

# A Delphi Bankruptcy Threatens To Trigger a Pension Blowout

by Paul Gallagher

The U.S. news media are consumed with accounts of many tens of thousands of Americans filing for bankruptcy in the last days before a new, more stringent Federal bankruptcy law takes effect Oct. 17. But those Americans, according to one recent University of Pittsburgh study, have an average personal income below \$25,000 a year, and credit card debt alone greater on average than the worth of their total assets, other than a home. The flood of filings is concentrated in the collapsed industrial heartland states of the Midwest; it simply shows the growing poverty and debt burden of the working population. With the ongoing collapse of real wages and explosion of household debt, these bankruptcies, only slightly accelerated, were a matter of time.

The critical significance of the shift to the new law, is rather the sight of major industrial companies diving into bankruptcy before the deadline; in particular, the menacing bankruptcy of Delphi Automotive Corp., based in Troy, Michigan, the largest U.S. auto-parts supply company with 180,000 employees. Delphi's threat to go into bankruptcy before Oct. 17 poses a major financial threat, in turn, to General Motors; could trigger many other bankruptcies among auto supply companies; and is sending shivers through the Federal Pension Benefit Guaranty Corp. (PBGC) because of potentially hundreds of thousands of employee pensions at stake.

As speculative hedge funds, vulture capital funds, and "turnaround" (bankruptcy) specialists move into the auto and airline industries in a major way, the question is posed whether a potentially criminal conspiracy is under way, to set a policy of using the Federal bankruptcy law to tear up labor contracts and abandon pension plan agreements on a scale far bigger than what has been seen in the pension crisis so far.

The speculative-bankruptcy threat to the major transportation industries also makes clear the urgent necessity of Congress implementing an industrial rescue policy proposed to them by Lyndon LaRouche in April and May. LaRouche's memos indicated how the auto sector, with its vital machine-tool capabilities, could be saved by "re-tooling" it to build infrastructure—such as new high-speed rail corridors—with Congressionally mandated credit issuance for that purpose. The destruction of rail, port, road, air, and navigation infrastructure by Hurricanes Katrina and Rita has given this policy additional urgency.

LaRouche's memos have since been backed by union locals and introduced and passed as memorials in a dozen state legislatures and county and city councils in the industrial heartland. During the same months since April, the auto industry's management, rather than pushing for such a national-interest mission, has attempted a suicidal "sales giveaway Summer," which had to be pronounced a money-losing failure when GM and Ford sales plunged back in September far below their year-earlier levels.

## Hedge Funds Circling

On Oct. 3, Moody's further downgraded GM debt two levels below junk status; and Standard and Poor's put all GM/GMAC and "related credit activities" on negative credit watch, preliminary to downgrade further into the junk basement. On Oct. 6, they downgraded Delphi's credit to the seventh level of junk because its management was obviously preparing bankruptcy. Delphi has total debt of about \$6 billion, and total pension and other post-retirement employee benefits that are underfunded by about \$14.5 billion. It lost \$4.8 billion in 2004 and \$741 million through the first six months of 2005. According to the agencies' auto analysts, the failure of the "incentive Summer" sales campaign, with the collapse of particularly SUV sales in September, was only the lesser problem; the greater one is GM's \$6-10 billion exposure to the looming bankruptcy of Delphi Automotive, in which GM may have to absorb Delphi pension obligations.

Vulture-capital billionaire Kirk Kerkorian is demanding that GM appoint his lieutenant, "turnaround" specialist Jerry York, to its board. This is part of a general hedge fund move on the auto industry, featuring vultures Kerkorian, Carl Icahn, and Wilbur Ross in particular. Their targets include major auto suppliers Delphi, Collins and Aikman, and Federal-Mogul Corp., and of course GM itself. All of them, as a matter of practice, now attack firms with the help of allied hedge funds. And all of them have made it a practice, when acquiring ownership and influence over firms, to insist on stripping out pension plans and retiree healthcare benefits completely—as brutally demonstrated in the steel and textile industries, for example.

Big hedge funds are also moving to buy up both the distressed debt and the aircraft lease agreements of the major

airlines, looking for both drastic operating-cost cuts, and ticket-price revenue hikes from these airlines. A report Oct. 5 in *Forbes* focussed, in particular, on the recent purchase of a Daimler-Chrysler unit which finances 250 jet aircraft leases, by the “secretive \$16 billion New York hedge fund Cerberus Capital—which has also been reportedly buying auto-sector equities.

