Congress Reads 'My Pet Goat' As Planes Hit U.S. Auto Towers

by Paul Gallagher

Perhaps the most devastating week in the U.S. auto industry's long history ended on March 31 with a mild letter of protest by 14 Members of Congress, but no sign of movement towards action to preserve and use America's most versatile industrial capability.

While the 50,000-worker Delphi Corporation was demanding clearance in bankruptcy court to virtually liquidate itself in North America, and General Motors was in a desperate scramble to try to avoid bankruptcy, U.S. auto sales in the first quarter fell below the level of 1999. Clearly, at least 50% of the unparalleled machine-tool capacity represented by the auto sector, is effectively now unused, awaiting a move by a Congress which is informed how to intervene to use it, but lacks the will. Should its inaction continue, the United Auto Workers will be forced into a long and damaging nationwide strike, and scores of modern tool-and-die floors and hundreds of machine shops in the auto sector will "be turned into concrete slabs in a year," as one auto unionist warned.

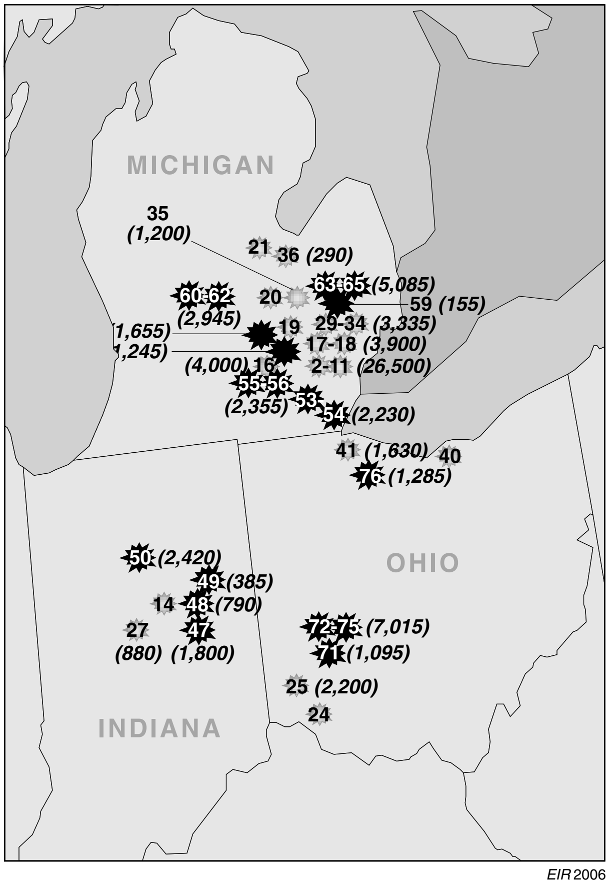
The alternative has been before Congress in outline for a year, in a series of memos by Lyndon LaRouche beginning April 2005, on "retooling auto" for other vital production. Should auto's capacity be shut down permanently rather than diversified, LaRouche warned in "Auto and World Economic Recovery" in September 2005, the formerly industrial United States will sink to virtual Third World economic status, unable to even maintain its own economic infrastructure.

As if to drive the point home: On the same day the 14 Congressmen complained about Delphi's abandonment of its North American production and workforce, the Administration acknowledged that it had lost control of both the cost and the performance of contractors rebuilding the levees of New Orleans and Southeast Louisiana for the Army Corps of Engineers, and may be unable to get the work completed at all—certainly not before the 2006 hurricane season hits this Summer. It is just such major, modern infrastructural tasks and projects to which, historically, the nation has been able to turn the versatile (and underutilized) auto industry at critical moments—from building tanks and planes, to railroads, to space rockets and satellites.

A 40% Industry Shrinkage

The incredible shrinking U.S. auto industry headed for strikes and general bankruptcy at the end of March. GM and Delphi announced offers attempting to flush as many as 40,000 more "excess" workers out of the industry in 60 days, by retirement buyouts at GM's expense. The idea that this would soften Delphi's demands to cut its workers' wages by up to 60% in bankruptcy court, were dashed almost immediately, when Delphi, on March 31, asked New York bankruptcy judge Robert Drain to throw out its contracts with the UAW and the International Union of Electrical Workers (IUE). That day, Delphi's pirate CEO, Steve Miller, told the court what UAW leaders had learned three to four days earlier: that the company also wanted to close or sell 20 of its 28 plants in North America, eliminate 75% of its 48,000-strong productive workforce, walk out of many of its supply contracts with GM, and abandon its pension plan costs either to GM or the Federal Pension Benefit Guaranty Corporation. Delphi would thus use the bankruptcy court, if Drain allows it, to become, in effect, a U.S.-based holding company, run by participating private equity funds, for almost entirely outsourced auto parts production. These 20 auto-parts production plants are even more machine-tool rich than the auto production and assembly plants.

