DELPHI BANKRUPTCY

Congress Must Stop Global Vultures From Destroying Auto

by Richard Freeman

The Delphi Automotive Corporation management's massive fraud on a New York City bankruptcy court, which began on Oct. 8, sends the clearest possible signal to the United States Senate, whose members received memos six months ago from physical economist and statesman Lyndon LaRouche warning of the "strategic bankruptcy" of the auto industry. The U.S. Congress must intervene to support and regulate the American auto industry as LaRouche proposed, giving it credit, and a new national mission to "retool" to build vitally needed new economic infrastructure for the nation; and it must protect auto from the global gang of destructive vulture capitalists of which Delphi CEO and hatchet-man Robert "Steve" Miller is an operative. Without such urgent Congressional action, the integrated auto industry will vanish in the United States—as did the steel industry. A Delphi bankruptcy will soon be followed by waves of other auto-supplier bankruptcies, provoked strikes by the United Auto Workers Union (UAW) as its contracts are destroyed, bankruptcies of General Motors and then the other major automakers, broken into pieces to be sold off to global vulture "equity funds" and moved abroad.

Following the model set by Northwest Airlines' CEO Douglas Steenland's bankruptcy move in September, Miller took a viable, non-bankrupt corporation into bankruptcy court, in order to "gain protection" from its wage contracts, eliminate its pension and healthcare benefits, provoke union strikes, and close most of its plants—and give big bonuses to its top executives to buy their immoral loyalty to his wrecking operation. Thus looting Delphi, Miller's gang's strategic objective is to transfer its cash flows into offshore markets of hedge funds and "equity funds," and move most of its remaining U.S. production abroad, to an auto industry below U.S. Federal minimum wage levels.

This crime at Delphi was precisely predictable as soon as vulture "Steve" Miller was brought to the scene; just as fellow-vulture Kirk Kerkorian's buy-up of GM shares has been predictably aimed at forcing a bankruptcy of GM's auto-production operations. Miller had been Delphi CEO for all of three months before attempting to bankrupt the firm. Prior to that, he had gone from CEO positions at one after another leading American steel producer—LTV, Bethlehem Steel, Morrison-Knudsen—using bankruptcy to gut each company, and selling them off to UBS- and Rothschild-backed vulture fund operative Wilbur Ross; Ross, in turn, sold them to mega-vulture and Tony Blair moneybags Lakshmi Mittal's Mittal Steel Corp., now the biggest in the world. Mittal's steel plants across the globe feature worn-out capital and machinery, low wages, no pensions, and *rising* prices for the steel they produce, including flat-rolled steel bought by the U.S. auto industry.

The United States economy could not recover from the loss of skilled labor and high-technology machine-tool capability now threatening if the auto industry is broken up and completely outsourced, as these banks, hedge funds, and vultures plan. Globalization has to be stopped here, by Congress, in the battle of Delphi—and thoroughly reversed.

Vultures After Loot

On Oct. 8, new Delphi CEO Miller, with newly hired bankruptcy advisors from Rothschild, Inc. in New York—Wilbur Ross's firm—and bankruptcy lawyers from Skadden Arps, moved for Chapter 11 bankruptcy protection in order to dismantle and loot the Troy, Michigan-based Delphi, which with $28 billion in annual sales, is one of the world's largest auto parts-making companies. Ross had told the *Detroit News* on Sept. 27, that he might want to buy Delphi after it were "reorganized" in bankruptcy by Miller. Miller rushed to get the bankruptcy filed before a new U.S. bankruptcy law took

The U.S. auto industry is being chopped up by thuggish predators, to be sold off to global vulture equity and hedge funds, and moved abroad, where workers will be paid subsistence-level wages.

effect on Oct. 17, so that he and the pirates of Delphi's top management could deal as much loot as possible to themselves. As LaRouche grimly quipped, of that aspect of the fraud, "After what the Delphi top management has done, the United States owes an apology to Martha Stewart."

