

Corporate Strategy by Leif Johnson

Dismantling Chrysler

Washington's 'bailout' is more like a torpedo. It's highly doubtful whether the company will survive.

In 1979, when the U.S. government began to plan the reorganization of Chrysler Corp., it promoted its financial counsel to the general counsel of the Treasury Department, Brian Freeman, to work up its plan. Mr. Freeman had one difficulty, a colleague relates: he didn't believe that Chrysler Corp. could or should be saved.

While this may seem only a minor encumbrance to his task—a professional should be able to do the job, regardless of his opinions, it is said—Mr. Freeman's private viewpoint is extremely revealing as to the outcome of Chrysler's future. As the point man for the U.S. administration, Brian Freeman is ruining Chrysler, ensuring that it will not survive, under the guise of working on Chrysler's rescue.

Freeman is one of a handful of young whiz kids—he's 34—in the "Georgia" Carter administration who is drawn from the Eastern Establishment, coming out of the old blueblood law firm of Debevoise, Plimpton, Lyons and Gates. For two years, he had experience wrecking the Consolidated Rail Corporation, Conrail, as a Treasury counselor. Then he was appointed to the Chrysler case.

States one of Freeman's colleagues, "Brian was one of the many people at Treasury who believed in the beginning that Chrysler probably couldn't be saved, and that in principle, it shouldn't be saved." Freeman is supposed to

have had a change of heart. In fact, he didn't.

The Chrysler Loan Guarantee Act, which Freeman helped to draft, removed many of Chrysler's most valuable, profit-making assets, apparently on the principle that to recover, a company should divest itself of whatever makes money. For example, in order to raise cash, Chrysler was obliged over the past two years to divest itself of most of its most modern auto facilities abroad, forcing it to rely on its older, more dilapidated plant and equipment in the United States.

Now, as part of the terms of the \$1.5 billion "bailout" of Chrysler engineered by Brian Freeman and Sen. William Proxmire, chairman of the Senate Banking Committee, Chrysler is ordered to sell off Chrysler Finance, Chrysler's most profitable asset.

Under this operation, Chrysler not only loses the income it could make by marketing its own cars, but without an apparatus to do so, will lose sales, too. *Business Week* magazine praised this arrangement, saying that it will free Chrysler Finance to market other cars, if Chrysler folds—as is widely expected—by early 1981.

On top of this, Freeman has worked with the Department of Transportation to formulate the Carter administration's auto industry policy. This was reflected July 8, when in a special press brief-

ing in Detroit, President Carter announced his "auto policy."

In addition to setting up an Auto Industry Committee, the program was largely a fraud. It proposed:

1. \$200 to \$400 million in loan guarantees to troubled auto dealers to keep them from going under.

2. Some relaxation on emission standards, as well as miles per gallon requirements, but none stringent enough to make a big difference. One Wall Street auto analyst reported, "If there had been any big or even moderate change in the restrictions in Carter's proposed plan, you would have heard Ralph Nader's people howling. But they had nothing to complain about."

3. Tax credits of up to \$500 million for the auto industry. But to collect these credits, an auto company must run a profit, and Chrysler, like the troubled Ford Motor Company, expects to be \$1 billion in the red this year.

For lack of appropriate action in Washington, Chrysler has announced in an internal memo this week that it plans a further 20 percent cut in its white collar staff and more plant closings.

Moreover, many speculate that part of Chrysler's cutback plans will include its engine assembly plants. Chrysler contracted two weeks ago to buy 550,000 engines from Citroën-Peugeot two weeks ago for 1982. It is already being supplied with engines from Mitsubishi, and from Volkswagen U.S.

It is further rumored that any of the above companies might buy out Chrysler. One Morgan Guaranty Trust analyst commented July 23, "I think that what will happen is that Chrysler will merge with Ford."