagen plant in Chattanooga, Tennessee. Also, consider that the Automotive News estimates that the Ford Fiesta (a competitor to the Chevy Sonic) plant in Cuautitlan, Mexico may have labor costs as low as $150 per vehicle.[71]

Summary

One reviewer of this book told us that "There are three important contributions of this chapter: (1) that there is no 'going rate' and so managers make conscious pay level and mix decisions influenced by several factors; (2) that there are both product market and labor market competitors that impact the pay level and mix decisions; and (3) that alternative pay level and mix decisions have different consequences." That is a great summary of the key points.