EIR Economics

CONGRESS FINDS PROSTITUTION DOESN'T PAY

U.S. Auto Crisis Escalates To the Existential Level

by Paul Gallagher

Connecticut Sen. Joe Lieberman's Aug. 2 Democratic primary defeat signalled more than the end, in the 2006 Democratic Party, for the pseudo-Republican Democratic Leadership Council (DLC) Lieberman had headed, with its corrupt aiding and abetting the Cheney-Bush White House's lunatic permanent war policy. As the DLC was receiving its Lieberman comeuppance, others in Congress found they could no longer ignore the sickening drop underway in the U.S. economy, dragged down by the deflation of the housing-speculation bubble and the galloping collapse of the auto industry and its related sectors. So, time is also up on the broader corruption of the Congressional Democrats—relying on funds, along with policy instructions, from the New York-centered circle of mega-billionaires led by Felix Rohatyn, and from the New York—and Connecticut-based hedge fund operators, while Rohatyn and his ilk outsource, globalize, "restructure," and destroy American industry and skilled, well-paid employment.

Democrats in particular have been deluded or bought off into ignoring the rapid shrinking of auto, the closing down of the most machine-tool-productive major industrial capacity the nation has. The auto industry was ravaged by 30,278 mass layoffs in July alone, according to the Bureau of Labor Statistics, while many thousands of other auto workers, not being laid off, were taking early, permanent retirement "buyouts." Total auto sales fell for the sixth month in seven this year, far below last year's levels. The nation's biggest auto parts company—Delphi Corp.—was being 80% eliminated in the United States, to Felix Rohatyn's personal outsourcing plan formulated for Delphi management in 2005. Delphi's eight electronics systems plants, for example, are left with a combined total of about 600 workers still employed. But on Capitol Hill and even out in the election campaigns, a year and a half of silence—on auto's crisis, Lyndon LaRouche's February 2005 warnings of it, and his proposed Economy Recovery Act to save auto—was maintained in both parties.

And the "payoff" for the elected officials who have ignored such industrial wrecking by Rohatyn and similar financial networks? They are now discredited in voters' eyes. The whole economy is going down, and they have denied it to their own, Democratic, Republican, and Independent constituents. They are scrambling.

In Midwest, 'Auto' Joins 'Iraq'

Listen to the *Republican* gubernatorial candidate in Michigan, Dick DeVos, a conservative, big Bush supporter and fundraiser, on Aug. 23: "We're being ignored here in Michigan by the White House, and it has got to stop. I'm just calling on the President now, and the White House, to get it done and to hold this meeting." DeVos meant an often-proposed meeting on the crisis between Bush and the Big Three auto CEOs, put off all year long. If held, that meeting would be as fruitless as the Oval Office occupant is clueless. But it showed how even the right-wing DeVos and other Republicans have been made to begin to scramble as auto and housing collapse together.

There are signs that Democrats in Congress, on the coasts and in the Midwest, are starting to realize that in September, they will have to "do something," at least appear to do something significant, to save auto. Whatever the quality of what

General Motors; EIRNS

Had members of Congress listened to Lyndon LaRouche in April 2005, when he called for emergency action to save the auto sector, the crisis would now be well on its way to solution.

they do, everyone knows the name of the *idea* to save the industry, is LaRouche.

The trigger that turned the *globalization and shrinkage* of the U.S. auto industry, into its threatened *disappearance,* was the "Ford shock" of August. Ford on Aug. 2 more than doubled the second-quarter loss it had just reported July 31—up to $254 million from the earlier report of a $123 million loss. Since this loss was overall, with profits from Ford Credit financial operations and services overwhelmed by losses in automotive production and sales, it was already Ford's first such loss-quarter of recent years, and was wholly "unexpected" by all the hovering analysts.

At the time, CEO William Ford III called up Carlos "Le Cost Killer" Ghosn of Nissan/Renault—companies which are in sales tailspins themselves—and raised the potential of an austerity-focussed partnership. It took only weeks for Ford management to hire a Goldman Sachs banker, Kenneth Leet, to "play Felix Rohatyn" for Ford; cut its fourth quarter production plan by 21% (the biggest cut since 1981 during the "Volcker Double-Dip Recession"); decide to fire 6,000 salaried employees in September; and decide to offer "buyouts" for immediate retirement to their entire workforce of 82,000 production employees in the United States and Canada.

Thus, to the wholesale shutdown of Delphi, GM's ongoing closing of 14 plants, and Ford's previously announced intent to close down five assembly plants, now was added the near-certainty that Ford will shut down quite a few more. Without doing so, the mass "buyout" strategy—which Ford will target to actually get rid of at least a quarter of those 82,000, quickly—wouldn't work. Up to now, Ford's buyouts have been offered only to workers in plants whose closings had been announced, and to Ford Automotive Holdings LLC plants (i.e., Visteon parts plants being closed or sold).

Ford's credit was downgraded again by Fitch ratings agency following its losses and consequent announcements; and Reuters reported that S&P ratings agency says it will downgrade a significant chunk of the auto supply sector on the basis of Ford's latest cuts: Downgrades include Visteon; Metaldyne; Lear Corp; Citation Corp., Cooper-Standard Automotive Inc., Hayes Lemmerz International; Mark IV Industries Inc., Plastech Engineered Products Inc.; and Yazaki International Corp.

