gage market and real estate generally. This trend was highlighted by the recent announcement by Lehman Brothers Kuhn Loeb of its agreement in principle to acquire Sonnenblick-Goldman Corp., one of the country's largest mortgage-brokerage companies, with $1.5 billion in financing and sales a year. Rumors that American Express Co. is seeking to take over MGIC triggered heavy trading in the company's stock recently.

Private mortgage insurance

The Milwaukee-based MGIC Investment Corp., the holding company for a variety of real estate operations, principally mortgage insurance, has more than $38.5 billion in mortgage insurance contracts in force. "Magic," as the company is known in the trade, is the creation of one Max H. Karl, who founded a predecessor in 1956 and kicked off a revival of the private mortgage insurance enterprises.

Private mortgage insurance was a booming business in the 1920s (usually the mortgage insurance company was merely a different office of the mortgage lender) cut short only by the Great Depression and collapse of real estate values. Private mortgage insurers began to reappear on the scene in the 1950s, after the Federal Housing Administration, born in the 1930s, had stabilized the real estate market and values through putting government guarantees and taxpayers' dollars behind them. Today, a mortgage lender will take out a contract with a private insurer when the size of the mortgage and a small down payment prohibit the FHA or Veterans Administration from insuring the loan. It is the overall government underwriting of mortgages, however, that makes the operation possible.

Now, private mortgage insurance is experiencing a "resurgence" because of the wild inflation of home-building and land costs, and the relative dwindling of personal income.

Given that writing insurance on conventional mortgages is MGIC's principal line of business, Maggie Mae—its mortgage marketing division—has the inside bear on volume and source of new mortgage loans and is nicely positioned to operate in the mortgage resale market. According to one analyst in the field, the spreads that Maggie Mae garners between the mortgage rate and the certificate rate on its multi-billion portfolio of mortgage-backed certificates is phenomenal.

Next installment: Foreign investment in U.S. real estate.

— *Lydia Schulman*

How Chrysler was driven

On Aug. 8, the $100 billion U.S. commercial paper market, on which corporations trade their IOU's to raise cash, fell into turmoil. Rumors were flying that the Carter administration would reject the request by the Chrysler Corporation, which has accumulated a $207 million second quarter loss, for $1 billion in cash in the form of a :celerated tax writeoffs over the next 18 months. Chrysl :r chairman John Riccardo proposes that that much :ash is needed to keep Chrysler afloat. Immediately, tne market began boycotting Chrysler

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commercial paper, whose interest rates rose by a phenomenal ½ to ¾ of a percent in one day. By late afternoon, the Chrysler mood had spread throughout the market, and the average piece of commercial paper had its interest rate rise by 30 to 40 basis points.

By Aug. 9, the markets calmed down. While the immediate danger of significant worsening of the market eased, the scare of the previous day was simply a warning shot fired by anti-industrial financiers to demonstrate that they possess the capability to artificially trigger, at moment's notice, Chrysler's financial crisis—the ailing corporation will now have to finance its $1.3 billion in borrowing requirements through short-term bank debt—into a raging U.S. panic and depression. The key aspect of this threat is to blackmail U.S. business leaders into support for London's antigrowth energy austerity policies.

Slated for eventual collapse, Chrysler currently exists as a transform Chrysler's financial crisis—the ailing corporation will now have to finance its $1.3 billion in borrowing requirements through short-term bank debt—into a raging financial panic and potential depression at moment's notice. The key purpose of this threat is to blackmail U.S. business leaders into support for London's antigrowth energy austerity policies.

Slated for eventual dismantling, Chrysler currently exists as a functioning industrial corporation solely through the good graces of General Motors, its giant competitor, and the Mellon and Morgan banks which dominate GM's board. According to one auto insider: "GM calls the shots for Chrysler. GM decides how much market share Chrysler will get. How does it do this? By regulating how it prices its own cars. In the early 1960s, after Chrysler had shrunk to 12 percent of the market in 1959, GM did not aggressively price its medium-sized cars and let Chrysler back into a 17

to the brink

percent share of the market. Then in 1970, GM decided to pull the plug on Chrysler and shot them down in market share. GM could drive Chrysler out of business any time it wants to , but it keeps them around for appearance's sake."