GM, which was supposedly to provide the cash for the multi-billions in charges resulting from all this, is being driven toward bankruptcy by it. Not only GM's bonds fell, but its stock actually suspended trading in the NYSE's final hour on March 28, then fell by 4% when traded March 29. This followed news that: accounting reports of both GM and



This is only a part *of the auto capacity shut down or being shut down, in one core region of the country (the figure in parenthesis represents the production jobs lost). This map gave the picture* before *Delphi Corporation told the UAW and bankruptcy court that it would abandon 17 of its 22 plants in North America.*

its financial division, GMAC, have to be redone for 2003-05, and there are market rumors of large hidden losses on GMAC's books; new Security Exchange Commission subpoenas have been issued to both GM and GMAC for accounting investigations; GM's planned sale of 51% of GMAC to raise cash, is threatened; and GM acknowledged on March 28 that it may have lost access to its $6.5 billion bank credit line.

The company with the famous cash reserves is now scrapping for cash, trying on March 30 to sell its share of Isuzu Motors for $340 million, after having raised $2.7 billion by selling out of Fuji Heavy Industries, Suzuki Motors, and Daiwoo. But the statement by UAW leaders Ron Gettelfinger and Richard Shoemaker on March 31—that if Delphi's outrageous actions are approved by the bankruptcy court, "it will be impossible to avoid a long strike"—could mean early bankruptcy for GM. And that in turn promises a blowup of the global credit derivatives market. A Reuters March 29 story was headlined "Credit Investors Ponder a GM-Sized Hole in the Universe." The article reports, "For bond investors, a GM bankruptcy [brought on by a strike] would be hard, but a GMAC bankruptcy would be disastrous," because so much of the credit derivatives markets involve GM/GMAC debt. "To be blunt, it would be total carnage," a Standard & Poor's analyst was quoted. That prospect did not prevent S&P from downgrading GM debt again March 30, to six levels below junk bonds.

Production employment in the U.S auto/auto parts sector as a whole, which was at 1.3 million as recently as 2000, has plunged by 240,000 jobs net since then. But as of the third week of March, with the shocking "retirement buyout" announcements made by GM and Delphi, combined with shrinkages planned by Ford, Chrysler, and a host of parts makers—the miserable prospect is that another 300,000 net jobs will be gone by 2008 or sooner. (Studies by the Chicago Federal Reserve and others have shown three to four auto-supply jobs disappearing for every one in auto production and assembly). Thus, a devastating 40% loss of employment in auto in less than a decade, and a corresponding loss to the nation of high-technology industrial capacity.

The shrinkage of auto is a global phenomenon, and the result of globalization. Auto sales worldwide in 2005, for the thrilling Toyotas and the boring GMs alike, fell or stagnated everywhere outside China, India, Brazil, and Mexico. Total auto sales in the United States, which are going at a 16.7 million annual rate so far in 2006, were 16.9 million in 1999, when the United States had 20 million fewer people. Not surprising, when real wages have fallen three of the past four years, household debt is an all-time record portion of household income, and the savings rate has been zero or negative for 12 consecutive months in February. The same real-wage factors of globalization have lowered auto sales in Europe and Japan, and created pressures for cheaper and cheaper wages—as metals and other supply prices have hyperinflated.

Election Inaction?

The falling real wages of globalization are not reversible by more intensive globalization, which is leading instead to a financial blowout. President Bush's "let the free market handle auto" stance is typically, dangerously incompetent. The Congress, confronting 50% "excess" capacity in auto, along with painful and worsening unmet infrastructure needs laid bare, among other events, by the hurricanes of 2005, has a clear path. Facing the same conditions before, as in 1939-40, we have "retooled" auto, with government credit and under definite mission-oriented reorganization, to meet the nation's prime economic or military needs.

Where is the Congress—where are the Democrats—in this auto crisis? In a self-declared election season, in which promises are stressed and action is discouraged? The danger is that both the promises and the inaction are being paid for by financial-contributor networks of Felix Rohatyn's "Democratic" faction of synarchist financiers. These happen to include—in Rohatyn, Kirk Kerkorian, Mike Steinhardt of Cerberus Capital hedge fund, Wilbur Ross, and Steve Miller, Kohlberg Kravits Roberts, etc.—the same financial networks tearing up the auto industry.