Ford has already told a number of truck assembly plants, including one in Norfolk, Va. and two in Kentucky, that they will work only six weeks between Labor Day and Christmas. And Chrysler, which announced it expects to lose $600 million in the third quarter, by mid-August was eliminating shifts and had closed a Kokomo, Ind. plant idling 500 workers.

GM laid off 230 engineering employees from its Warren, Mich. technical center, which is also losing 600 out of 2,700 employees to "buyouts." The head of the UAW Local 160 there, Dennis Henry, said that GM has shifted engineering work out of the United States to technical centers in Australia, India, China, and South Korea. The Chevrolet Camaro that GM has promised to build by 2009, for example, is being engineered in Australia, he said.

In addition, GM announced on Aug. 25 that it had cut third-quarter production by about 8%. Ford's third-quarter cut was 11%. It has already announced its fourth-quarter cut of 21%.

And all this comes on top of the washing-out of 66,000 auto production workers bought out of the industry by GM, Delphi, and Ford since January. The majority of those workers have already left their jobs; all will be gone by the end of the year. In the case of Delphi, using a "strategic" bankruptcy and announcing its intent to close 75% of its U.S. capacity, two-thirds of its American employees are being shed in one year, which will leave it a global corporation with little more than its headquarters in the United States.

The auto sector as a whole, including both makers and suppliers, is on track to shrink by at least 10% in 2006, after a nearly 20% shrinkage between 2001 and 2005.

The Problem Is Worldwide

There has been a widespread delusion, fostered by auto industry "analysts" in the media, and believed by many in the public and in government, that the industry crisis was a matter of the problems of one or more automobile companies. This has blocked out the reality of an economic collapse of the globalized international economy—of which falling auto sales are a reliable "canary in the mine," as they have been in the past.

U.S. and Canadian auto sales dropped across the board in July, as they have in six out of seven months of 2006 so far. In the United States, total sales by all domestic and foreign automakers in July were 17.4% lower than in July 2005—the biggest of the six months of year-to-year drops. For California, the biggest auto market (and the worst-hit housing bubble), make that a 25% year-to-year drop in auto sales in July. Taken as a broader economic indicator, this is a bad one, and along with the housing bubble meltdown, is knocking out job creation. Americans and automakers alike are being crushed by hyperinflated energy—and other—prices, just as the major airlines were. This combined with the loss of well-paid jobs by the tens of thousands.

The auto sales figure of 1.49 million total sales for the month was well below forecasts of about 1.65 million; and July is supposed to be the leading auto sales month of the year. An additional report was released Aug. 2 on Canadian auto sales; they fell 8.5% from July 2005.

Further exposing the "Japanese imports" delusion about this crisis, total auto sales *in Japan* are reported down 9% in July from a year earlier; and even those of Toyota are down 3%. As for "Cost Killer" Ghosn's Nissan, its Japanese sales are 19% down this year to date, and 31% down in the United States. Renault's European sales are down 3% for the year, after a big drop in July—Renault is the other company run by this "shareholders' superstar" who supposedly could put right either GM or Ford in his spare time.

In the face of this, the one-year anniversary of Hurricane Katrina has arrived, with the infrastructure of water control and flood control, power, rail transport, and ports which failed then, in worse shape than it was in 2005. The bill of materials to renew this infrastructure, from flood-control gates to high-speed railroad stock, could be built in auto plants now being closed down. Pushed by economic and jobs collapse, Democratic candidates in the Midwest are starting to propose the building of new rail-and-road corridors in their states, but are playing by the rules of globalization; railroad infrastructure now is imported from several foreign makers, with vendors lacking in the United States; idled auto plants are the key for building this infrastructure in America. The nation's power grid is clearly in trouble, and the nuclear power industry is starting to reconstitute itself after 25 years; but it must comb the world for large forgings and assemblies that could be built in U.S. auto plants and shipyards. The U.S. military forces and National Guard are straining to replace armor and equipment being exhausted by war—many auto plants have built all this before, and can do so again.

As Lyndon LaRouche put it back in April 2005 in a memo for Congressional circulation ("Reply To William Ford's Message") on the then-oncoming auto crisis:

> Cutting back on automobile manufacturers' plants and payrolls is not a sane alternative. . . . The answer is to diversify the product line. The key to any sane approach is to accept the reduction in the number of automobiles produced by U.S. automakers, but to replace that work immediately with a switch to other categories of technologically very high-grade products which the auto industry's machine-tool capacity is uniquely qualified to design and produce. Members of the U.S. Congress are already focussing attention on urgently needed mass-transit systems, power-generation and distribution systems, and other urgent needs of the nation. These would not be make-work projects, but are the new production needed to prevent the United States from continuing to collapse physically into third-world conditions throughout most of the nation.
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> Action, by the U.S. Federal government and others, is urgently needed, to prevent an across-the-board collapse of not only the U.S. auto industry, but the counties, towns, cities, and states, and their people, which would be pulled under by failing to act now with the reforms needed to save the industry by switching to a new combination of high-technology machine-tool-design products.

If, in the face of a clearly sinking economy and an election, members of Congress are able to break from the purveyors of outsourcing, globalization, and deindustrialization whose money and advice they've been taking, and whose "inevitable" logic they've been accepting, this is the direction in which they must act quickly, to save auto and the U.S. economy.