Indeed, while Chrysler is being eaten alive by the cost of meeting environmental requlations, GM is benefiting from the same pressures. According to H.C. Wainwright, a consulting firm, the cost of environmental regulations—downsizing, fuel emissions control devices, fuel efficiency, and safety devices—amounts to 68.5 percent of GM's aftertax profits. The corresponding figure for Ford Motor Co. is 112.7 percent, and it is an incredible 496.9 percent for Chrysler. States Wainwright, "Look, GM doesn't mind the safety and fuel standards. If they had chosen to really fight the standards they could have defeated them. But they didn't, they just made well-sounding public statements. Now, GM has Chrysler at its mercy, depending on how much market share it gives them. And you know, these regulations not only can potentially wipe out Chrysler, but Ford is making almost no profits this year. They will lose profits next year on their North American operations. They are only making money from their foreign operations. They used to be more cash rich than Chrysler, but they are vulnerable to GM, too."

Indeed, if General Motors continues its current direction, following monetarist and not production-oriented "American System" management policies, GM will totally replicate the role of the United States Steel Corporation as an unabashed saboteur of basic U.S. industrial production. And General Motors is assisted by the activities of the United Auto Workers-supported Ralph Nader environmentalists.

Under such a GM-Nader assault, the future for Chrysler is bleak

Henry Kissinger, now a chief consultant for Goldman, Sachs—Chrysler's investment bank—told a Senate hearing on SALT II that the U.S. must gear up for military production, broadly hinting that Chrysler, 7 percent of whose production is tank and military-related, would end up as an armaments company.

Another possible fate for Chrysler now being projected by some Wall Street circles is that spelled out by Arvid Jouppi, senior vice president of the John Muir & Co. investment firm. "They'll survive,"Jouppi stated Aug. 5, "but not in their present form. During the next two to three years they'll become more of an assembly and marketer than a producer. But they have the option of becoming the standard setter for their suppliers and they could still maintain a dominant role in the world scene as a salesman of other people's products." Under this scenario, a shrunken, ulcerating Chrysler would be modeled on the grossly indebted, technologically backward British Leyland.

Yet under neither of these scenarios will Chrysler be able to survive in a form in which it could make a useful contribution to the nation's economy. Chrysler is saddled with the U.S. auto industry's oldest and most decrepit plant and equipment, mostly inside the city of Detroit, with a labor force crippled by the influence of drugs. To these problems are added not only the burden of environmental regulations, but the Schlesinger energy policy—which by pricing oil at $1 and more per gallon, is meant to end the typical use of the automobile as the means of leisure for a typical U.S. middle-income family. Under the influence of the Schlesinger policy of energy starvation, Chrysler's auto sales plummeted by 20 percent this year. In the recreational vehicle field, where Chrysler sold 28,500 units in the second quarter of last year, the troubled automaker sold a mere 2,345 such vehicles in the same quarter of 1979—due to the Schlesinger gas hoax. Moreover, GM has announced intentions to drive Chrysler out of the RV market with tough marketing techniques.

What is most shocking is that Chrysler should find itself in such awful straits. Chrysler was built on American System industrial principles and once was a proud, pioneering company. Precisely for this reason, Chrysler was targeted by a conspiracy of British-centered banks and political forces. The history of Chrysler typifies, in microcosm, the past and future of the U.S. auto and perhaps U.S. industry as a whole. In that light, we present the first of a two-part series on the history and prospects of the Chrysler Corporation.

Chrysler Corporation: an American System legacy

Walter P. Chrysler founded his company on the same American System principles that Henry Ford used to make the Ford Model A the standard in the auto field: hire the best engineers, make ample capital expenditures and improvements; produce sound car bodies; don't worry about the frills; and, above all, gear up to produce in volume.

Through the mass production of such automobiles, urbanization was fostered throughout areas of the United States where before there had only been dirt, country roads.

Chrysler, a self-taught engineer, started this process in the early 1910s while working for General Motors and rising to the presidency of the Buick division. But he was waiting for his chance to build a better car. In 1923, Walter Chrysler took over the bankrupt Maxwell Motors and began producing a Chrysler six-cylinder engine. In 1927, after having renamed the now flourishing company Chrysler Corp., Walter Chrysler bought up the Dodge Brothers auto firm through an investment bank. With the Dodge Brothers plant, he also acquired a huge parts-fabrication plant, just what he needed to have an integrated automaking operation.