Miller has delivered an ultimatum to the 24,000 Delphi production workers in America who are represented by the United Auto Workers (UAW) union (Delphi employs 50,000 employees in the United States, of whom 32,000 are production workers): Take a 63% pay cut, and a cut in pensions and retiree medical benefits of roughly the same percent. This is one of the steepest wage- and-benefit cuts in the annals of labor history.

Under Chapter 11 bankruptcy, there is a roughly two-month period when the interested parties are to work out an acceptable agreement. Miller announced Oct. 8 that if the UAW does not "willingly" accept his demands, on Dec. 16 he will ask the bankruptcy judge to void the UAW-Delphi contract; Miller then will unilaterally impose these demands. Workers would be reduced to paupery, scarcely above Wal-Mart standards of living. At least one UAW union, local 686 in Lockport, New York, is already warning its 4,000 members to be prepared to go on strike at that point.

Strikes at two Delphi parts plants virtually shut down GM across North America for nearly two months in 1998, costing $2 billion in losses.

But when it comes to executives, Miller mandated a proposal—which would not have been allowed by new bankruptcy law, had Delphi filed for bankruptcy after Oct. 17—that pays the executives $88 million in bonuses to stay with the company. About 486 U.S.-based executives would be eligible to *receive cash payments equal to 30-250% of their annual base salary.*

On the cynical, self-dealing policies of Delphi management, Lyndon LaRouche said on Oct. 7, "These people have cut their budgets, all right—they've cut morality out of their budgets! Why should we allow self-dealing *increases* in the pay of mismanagement executives who are doing an incompetent job, and an immoral job? They couldn't raise their pay under the new bankruptcy law; that's why they're sneaking fat bonuses in, under the old law, before it expires. I say we should cut their salaries. . . . I ask these mismanagers, at Delphi and at GM, 'Have you no sense of shame?' "

Worse, Delphi stated that under bankruptcy protection, it intends to close or sell a "substantial" number of its 23 U.S.-based production facilities, sending most of the production to its operations overseas, where the workers already work at slave-labor wages. A minimal workforce, working at below-subsistence living standards, will be kept on to operate the shell of operations that will be left in America.

Chain-Reaction Effects

But the Delphi bankruptcy is just step one: The City of London-Wall Street financiers who actually drafted this plan, have as their final objective to decimate the entire U.S. auto industry, and the U.S. manufacturing base, culminating the last 40 years' post-industrial policy.

Moreover, this plan is producing lawful, if unintended effects. A chain-reaction failure of suppliers of materials to Delphi which are dependent on payment from Delphi, has started. As well, the follow-on effect that the Delphi bankruptcy has on GM, could trigger the violent disintegration of the derivatives-hedge fund market, which is greater than one-half quadrillion dollars in size.

The $12 trillion credit derivatives market is being shaken, again, as in the Spring GM-Ford debt crisis. According to the *Financial Times,* "investors" suddenly see GM as likely to go bankrupt. "Credit default swaps" on GM debt increased their spread suddenly so that in two days, Oct. 11-12, the cost of insuring $10 million in GM debt against default, had risen from $77,500 to about $100,000. And yields on the debts of GM and its finance arm, GMAC, were moving sharply in opposite directions—GM's down, and GMAC's up. This was triggered by the signals from Standard and Poor's analysts on Oct. 11 that "the sale of GMAC was becoming likely"—that is, that GM, Kirk Kerkorian's Tracinda vulture fund, and other hedge funds would probably arrange the hiving off of GMAC from GM.

In March, LaRouche warned in *EIR* of the damaging consequences that a bankruptcy of GM, Ford, and the parts suppliers like Delphi would have on the economy. America would lose the technologically advanced machine tool capacity and productive labor force embedded in the auto industry, crucial to America's survival. He proposed on April 13, that the Senate take Emergency Action for government intervention to retool the auto sector to produce capital goods, especially for infrastructure, such as high-speed rail and maglev, power plant components, etc.

Today's intensified phase of the auto sector crisis, pivoted around Delphi, has left all other alternative proposals as worthless.

