

Two decades after the Chrysler bailout: US auto workers face new assault

Jerry White
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The World Socialist Web Site is posting over the next several weeks a series of articles examining different aspects of DaimlerChrysler's decision to eliminate 20 percent of the workforce at its North American operations. This first article discusses the 1979-80 Chrysler bailout and its political lessons for the struggle of auto workers today.

After a decade of soaring share values and record corporate profits, the United States is rapidly moving toward recession. Over the past 60 days American corporations have announced more job cuts than at any time in the last decade. The sharpest expression of the downturn is the January 29 announcement by DaimlerChrysler—which accounts for 4 percent of the US gross domestic product—that it will eliminate 26,000 jobs, or one out of every five white- and blue-collar jobs at its Chrysler Group.

After making huge sacrifices, Chrysler workers are once again being told the firm is losing hundreds of millions, if not billions, of dollars, and that they must again accept job cuts and concessions in order to “save” the company.

As for the workers' union—the United Auto Workers—it has been virtually silent since last month's announcement of plant closings and layoffs. UAW President Stephen Yokich issued a perfunctory statement that made it clear the union would not oppose the job cuts and, in fact, supported the company's restructuring plans. Behind the scenes the UAW is discussing further concessions that may be announced when DaimlerChrysler management reveals more details of its “turnaround” plan on February 26.

Such treachery from the UAW does not come as a surprise to anyone who has followed the American trade unions over the past two decades. During the Chrysler bailout of 1979-80 the UAW set a new standard for labor-management collaboration when it collaborated with the company in the shutdown of dozens of plants, the elimination of 50,000 of its members' jobs and the imposition of \$500 million in wage cuts and other concessions. The UAW lined up with Chrysler against the workers and blocked all efforts to resist the company's attacks. In recognition of the union's services, Chrysler Chairman Lee Iacocca appointed UAW President Douglas Fraser to the company's board of directors.

Over the next two decades the UAW and AFL-CIO would help corporate America carry out a vast increase in the exploitation of the working class and a far-reaching redistribution of wealth from the working masses to the richest 5 percent of the population. The growth of economic inequality has been starkly evident in the auto industry, where, since 1978, top executives' pay has risen 109 percent—not counting the millions more they have made in bonuses, stocks and other compensation—while workers' real wages have grown by only 1.3 percent. In 1999, US car companies made a record \$18 billion in profits, while employing a half million fewer workers than they employed two decades earlier.

Nobody in official circles, whether corporate management, the government, the UAW or the media, feels the slightest obligation to provide Chrysler workers with an accounting for the crisis that has

engulfed the company. How did Chrysler go from being one of the most profitable corporations—making a record \$5.2 billion in 1999—to its present state? What happened to the \$9 billion in cash reserves it had on the eve of the 1998 merger with German automaker Daimler Benz?

The very fact that decisions with such devastating consequences are made and workers have no say underscores something very basic about American society. When it comes to the workplace, workers have no democratic control and are treated like pieces of machinery, to be dispensed with at will. This experience highlights the socially destructive tendencies inherent in an economic system that subordinates human need to individual wealth and private profit. After two decades in which glorification of the capitalist market has been raised to the level of a secular religion, millions of people will shortly see, once again, the reality behind the honeyed phrases used to obscure the workings of a ruthless class society.

DaimlerChrysler's predicament is an expression of global contradictions in the auto industry, and virtually every other sector of the economy. It is being hammered by a growing glut on the international market. The disproportion between manufacturing capacity and potential sales has sparked a wave of mergers and consolidations that in the last few months alone has led to mass layoff announcements by General Motors, Mazda, Daewoo and other auto companies.

But why have the auto moguls allowed such conditions to develop? Any why should the workers suffer the consequences?

There are other questions that demand answers. What about the billions in company assets that have been squandered to pay Chrysler's top executives and boost the price of Chrysler shares for the benefit of wealthy investors on Wall Street? No small aspect of the current crisis is the fact that Chrysler's 30 top executives milked the company for \$395.8 million in cash and stocks when the merger with Daimler Benz was completed. Chrysler Chairman Robert Eaton alone received a pay-out of \$69.9 million, plus the option to cash in his 2.3 million shares of DaimlerChrysler stock.

