After the Chrysler sale—Cerberus set to demand massive concessions

By Shannon Jones
21 May 2007

Following its announced sale to Cerberus Capital Management, Chrysler officials are set to press for massive concessions, including additional job cuts, in upcoming contract talks with the United Auto Workers (UAW).

Investment analysts have greeted with enthusiasm the statements by UAW President Ron Gettelfinger and Canadian Auto Workers (CAW) President Buzz Hargrove praising the sale. It is taken as a sign that the labor bureaucracy will not offer resistance to the huge cuts that will be demanded by Chrysler as well as the other Big Three automakers General Motors and Ford.

Reuters quoted Bear Stearns analyst Peter Nesvold, who declared, "We are favorably impressed with the UAW's seemingly even-handed initial response, considering how adamantly the union had sounded against a sale to private equity just a few weeks ago. In our view the sale opens the door to further restructuring in Detroit."

In other words, the union-endorsed buyout of Chrysler is only a prelude to deep attacks on auto workers and will be used to browbeat and intimidate workers at the other auto companies.

The "promises" the UAW and CAW officials say Cerberus made about retaining jobs and benefits are worthless. Chrysler CEO Tom LaSorda, who is being kept on by Cerberus—while pocketing $4.5 million in severance from DaimlerChrysler—said the first order of business would be to cut more than $300 million in healthcare benefits from Chrysler retirees and their dependents. The UAW and CAW have also praised the letter sent by a Chrysler official saying that outside of the 13,000 previously announced job cuts there would no reduction in "head count" due to the transaction. The so-called pledge, however, includes that caveat that layoffs wouldn't take place unless "abnormal market conditions and productivity" gains required it.

Meanwhile, the news media and political figures in Michigan and other states where Chrysler has plants is presenting as good coin the claims by Cerberus management that the firm does not plan to dismantle Chrysler but is committed to the long-term development of the company. On May 20, the *Detroit Free Press* published a glowing tribute to Cerberus's chief executive Stephen Feinberg. The financier, who reportedly raked in some $900 million last year, is presented as a straight-talking "blue collar" guy deeply concerned about the workers.

The *Free Press* writes, "Instead of a strip-mining approach typically used by so-called vulture investors, Cerberus has evolved into a corporate fix-it shop, making money by solving management problems that can take up to a decade—even if it means Cerberus has to bare its teeth from time to time."

Following last week's announcement, Michigan's Democratic governor, Jennifer Granholm, joined the effort to hoodwink Chrysler workers—26,000 of whom work in the state. "Today's announcement by DaimlerChrysler AG that it will sell the Chrysler Group to Cerberus," she declared, "is a solid announcement for the state of Michigan and Michigan workers."

While the UAW, Democratic politicians and the corporate media are telling auto workers that the Cerberus takeover of Chrysler will mean no additional job cuts, in private it is well understood that the opposite is the case. According to a May 14 report in CNNMoney.com, "One high ranking UAW official reportedly told a meeting of Chrysler Jeep workers in Toledo that Cerberus planned to close five plants, cut another 30,000 jobs and sell the Jeep brand if it bought the company."

As the WSWS reported May 16, the praise the UAW has bestowed on the sale of Chrysler—only weeks after denouncing private equity firms for "stripping and flipping" companies—has nothing to do with concern for the interests of auto workers. Instead, it is based on the calculation of a fat payoff, including the possible offloading of the Big Three automakers' retiree healthcare liabilities to a fund controlled by the UAW bureaucracy.

A report in the May 17 *Indianapolis Star* declared, "Experts expect Cerberus to ask the United Auto Workers for a 30 percent cut in wages and benefits, so the number of [job] cuts could go much higher than 13,000."

Some analysts have suggested that the outline of an agreement is already pretty well established. "They have to have talked at great depth about what they're going to do", said David Cole, chairman of the Center for Automotive Research, referring to the UAW and the automakers.

While there is unanimous support for an assault on auto workers' living standards within business, political and media circles, the expansion of private equity firms has become an issue of concern to layers within the ruling establishment because of the potential instability they bring. In the German press and elsewhere, private equity firms have been described as “locusts” that undermine the long-term viability of enterprises they own in the chase for immediate returns.

The operations of the private equity firms of the present decade differ in little respect from the notorious leveraged buyouts of the 1980s that culminated in scandal with the trial of junk bond king Michael Milken and the collapse of investment bank Drexel Burnham Lambert.

In the wake of the announced sale of Chrysler to Cerberus, there have been references in the press to the possibility that the new owners may deliberately drive the company toward bankruptcy in order to increase pressure for concessions. Since bankruptcy allows a company to legally cancel its union contact, Cerberus has an incentive to increase Chrysler’s debt and siphon off its cash in order to undermine its finances.

A May 18 report by the Associated Press warns that Cerberus will bring a “big bat” into negotiations for a new contract with the UAW. It cites Harry Katz, dean of the Cornell University School of Industrial and Labor Relations, who comments, “What Cerberus does is bring to the forefront the real possibility, if the union doesn’t agree to real major changes in the legacy costs, they would face bankruptcy rather than just an incremental adjustment in wages or benefits. It brings home kind of the atom bomb scare.”

A piece in the May 18 edition of the *New York Times* notes, “Cerberus has a lot of leverage in the talks, analysts say, because it can threaten to dismember Chrysler or take it into bankruptcy protection, leaving workers with no health insurance and uncertain pensions.”

Auto industry analysts have repeatedly stressed that the combined $100 billion in retiree healthcare liabilities of the three major US auto companies makes them “uncompetitive” and have to be slashed. The continued rise in gas prices and stagnant or falling auto sales will provide further incentive for Chrysler and the other automakers to close plants and further rationalize production.

These facts are well known to the UAW bureaucracy. The support for the sale of Chrysler expressed by the union leadership amounts to an attempt to disarm autoworkers in the face of the attacks that are coming. It is further confirmation of the role of the UAW as the instrument of a privileged apparatus, hostile to the interests of autoworkers.