Delphi CEO Miller is merely a thuggish predator for hire. In 2002, Miller was Bethlehem Steel's CEO, when he put it into bankruptcy and passed off its billions of unfunded pensions off to the Federal Pension Benefit Guaranty Corporation (PBCG) to pay. He then sold Bethlehem Steel to pirate Wilbur Ross.

Today, as part of Delphi's bankruptcy "bargaining," Miller has demanded of its UAW workers:

- Slashing their hourly wages from $26-30 per hour in base pay, to $10-12 per hour, a 63% cut.
- Presently, current and retired UAW workers have lifetime health insurance coverage. Under Miller's plan, UAW workers, at retirement, will receive a lump-sum payment of $10,000. One UAW official stated, "Once you use it up, that's it. One catastrophic incident, and the sum is gone."
- Cutting their pension benefits, as Miller plans to pass them off onto the PBGC. The PBGC estimates that the unfunded deficit in Delphi's pension plans is $10.9 billion. But the PBGC has stated that it will guarantee to assume no more than $4.1 billion of that deficit, so that the annual pension benefits of employees on retirement will have to be cut.

Spear-Point Against Big Three

But Miller is explicit that the destruction he is doing at Delphi is merely preparatory to a second step. The Delphi bankruptcy has so dislodged the auto sector and manufacturing America, that were he to succeed in smashing labor and carrying out the radical downsizing at Delphi, this template could immediately be applied against GM, Ford, and DaimlerChrysler, ending the auto sector as we have known it for 70 years.

Miller told the Oct. 9 *Detroit News* that this is exactly what he told Delphi's board when it met to consider his recommendation to file for bankruptcy. "I made the recommendation. The [board] crisply understand[s] what choices we had. *Many of them did put it into the context of this being a watershed moment in the history of the auto industry . . . and of what happens here being a precursor to what may happen to the Big Three*" [emphasis added]. "Traditional employers, Miller added, "with traditional defined-benefit labor contract arrangements here, are going to be exposed to competition." Elsewhere, he calls these contracts "an anachronism."

But the bankers' plan, here administered by Miller, has high-stakes pernicious consequences in the physical economy and financial system.

Delphi itself buys $14 billion worth of goods from 3,800 nationwide suppliers annually. Miller announced to the Oct. 11 *Business Week,* that as part of bankruptcy, Delphi has delayed payment to some suppliers. Some of them are small, family-run machine-tooling shops of 20 workers or less. Neil DeKoker, head of the Original Equipment Suppliers Association, the auto-parts maker trade group, said, "Our industry is under extreme pressure. If these suppliers have a significant customer that goes into Chapter 11 which affects the flow of payments, for some of them that could be the tipping point."

Delphi and its financier backers could also blow out the world financial system, by virtue of the high-stakes game it is playing with GM. In 1999, Delphi was formed as a spin-off from GM; GM reportedly has a contractual obligation to pay for the pension and health benefits of nearly 20,000 GM workers who went to work for Delphi in 1999. The obligation could be as high as $12 billion, but the financially-troubled GM is contesting that amount. But Delphi's pressing that claim sharply could hit GM hard.

GM's car production is also highly dependent on Delphi, and a Delphi inability to deliver parts would shut down GM's assembly lines. On Oct. 11, Standard & Poor rating service downgraded GM bonds to BB-, which is three levels below investment grade. Earlier, on May 5, S&P's first downgrade of GM into junk bond territory, set off a violent disruption in the derivatives-hedge fund market, with tens and possibly hundreds of billions of dollars of hedge fund capital wiped out. This required Alan Greenspan's Federal Reserve to massively pump liquidity into the system, inciting the growing hyperinflation.

On Oct. 12, Tom Foley, senior analyst at S&P stated about market turbulence, "We think that could happen again, it could happen in a more severe manner."

This confirms exactly what LaRouche forecast in March. The Delphi looters and the hedge fund managers must not be left in control. To prevent meltdown, it is time to forcefully adopt LaRouche's solution.