Financial Sharks Call For Dismantling Of General Motors, As LaRouche Warned

by Richard Freeman

General Motors' announcement April 19 of a $1.1 billion loss for the first quarter of 2005, and the disclosure of a far worse situation in its hemorrhaging of cash flow, created the opening for the Wall Street financial institutions to intensify their campaign to tear apart GM. Within hours, they called for the permanent closing of several assembly and feeder plants, which would dismantle considerable production capacity, and lay off many tens of thousands of workers. GM would break into several pieces, confirming what Lyndon LaRouche warned of the week of April 11. GM may undertake some of these close-downs as early as this Summer.

One day later, Ford Motor announced that its profit fell by 38%, compared to the same quarter last year, and that of the profit it did make, 60% came from its financial services. On that same day, Standard and Poor's rating service downgraded the credit rating of Visteon—America's second largest auto parts supplier, and the largest supplier to Ford—to three levels below junk bond status, which will effectively cut it off from the credit markets. The concatenation of GM, Ford, and the auto parts suppliers' deterioration has sent GM's and Ford's stocks and bonds plumetting, putting the world financial system at the verge of a meltdown.

No solution within the constaints of the "markets" exists. It is urgent that LaRouche's April 13 "Emergency Action" program is immediately adopted to retool GM and the auto sector's embedded advanced machine-tooling capacity, along with redeploying its skilled labor force, for the reconstruction of the American economy. This would include the production of locomotives and systems for magnetically levitated rail and high-speed rail.

GM's Breakdown

General Motors' first quarter loss of $1.1 billion, revealed April 19, was bigger than its mid-March projection $850 million. However, the loss is even worse than it appears at first sight. GM lost between $1.3 and $1.5 billion on its automotive operations, and lost another approximately half-billion dollars on "special items." Were it not for the $729 million profit that GM's financial arm GMAC recorded, GM would have lost $2 billion during the first quarter.

However, GM's worsening cash flow picture is even more alarming, and unexplained by its official announcement. In January, GM had said that it would run a positive $2 billion cash flow for the year 2005; then in mid-March, it "re-adjusted" that, and said it would run a negative $2 billion cash flow for the year. However, according to the April 19 Bloomberg.com, GM had for the first quarter, a one-time "special charge" cash flow loss of $1.7 billion to cover the severing of its ties to Fiat, and an additional negative cash flow of $3 billion on regular operations, *for an astounding negative $4.7 billion cash flow during the first quarter alone.*

When, a company runs a negative cash flow, it must draw down that amount from its holdings of cash and marketable securities. Were GM to draw down its cash flow at this, or even a slightly less rapid rate, it would burn through its allegedly "impregnable" cash reserve of about $25 billion in less than 15 months.

GM also announced that relative to the same quarter last year, it produced 12% fewer vehicles, and sales fell 5%.

Lies About Health Care Benefits

In announcing its first-quarter results, rather than acknowledge its incompetence, GM told the lie that its problems were due to "health-care costs."

Increasing the drumbeat of the past three months, GM Chief Financial Officer John Devine told a conference call for bank analysts and reporters April 19, "We have to address some very serious cost issues, and health care is at the top of the list." Devine then delivered a direct threat to GM's workers, asserting that should GM continue to burn through cash flow the way it did during the first quarter, then "it could withdraw up to $6 billion in cash over the next 18 months from a $20 billion fund set up to provide for retired U.S. union workers and their dependents," in the words of the April 19 MSN.com. Devine stated, "We can extract from [the health fund] pretty aggressively. If we need it to run the business, we're going to do it." Thug Devine's threat to loot the funds that GM holds in its health-care trust, is what several American steel makers did in the months preceding their bankruptcy in the 1980s and 1990s, which left the retired workers with no health-care benefits.

Tearing GM Apart

Using the setting of GM's first-quarter loss, the banking industry's auto analysts put forth the banks' remedy: Break

The Detroit News

Analysts: GM must shrink

Stock market continues to struggle

The Wall Street campaign gears up against GM.