In 1928, Chrysler brought out the first model Plymouth, an all-purpose, tough, durable, go-anywhere car. To make it marketable against General Motors competition, Chrysler started to lower its prices to boost sales volume. During the 1930s, the widely recognized soundness of Chrysler cars permitted the company to get through the depression. U.S. car sales plummeted with the 1929 crash: in 1929 total U.S. passenger car production was 4.8 million; in 1930 it was 3.0 million; in 1931 it fell to 2.0 million. To counter this downward slide, Chrysler slashed prices by $100, or one-seventh the value of the car, and increased its Plymouth sales alone to almost 100,000 in 1931.

It was this hard-nosed strategy of producing quality cars in volume that propelled Chrysler through the depression. With the partial recovery of 1934-37, Chrysler, using the same strategy, started building new assembly plants, new parts plants, etc., employing the most modern technology.

By 1940, when Walter Chrysler died, Chrysler Corp. was a giant, nudging out Ford as the number two automaker. In summing up Chrysler's life, one historian, E.D. Kennedy, wrote: "Chrysler is a demonstration of the fact that events cannot be interpreted entirely in terms of economics; that the personal equation is sometimes not merely an important, but a determining factor. Generally speaking, the times make the man; there are many big shots of the 1920s who are not even echoes today. But in Chrysler's case, the times were against the man and the man was superior to them. Chrysler was the last great constructive force in the automobile industry; offhand one cannot think of a contemporary in any industry who compared with him. He never spent much time, or got much publicity, baiting the New Deal or battling the CIO, but he really was an American wayfarer who got along very nicely in the American way."

The "Aldermaston Company": General Motors

While Chrysler was making its great progress in the 1925-40 period, it still had to compete with the company that was dominant and set the geometry for the auto field, General Motors.

GM started as an amalgamation of a number of failed companies. In 1922, it began to make a pronounced shift toward a method of management that was exemplified by GM's chairman beginning in 1922, Alfred P. Sloan. His method of management, the "Sloan method," is now practically enshrined at the anglophile network of U.S. business schools. Sloan's approach was characterized by the view that it is not quality, but image that counts for the consumer. The two tenets of this approach as embodied in GM's success formula were (1) don't over-emphasize engineering, but rather body styling and annual model changes; and (2) decentralize the auto company into divisions which are then set in competition with each other. This business formula was specifically developed as a British counter to the typical, Yankee-owned American company held by a centralized, usually family group, whose members were production oriented.

By means of financial manipulations, including skillful use of the way the
structured, General Motors had risen to the top of the auto industry heap as early as the 1920s. It now used that dominant position, along with City of London help, to call the shots on market shares, and, even more important, to work toward the end of shaping the internal structure and philosophy of competing auto companies. GM relies on its interlocked working relationship with funds-heavy insurance companies, as well as on the hugh General Motors Acceptance Corporation (the largest finance agency in the U.S.), and on key banks to control via arbitraging and manipulating both the volume and marginal rates of the key money markets that determine the geometry of consumer lending. How GM continues to do this successfully is indicated by its British-dominated board of directors, which includes chief executive officers or former CEO's of five leading American and Canadian banks.

Having obtained such a dominant market share, GM could sit over and regulate—like the H.G. Wells-styled British nuclear facility at Aldermaston—the amount of technology that would be allowed to be disseminated into the auto field.

Ford and Chrysler, as well as the other automakers, were targeted by GM for such operations. The small auto companies were mostly driven out of business. In 1946, with the death of Henry Ford and following a series of scandals, Ford finally caved in to the pressure, and adopted the Sloan method. To administer the reshaped corporation, top New York financier and intelligence specialist John J. McCloy was brought in to run part of the Ford family fortune through the newly created Ford Foundation, while a group of Air Force Intelligence "whiz kids" led by Robert McNamara was installed in the production side of the company.

GM then began to cut into Chrysler's markets, and reward Ford Motor Co. for its "good work." From 1946 to 1949, Chrysler share of the U.S. market had already fallen from 25.7 to 21.4 percent. Then in the 1950s, Chrysler's market share began eroding further.

Upon Walter Chrysler's death in 1940, his trusted lieutenant, Kaufman Thuma Keller took over, and ran the company on a strictly centralized, production-oriented basis through 1950. In 1950, Lester Colbert took over as CEO.

To expand its declining market share, numerous voices urged Chrysler to adopt the Sloan management technique. A *Fortune* magazine writer in 1960 described the ensuing debacle: "By 1953, Chrysler's auditors had convinced Colbert that in order to develop adequate cost controls, Chrysler must decentralize, as Ford and GM had done, and that divisions should be put on a competing basis with each one responsible for its profit performance.

