LaRouche: Move Fast To Save Auto; GM Sliding To Bankruptcy

by Paul Gallagher

A late-February forecast of debt blowout in the American auto sector, clearly announced by Lyndon LaRouche when all "accredited" economists were proclaiming an accelerating U.S. economic recovery, was confirmed in the first week of May. It became evident then that General Motors, if not also Ford Motor Co., and scores of their supplier companies, are mudsliding faster and faster towards bankruptcy and dismemberment of the most important machine-tool and related industrial capabilities remaining in the American economy.

LaRouche, on Feb. 27, had pointed to large volumes of short-term debt payments piling up on GM and Ford's doorsteps this year, while they made the problem rapidly worse by large money-losing "incentives," attempting to keep autos moving to buyers whose falling real incomes meant that they could no longer afford them. On March 3, LaRouche asked publicly: "When will GM and GMAC go? Who will refinance this bubble, this debt swindle?"

A series of shocks on May 2-5—GM's and Ford's fourth straight month of plunging sales; GM's loss of access to unsecured credit; corporate vulture Kirk Kerkorian's circling of the company; and then the unprecedented dumping of Ford and GM's debt (combined, $453 billion) into junk-bond status on May 5—called LaRouche's question. He had warned that the auto giants' desperately incentivized credit and price practices had created a bubble of unsecured and unpayable debt, sitting alongside the U.S. housing debt bubble, ready to burst.

LaRouche had meanwhile spelled out, in an April 2 memo to Congress and in a mass-circulation pamphlet, "Recreate Our Economy," the potential to save these capabilities, by government intervention to retool for production of vital new economic infrastructure such as high-speed rail corridors (see "LaRouche: To Save Auto, Build Rail," *EIR,* May 6). He had insisted in these policy papers that it is simply not possible, nor desirable, to attempt to force the sales of more cars and trucks, while the other major means of transportation have shrivelled away or, like the airlines, are collapsing financially.

Now the rapidly onrushing problem of saving the auto sector from physical collapse is on the desks of Congressmen, although few have yet acknowledged that publicly. In response to the escalating events of May 4-5, LaRouche urged that Congress has to "move fast," learn the importance of national economic infrastructure, and intervene to give the auto sector a new mission. His proposal is the only effective policy on the table.

Nowhere To Borrow

The May 5 downgrade of GM and Ford debt by Standard and Poor's rating agency jolted the entire corporate bond market, and will destabilize Third World nations' debt interest rates in particular. The companies' combined nearly half-trillion dollars of "junk" immediately constituted about 10% of the global junk-bond market. As soon as one of the other rating agencies follows suit, many pension and other funds, banks, and so on, will be required by law or regulation to get rid of GM and Ford bonds. Adding to the shock was that S&P put GM's down two more notches on May 5 (Ford, one notch), deep into junk status, after a downgrade only one month ago. The agency expects GM to burn up cash this year to the tune of at least $5 billion of its $18-19 billion reserve. Said chief analyst Scott Sprinzen: "We don't expect funding problems [running out of operating funds] in coming weeks and months, but no one knows—they're in uncharted waters." And S&P said it is considering still a further downgrade of the *unsecured* debt of General Motors Acceptance Corp. (GMAC, its huge financial arm), which constitutes nearly $150 billion of the total.

After assessing that GM and Ford will not be able to reverse the steep loss of sales of gas-guzzling SUVs and pickup trucks—on which they have solely based their profits for nearly a decade—S&P blamed the lunatic incentivizing

LaRouche had warned of: "Even with extensive efforts to renew its products, GM continues to lose market share in North America, despite an aggressive pricing strategy—and we believe the company's reliance on discounts has itself been detrimental." The agency pointed to losses in Europe as well, and even in China—GM management's foolish idea of a "Global Motors" strategy which abandons most production in the United States, is unworkable as well as extremely damaging to the U.S. economy.

And notably, S&P echoed the judgment of LaRouche in March, and of competent auto analysts based in the U.S. Midwest and published in the *Detroit News* in late April, that the Wall Street strategy of drastic shrinkage of GM is also unworkable. Those analysts warned that GM management's austerity strategy—it has already closed or idled five plants and laid off 15,500 production workers since January—will shrink the productive company and its sales, but will not shrink its debt, bringing it into bankruptcy *faster.* GM's "net debt" position—short-term debt due, vs. cash on hand—has deteriorated by $19 billion since the end of 2003. S&P's release added, "It is questionable whether GM's relative competitive standing has improved as a result of extensive cost-cutting in its North American operations. The company has downsized operations through curtailing excess production capacity, but the boost to its efficiency has been undermined by market-share losses. The company has significantly reduced the size of its workforce, but total personnel costs have risen."

