 by Anthony K. Wikrent

GM announces worst loss in history

Stempel vows to "lean up" the company, while Treasury Secretary Brady has a new theory of the "recovery."

General Motors chairman Robert Stempel announced Feb. 24 that his company had lost $2.3 billion in the last quarter of 1991, bringing GM's total losses for 1991 to $4.5 billion—the worst year ever, and the worst quarter ever, in U.S. corporate history. Wall Street sages quoted in the media chortled that GM was finally "biting the bullet" and undertaking a costly "consolidation" that, they believe, will return the world's largest auto maker to profitability within a year.

But it won't be by making cars. The company plans to close 21 plants and eliminate 20,000 white-collar jobs and 74,000 blue-collar jobs. According to the Feb. 25 *New York Times,* if GM's actions proceed according to the current plan, by 1995 GM will have only 71,000 managers and 250,000 union workers, half the number of employees GM had in 1985.

According to figures supplied to the *Washington Post* Feb. 26 by James E. Harbour, a management consultant in Troy, Michigan, GM's North American auto operations lost a staggering $8.7 billion in 1991, including the fourth quarter charge of $2.8 billion for closing 21 plants by 1995. Offsetting that loss of $1 million for every single hour of the year, was $1.21 billion in profits from General Motors Acceptance Corp., the financial subsidiary of GM; $547.5 million in profits from EDS, the computer services firm GM acquired in 1984; and $435.5 million in profits from GM Hughes, which includes Hughes Aircraft and Delco Electronics. That leaves a net loss in North America of a whopping $6.5 billion.

The *Financial Times* of London reports that in Europe, GM was the most profitable of the Big 6 auto makers, with a net profit margin of 7% on sales of $25.36 billion. That gave GM a profit in Europe of $1.76 billion, thus yielding the final 1991 figure of $4.45 billion in losses announced by Stempel.

Now, according to Barbour, by cutting its U.S. white-collar staff and trimming executive salaries, GM can save $1.7 billion a year. Making production more efficient—which would depend in great part on changes in work rules, which the United Auto Workers are not very inclined to grant—would realize another $2.0 billion in savings per annum. Making GM's stamping operations more efficient, would yield another $1.0 billion in savings. Altogether, if GM gets its act together, according to Barbour's figures, $4.7 billion can be "saved."

But even if the $8.7 billion lost in auto operations in North America is reduced to $5.9 billion by breaking out the one-time charge of $2.8 billion for "downsizing," it appears that GM can be expected to continue losing money on its North American auto operations.

In an interview with Stempel published in the March 9 issue of *Fortune* magazine, the GM chairman indicated that GM was *not* planning on any increase in sales. "Our business case is based on getting roughly one-third of the market," Stempel said—the first public confirmation by a high-level GM executive that GM has abandoned all hope of recovering the 40-50% U.S. market share GM had in the 1960s to early 1980s.

Furthermore, Stempel, while discussing the impact of new emissions and safety standards mandated by the federal government, admitted that GM does not expect any improvement in the new car market in the United States. He noted that whereas GM is now spending 5-7% of its capital budget to meet government regulations, the requirements of the Clean Air Act Amendment of 1990 alone will absorb 25-28% of GM's capital budget. "That will raise prices and probably limit the size of the new-car market," Stempel stated. "We've looked at that and said we're going to get our capacity leaned up [sic] in North America to where we will be profitable."

An even more insane theory of how to turn the crisis around was expounded by U.S. Treasury Secretary Nicholas Brady, in a speech to a meeting of the National Association of Business Economists on Feb. 26. Brady said: "We've got ourselves down to an irreducible minimum in this country, in terms of purchases that have been postponed. Half of our cars are over seven years old. The mileage on cars turned in against new car purchases has skyrocketed. And in regard to the automobile industry, we can talk about all these nice theories; the truth of the matter is that if you go back and look at the history of the automobile industry over time, what happens to this country is, about every seven years we decide as a country we're going to buy a lot of cars. If you believe that theory, which has come about every seven years—it peaked about 1984 and 1985—in my opinion it's going to start climbing up very rapidly again this year, because our cars are simply old and have reached a point where people are going to decide it's time to move."