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FAA Reauth & UAW Talks: WI Recall Elections Testing Union Strength

- We give the GOP a 60% chance to retain a majority in the Wisconsin state senate in recall elections today.
- That outcome could be perceived as a positive for affected stocks, as it could ultimately influence not only the negotiations just getting under way between the United Auto Workers and the Big 3 Detroit automakers (**Ford, GM, Chrysler**) but also the fate of a labor provision currently holding up the reauthorization of the FAA, with particular implications for **DAL** and **FDX**.
- The Wisconsin elections were sparked by aggressive legislation passed by a unified Republican state government to curb expenses incurred by public employee unions. A united union front has gone all-in to defeat the Republicans. Should Republicans hold on, it would be the latest sign of the weakening of organized labor. Should Democrats prevail, it will be a promising indicator of the electoral muscle still on tap for union allies.

Democrats on Offense This Week, Defense Next Week

Today Wisconsin voters head to the polls in a two-part exercise to determine whether Democrats win control of the state senate. Six Republican state senators are facing recall elections, with Part 2 coming next Tuesday, when two Democratic state senators will face the same judgment. Democrats must net three seats for a majority, with Republicans currently holding a 19-14 edge. However, we focus on today, as the breakdown of the races suggests that Republicans will face long odds should they lose three of their own seats.

The reason for the limited number of senators at risk has to do with the way the Wisconsin recall law is written - it exempts newly-elected officials - and decisions by the respective parties about which senators are potentially vulnerable. The reason for the staggered election dates has to do with the timeframe in which the petitions were filed to launch the recalls.

While the absolute potential swing is Democrats +6 to GOP +2, our conversations with sources suggest a more realistic range of Democrats

Tickers:
F, GM, DAL, FDX

+1 to +3. In other words, Democrats are likely to win a seat or two, but fall just short of actually capturing the majority.

Notable is Wisconsin's status as a battleground state next year. While Wisconsin leans slightly towards the Democrats, both an open U.S. Senate seat and the presidential race will be fiercely contested there. Democrats narrowly failed to capture the state supreme court in a judicial retention election earlier this year. That contest had also been billed as a showdown over the laws passed by newly-elected Republican Gov. Scott Walker.

Michigan Is Taking Notes

UAW President Bob King held media events with each of the three Detroit automaker CEOs in recent weeks to kick off a new round of labor contract talks. While we don't believe the Wisconsin results will have an overriding impact, we will be curious to see if either side in any of the negotiations pushes for a longer or shorter contract, or other provisions, based on how the climate for unions might be improving or degrading in the coming decade.

Another related factor in Michigan could be whether Republicans there choose to follow their regional fellows in Ohio, Indiana, Wisconsin and elsewhere in passing legislation to restrict union prerogatives. Michigan, as well as Pennsylvania, has long been seen as a bedrock union state.

FAAil?

Another impact of the elections could be a shifted dynamic between House Transportation and Infrastructure Chairman John Mica (R-FL) and Senate Commerce, Science and Transportation Chairman Jay Rockefeller (D-WV). The current FAA authorization expires on September 16, and Mica is arguing against another short-term extension, and in favor of getting the long-term authorization done immediately upon Congress' return on September 5.

However, finalizing the authorization will mean settling the question of whether railroads and airlines should be forced to accept a new, lower standard for union elections that was imposed by the National Mediation Board last year. The House has included a provision to reverse the NMB decision in their FAA bill, but this is proving anathema to Senate Democrats. If Mica feels emboldened by tomorrow's results, he may choose to take a harder line on the provision, which would lead to more short-term extensions or possibly another shutdown. Contrariwise, if Mica watches his fellow Republicans take a shellacking, he might be more inclined to pursue a split-the-baby approach that Democrats might find acceptable.

For the Democrats, we can't envision any scenario in which they would accept the House-passed language, but they may be willing to accept compromise language.

Previous Notes on This Topic

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- [Labor Costs: Bold Pro-Union Moves by Federal Agencies Likely to be Blunted](#) - May 5, 2011

- [High-Speed Rail/Transit/Labor: Tough Path for Transit; Unions Likely to be Curbed](#) - April 8, 2011
- [Infrastructure: Last Chance for Input on House Highway Bill; Union-GOP Deathmatch Implications](#) - March 29, 2011

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