GM into pieces. Rod Lache and Michael Heifler of Deutsche Bank released an April report saying GM will "likely be forced to undertake a major restructuring that could mean the closure of four assembly plants and the elimination of 20,000 to 30,000 jobs in North America," according to the April 19 *Detroit News.* The Deutsche Bank report continued to say it could also entail dropping a brand—most likely Buick—renegotiating health-care benefits with the UAW union, and cutting benefits for laid-off workers who are collecting most of their base pay. It "recommended" a policy that cut UAW worker health benefits by $2,500 per worker per year. It predicted that GM, after the cuts recommended, "could emerge as a smaller but healthier automaker."

Meanwhile, Michael Bruyensteyn, an analyst with Prudential Equity Group, Inc., predicted that GM will have to come up with a plan "to eliminate or trim 1 million cars and trucks worth of excess capacity, equivalent to eight assembly plants, within the next two quarters," as paraphased by the April 19 Bloomberg.com. That is, Bruyensteyn's prediction would be borne out within the next six months.

Craig Hutson, an analyst at Grimme Credit, a corporate bond research company, said GM may have to trigger a restructuring at some point, although he claims that that point has not been reached yet. Showing a mental disconnect, Hutson proudly bragged that "the worse things are for GM in 2007, the more negotiating leverage they have with the UAW."

The difficulty is that in March, Standard and Poor's rating service rated GM bonds "BBB-", which is just inches above junk bond status. During the week of April 18-22, GM's bonds were in meltdown mode. During that period, the premium yield that GM must pay on its corporate bonds averaged 680 basis points (6.80 percentage points) above the yield on a U.S. Treasury bond of a comparable maturity. For comparison, the government of Brazil's bonds must pay a premium yield of, on average, 430 to 440 basis points above the yield on a U.S. Treasury bond of a comparable maturity. GM's bonds are worse than those of Brazil, and investors are treating GM's debt as if it were already of junk bond status. A further financial or economic difficulty could send GM, with its $302 billion in outstanding debt, crashing into junk bond status, followed by bankruptcy. This would have enormous implications for the world financial markets.

In this setting, President Bush showed himself to be of the mental composure of a man who belongs in a rubber room. On April 19, Bush took time out from trying to loot Social Security by stating in a CNBC interview, in response to GM's large loss, that GM "is going to have to learn to compete. . . . In other words, if the consumer starts saying 'we want a different kind of automobile,' they're going to compete once again with, say, the Japanese automobile manufacturers to . . . keep their lion's share of the market." So, faced with disintegration of a giant company, whose collapse could bring down the world financial system, not to mention the U.S. productive economy, Bush situates everything as a "fight for market share."

Ford's Difficulty

With the crisis sweeping through the auto sector, Ford, the second-biggest U.S. automaker, whose $172 billion in outstanding debt is rated by Standard and Poor's, like GM's, as one step above "junk" status, announced April 20 that its first-quarter profits fell to $1.21 billion, which is 38% below the level of the comparable quarter a year ago. However, 60% of this "profit" was earned by Ford Credit, Ford's financial arm. Company executives stated that auto operations may not earn a profit this year.

Ford Chief Financial Officer Don Leclair also announced a dismantling plan, saying that "we have more manufacturing capacity than we need." He then indicated that Ford is looking outside the United States for low-cost manufacturing opportunities, such as in China. "We're aggressively planning to invest in growth areas and allocate our resources where it makes the most sense in the long term."

Simultaneously, auto parts supplier Dana Corp said first-quarter earnings plummeted 72% because of higher steel costs, a component shortage that hit shipments of heavy duty axles, and production cuts by GM and Ford.

Ford, which is finding it increasingly difficult to pay its debt, announced it is looking at buying back bonds when yields are too high, and will likely reduce bond issuance at its finance arm. S&P on April 8 had lowered its outlook on Ford debt to "negative," meaning it is more likely to be downgraded than to remain stable.

Worsening the crisis at Ford, S&P cut the debt ratings of Ford's major supplier, Visteon, America's second-largest parts producer, by *three* steps, taking it to "B-plus," from the highest junk rating of "BB-plus," citing pressures on earnings and cash flow. Visteon, which has a worldwide workforce of 70,000, depends on Ford for 70% of its sales revenue. Under a contractual arrangement during the spin-off of Visteon from Ford in mid-2000, Ford agreed to rescue Visteon if it got into financial trouble—because Ford's own survival would be at stake. S&P's downgrading of Visteon will therefore hit Ford severely.

The breakdown of the auto sector shows that the LaRouche plan is not only urgent, but must take shape within weeks.