"Ever since then Chrysler has been in the throes of almost uninterrupted reorganization. A program of 'divisionalization' that Colbert undertook in 1954 gave new authority to the divisions. But his executive cadre, brought up under the old system, did not adapt readily to the new. Worse, with central management thinned out to provide staff for the rapidly expanding divisions, there was a lack of strong guidance from the top. Under these circumstances, the reorganization failed and costs rose sharply. According to one of the men later assigned to pick up the pieces, 'It was sheer chaos. There were none of the elements for control, none of the mechanics for decision making or review, none of the accounting tools to support divisionalization.' By this time Chrysler had a large, heavily budgeted organization planning staff and it was hiring consultants to help cope with the confusion."

The company swung back and forth between decentralization and centralization through the remainder of the 1950s. Costs mounted and productions schedules were sometimes late. When the 1957-58 recession hit, Chrysler was devastated.

In 1959, Chrysler's share of the U.S. market fell to 11.3, less than half the total of 1949. With Chrysler on its knees, GM was preparing to do away with the last vestiges of the old Chrysler machine.

The 1960 scandal

The 1960 scandal that shook up Chrysler, which led to the firing of its chairman and president and rocked the entire corporate world, was a set-up sham. The presence in the scandal of several firms to which Dope, Inc. king-pin Max Fisher (see Banking) is connected indicates that even British-dominated mobsters had a hand in discrediting and reorganizing what was then the eighth largest company in the United States.

The outlines of the 1960 Chrysler scandal are as follows: Many of the top officials in the Chrysler organization had directorship on parts-supplying companies that sold their goods to Chrysler Corp. This practice was public and widespread, and, of course, still exists today, e.g. with investment banks serving on the boards of companies they service.

However, a group of muckrakers, led by a civil libertarian, Ralph Nader-type lawyer, decided to make Chrysler's outside directorships in auto parts and related companies a major issue. The lawyer, Sol A. Dann, had begun his association with the auto industry in the early 1950s. Dann met up with a gentleman by the name of Jim Robbins, who was involved in so many side businesses that he decided to have himself incorporated as Jim Robbins Co. Among others, Robbings had coffee plantations in Latin America, an aviation company and substantial real estate holdings. Robbins was also a former Chrysler employee with inside "dirt" about the corporation's management—information which he gladly, for unknown reasons, passed on to lawyer Dann.

Robbins happened to be friends with William C. Newberg, a Chrysler executive vice president, who in 1960 became the company's president. Robbins passed on to Dann information that Newberg, with his wife, held half-ownership of a firm that manufactured door-trim panels for Chrysler, the Bonan company. In 1958, two years before Newberg became president, he sold assets in the company to Allen Industries. Allen, which is still around today, is a subsidiary of Dayco, on whose board sits Dope, Inc.'s Max Fisher.

In the ensuing scandal, both Newberg and Chrysler chairman Lester Lumm Colbert, both production men, were thoroughly scrutinized. Thomas Dewey's law firm, Dewey Ballantine, was brought in to do a top-down inspection of Chrysler for possible wrong-doing. Dewey, who had built up a reputation for "gang-busting," in fact had used his position to help build the influence of drug-pushing interests in the mob. Finally, the anglophile Prudential Life Insurance, which held $250 million in long-term Chrysler debt and a directorship in the firm, moved in and initiated formation of an investigative committee of outside Chrysler directors "to get to the bottom of the matter." The committee members included Juan Trippe, then president of Pan American World Airways, Jospeh Dodge, chairman of the Detroit Bank and Trust Co., Walton Jones, chairman of Cities Service, and R.E. McNeil, Jr., president of the Hanover (now Manufacturers Hanover) Bank.

With national scrutiny, including two congressional investigations and an SEC probe, focused on the Chrysler situation, first Newberg and then Colbert resigned. From the ranks of the Touche, Ross accounting firm, Lynn Townsend, one of Chrysler's chief accountants, was promoted into the ranks of the company to become Chryler's CEO.

The scandal marked a turning point for Chrysler. While the company would gain back some of its market share, the dreadful reorganization of the 1950s had already left the company with a sizeable debt, and a large deficit in capital spending—instead of pouring its retained earnings into new plant and equipment, Chrysler had been spending a large portion in reorganization. In the early 1960s, Chrysler did undertake some new greenfield plant expansion, but part of this was on the military side, picking up on the Warren Tank plant which had been built during the 1940s.

Chryler would either have to expand in a major way in the late 1960s or suffer for it in the 1970s—the crisis we are currently seeing.

— Richard Freeman