The same executives negotiated, as a condition of the merger, \$96.9 million in severance packages in the event they were fired or otherwise removed. Several of the executives took advantage of these “golden parachutes” and bolted from the company before the current crisis hit.

Moreover, in the first six months of 1997, the same year Chrysler workers were forced to wage a bitter 27-day strike for job security at the Mound Round Engine plant in Detroit—a facility now slated for closure—company officials were spending \$997 million to buy back stock, under pressure from big stockholders such as billionaire speculator Kirk Kerkorian, who demanded that company assets be used to drive up the value of their personal portfolios. Vast sums of money which could have been reinvested for product development, improved health and safety, or other productive purposes were instead used to satisfy the greed of rich investors.

For the past several decades the economic fortunes of Chrysler have

been a bellwether for the US economy as a whole. The company's sales slump and financial crisis in the late 1980s and early 1990s, and its elimination of 30,000 jobs, were part of a brief, but sharp, recession in 1990-91. The near bankruptcy of the company in 1979-80 signaled the onset of a deep recession—with unemployment rates reaching double-digit levels with more than 10 million people out of work. The huge concessions imposed on Chrysler workers during the bailout of the company marked the beginning of a drastic erosion in the position of the working class, and set the stage for the government-corporate offensive begun in earnest under the administration of Ronald Reagan against the jobs, living standards and trade union rights of American workers.

The Chrysler bailout of 1979-80

During the mid-1970s the US economy went into its biggest slump since the Great Depression, with the auto industry hit particularly hard by the Arab oil embargo, rising fuel prices and falling sales of its oversized vehicles. The recession of 1974-75 revealed not only the crisis of the auto industry, but a dramatic decline in the international position of the US economy as a whole.

In the decades that followed World War II the US had enjoyed unchallenged hegemony over Europe and Japan. Now American automobiles, steel, consumer electronics and other products were being pushed out of not only foreign markets, but from the US market as well. Corporate profits were stagnating and by the end of the 1970s the economy was beset with runaway inflation.

During the postwar boom corporate America and its representatives in Washington had pursued a policy of relative class compromise, which included the use of credit and fiscal policy to keep unemployment levels at a minimum. By the late 1970s, however, America's ruling elite had concluded that the US could only reverse its decline by eliminating large sections of unprofitable industry, wiping out millions of jobs and increasing the exploitation of workers. This meant a direct confrontation with the American working class, which, since the organization of the mass industrial unions in the 1930s, had consistently fought to defend its jobs, living standards and other social gains.

In August 1979 Democratic President Jimmy Carter appointed Chase Manhattan banker Paul Volcker to head the Federal Reserve Board. The new Fed chief declared that a “decline in real income was necessary” to fight inflation and denounced workers' efforts to protect their living standards.

Volcker raised interest rates to record levels—the prime rate reached 20 percent in 1980—and deliberately brought on a recession. This had the effect of driving unprofitable sections of industry out of business and allowing corporate America to use mass unemployment as a hammer to drive down the wages and conditions of workers.

Chrysler Corporation, the weakest of the US Big Three automakers, which had barely escaped bankruptcy in 1974-75, began hemorrhaging. In 1978 it lost a half billion dollars. By 1979, the company was losing \$6-8 million a day, and it would soon lose a total of \$1.1 billion, the largest amount in US corporate history.

Chrysler sold off its overseas operations and other assets, announced the closing of several factories and began talks, first with Volkswagen and later with Ford, about a possible merger. Facing imminent bankruptcy, the company turned to the Carter administration, appealing to it to organize a federal bailout, as the government had done earlier in the decade with Penn Central Railroad, Lockheed and the City of New York.

The bailout was debated in the highest circles of America's economic and political establishment. The issue of contention was not whether

drastic downsizing and cost-cutting—or, as some commentators of the day called it, “deindustrialization”—was needed. On this big business and both of its political parties agreed. The debate was over how best to accomplish this goal.