An economist with experience with the PBGC told *EIR* that insiders at that agency are getting extremely worried, because “corporate turnaround specialists, or vulture investors,” with hedge fund allies, are now targetting the equities and debt of many weakened companies in those sectors; and because those vultures’ strategy is to use bankruptcies, to axe pension plans, health insurance benefits, etc. The PBGC’s own deficit, last reported at \$23 billion in September 2004, could zoom to the vicinity of \$100 billion “overnight” with a wave of bankruptcies set off by that of Delphi.

A sign of PBGC’s worries was a “warning piece” in the Oct. 3 *New York Times*, based on an unusual release from the PBGC, of “closely held government data” showing the scale of GM’s actual pension deficit. The PBGC’s latest estimate is that GM’s pension plan—which GM’s own public reports say is fully funded—actually is underfunded by \$31 billion “on a termination basis”; that is, for example, if GM were to go bankrupt and abandon its pension plan. GM’s is by far the largest pension plan, covering 600,000 workers and retirees. On Oct. 4, a second *Times* article revealed a second PBGC release, this time on Delphi’s pension plan. While the company says it has a \$4 billion deficit, the PBGC estimates that underfunding at \$11 billion.

### Delphi’s Brutal Demands

The Delphi bankruptcy “deadline” of Oct. 17 is being threatened by its new CEO, “turnaround specialist” Robert Miller, with vulture capitalist Wilbur Ross and his hedge fund allies threatening from the outside. The same deadline was used by Delta and Northwest Airlines to time their bankruptcies. The new Federal bankruptcy law which takes effect then will place more stringent requirements on companies in bankruptcy, requiring them to produce a plan to get out of bankruptcy within 18 months, and cut down the multi-million-dollar executive pay packages the likes of Miller can have during a bankruptcy.

On Oct. 6, Miller’s Delphi management team issued to the United Auto Workers, a set of “the most brutal demands in memory”—as one Detroit journalist called them—as the supposed price for Delphi *not* declaring bankruptcy within 10 days. Delphi demanded such drastic cuts in wages and benefits for workers that, “according to one UAW [United Auto Workers] local union, its members would no longer be able to afford to buy the cars they help build.”

Delphi demanded:

- Immediate wage cuts of up to 63%, forcing the average wage in Delphi plants down to the equivalent of an unskilled

entry-level job, \$10-12 an hour.

- Cuts in the benefit levels of the hourly workers’ pension plan.

- Complete replacement of the union retirees’ healthcare plan by a single, \$10,000 payment to each retiree—enough to buy a private health insurance for only one year, under current insurance costs. This amounts to the vulture-fund tactic of eliminating retiree health benefits in one stroke.

- Elimination of cost-of-living pay increases.

- The right to close, sell, or consolidate most of Delphi’s U.S. plants within three years.

- Elimination of the “job bank” which is universal in the UAW contract, and which provides pay and benefits to laid off workers during the life of a contract. This axes 4,000 workers from benefits.

- Increased pay for 21 Delphi executives—an outrage which the new bankruptcy law would not allow.

- If the UAW will not agree immediately to this wholesale abandonment of wages and benefits, Delphi will go into bankruptcy court and demand the court approve even worse cuts.

- In addition, Miller demands a capital infusion into Delphi from GM, of at least \$6 billion.

A leaflet circulated to members by one UAW local declared, “With that package, the UAW member would not be able to afford a vehicle that our products are assembled into.” But, the leaflet continued, “If Delphi files bankruptcy, the above proposal they made to the UAW will look better than the restructuring proposal it submits to courts.” That would add closing plants immediately and permanently, throwing thousands out of work, and would hit other companies in the auto supply chain with bankruptcy.

The role of the hedge funds and vulture capitalists like Ross, Kerkorian, and Icahn in such a killer corporate bankruptcy strategy, is that they sit ready to buy up bankrupt hulks of firms that result, and merge them into what would become virtually a minimum-wage auto-supply sector, stripped of much of its machine-tool capabilities and its reservoir of industrial skills. The costs of abandoned pensions which would fall on the Federal government would dwarf the scale of previous years.

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