General Motors was already frozen out of the unsecured corporate credit market, when its sales fell 7.7% in April, the fourth straight month of steep losses relative to one year earlier. Ford's sales were down 5.1% from a year ago (8% in their pick-ups and SUVs). On May 3, Bloomberg News reported that GM/GMAC hasn't sold bonds to institutional investors in the United States since November 2004. The "spread" on its 10-year bonds—what it would have to pay if it did issue bonds now—was nearly 7% above the rate on U.S. Treasury bonds, *before* the May 5 downgrade to junk; that was already worse than many junk-rated companies have to pay. However, GMAC has $50-$60 billion in debt maturing this year. How can it pay or roll that debt over, when shut out from the credit market?

According to GM spokesman Jerry Dubrowski, on April 30, GMAC will use its $18.5 billion in cash to pay maturing debt—it also claims to be able to *loot a $6.5 billion "reserve" out of its employees' pension funds to pay down debt*—and sell more secured bonds, pledging GMAC's streams of auto-lease and auto-loan payments to the lenders. Otherwise, junk-bond status will mean paying a prohibitive 14-15% total interest rate on a 10-year bond. To make things worse, GM and Ford's combined underfunding of their pension plans, by more than $100 billion, is nearly one-quarter of the entire deficit of all corporate pension plans in the entire U.S. economy. The Federal Pension Benefit Guaranty Corporation, fearing that it may have to absorb GM's large pension obligations, may decide that it has to move preemptively, in order to have a claim on the same auto-loan and auto-lease income streams being pledged by GMAC to banks and bond-market lenders.

In all, a prospect for bankruptcy and dismemberment of the company.

Wall Street Vultures Circle

U.S. stock markets were sent "booming" on May 4 by a strike on GM, by corporate vulture Kirk Kerkorian, who made a sudden move to raise his holdings to 9% of all GM stock. Showing the ghoulish character of this Wall Street move, the big auto supplier ArvinMeritor's stock also boomed that day, as it announced that it was closing 11 plants and laying off 1,830 workers. After the severe auto sales slump of the Bush "41" term, corporate raider Kerkorian had tried to seize control of Chrysler Corporation in 1994-95. What he wants now is to bite off and get control of the residential mortgage unit of GMAC, the source of half of GMAC's profit, although it represents less than 20% of its business.

The *Wall Street Journal,* in several articles on May 5, made clear that Kerkorian's strike was aimed at enforcing Wall Street's strategy upon GM. More broadly, the fact that a financial vulture firm like Kerkorian's is circling General Motors, shows that GM is being taken down faster than anyone had thought.

Wall Street's demands have been clearly proclaimed at least since March. On March 17, Stephen Girsky, chief auto analyst at Morgan Stanley investment bank, stated: "The company's market share doesn't support its size. They have too many plants, too many workers, too many models, too many dealers, and their employee benefits are too high." Merrill Lynch, and Citigroup's investment bank, Bear Stearns, have published repeated "analyses" insisting that GM must get rid of 25,000-30,000 of its remaining 117,000 production workers (down from 530,000 a generation ago!) and close up to 20 plants. GM management has already closed or idled five plants, and five others are down to only one shift.

Second, the Wall Street strategy demands drastic cuts in the auto companies' healthcare and retirement insurance—making employees pay 25-30% of the costs, excluding many drugs from coverage, and cutting higher-cost HMOs. And third, "the Street" insists that GM must sell off the residential mortgage unit of GMAC, its biggest source of profit, and Kerkorian's apparent prey. That would leave the remainder of the company certain to go bankrupt that much quicker.

LaRouche's "Super-TVA policy" for rebuilding the economy's crucial infrastructure, taking the auto sector's capabilities into that mission, needs fast action by Congress, against this fascist "solving" of financial crisis by of ripping out production and gouging labor. The U.S. does not need more SUVs, but the technology-intensive machine-tooling capacity and skilled labor of the auto sector would be critical in building such technologies as a magnetically levitated train system.