Some bankers and politicians, for the most part Republicans—including current Federal Reserve Board Chairman Alan Greenspan and then-Wyoming congressman Richard Cheney—argued that government intervention violated free market principles by subsidizing failing, noncompetitive industries. They argued that Chrysler should be allowed to go bankrupt, knowing this meant the decimation of the economic base of Detroit and other cities, as well as the destruction of 134,000 Chrysler jobs and hundreds of thousands more in related industries. At first Carter also responded coldly to Chrysler's appeals, saying he “favored a approach that was heavily dependent on the free enterprise system.”

Others, primarily within the Democratic Party establishment, argued that the restructuring of US industry could be accomplished more efficiently and the resistance of the working class dealt with more effectively if the government and the corporations used the services of the trade union bureaucracy. After sharp debate, a consensus emerged for the government to provide Chrysler with loan guarantees, on the proviso that the United Auto Workers demonstrated its commitment to work with the company to close factories and slash Chrysler's workforce. In addition, no loan guarantees would be granted until the UAW agreed to hundreds of millions of dollars in wage and benefit concessions for its members.

In October 1979, the UAW ended its long-standing tradition of industry-wide contracts and signed a separate agreement with Chrysler—the first of many concessionary deals to come—giving up more than \$200 million in wages and benefits. UAW President Douglas Fraser rejected any strike action and argued that workers had no choice but to sacrifice their jobs, livelihoods and working conditions to restore the company to profitability.

In return for the concessions, Chrysler Chairman Lee Iacocca made the unprecedented move of appointing the UAW president to the company's board of directors. This was a major shift in labor relations in the US, where companies had long insisted that unions would have no say in management decisions.

With Fraser's appointment to the board, the UAW, which had been born in the militant struggles of the 1930s, when workers occupied factories and faced down police and national guard troops, was officially a part of corporate management. This marked a definitive turn by the trade union bureaucracy to join hands with big business in making the working class pay for the crisis of American capitalism.

Union bureaucrats would be guaranteed a certain level of perks and privileges by the corporations in return for serving as an arm of management in suppressing labor unrest, driving up productivity and cutting costs. Defending his decision to put Fraser on the board, the Chrysler chairman wrote in his autobiography *Iacocca*, that he told his business critics, “We need to build better cars for less money. And who else can help us reach that goal if not the head of the union?” Iacocca went on in the book to describe how Fraser helped select those factories that were to be closed.

With the UAW bureaucracy committed to enforcing the plant closures, layoffs and concessions, in late December 1979 Congress approved the Loan Guarantee Act, which included the demand that the UAW give up another \$250 million in concessions, on top of the \$203 million it had already agreed to.

By now it was clear that the effort to “save” Chrysler had little to do with protecting the jobs and living standards of Chrysler workers. Rather, the federal bailout was aimed at paying off the banks and other creditors with money extorted from UAW members, while shutting down or selling off large sections of the company. By the time the bailout bill was passed, some 31,000 Chrysler workers were already on indefinite layoff, and the company had closed four plants in Detroit and announced plans to shut its

largest facility, Dodge Main, in the Detroit enclave of Hamtramck, with the loss of 5,000 more jobs.

Anger mounted against the blackmail being organized by the company, the government and the UAW bureaucracy. Under the pressure of the rank and file, the UAW's Chrysler Council voted to reject the demand for a three-year wage freeze, written into the Chrysler aid bill passed by Congress.

Chrysler Chairman Iacocca responded by moving up by six months the closure of Dodge Main and announcing that the company would run out of money by January 1980. In the face of this provocation, the UAW leadership continued to reject any struggle against Chrysler and the Carter administration. Instead Fraser said he welcomed the decision to close Dodge Main early because it would pressure Congress into passing a new federal loan guarantee package.

Wage cuts, plant closings and mass layoffs

The day after the shutdown of Dodge Main, Fraser signed a new deal with Chrysler, accepting a total of \$475 million in give-backs. The contact included the elimination of 23 paid personal holidays, the deferral of wage increases in the second and third years of the agreement, the loss of Christmas bonuses, and other concessions that amounted to \$4,000 in lost wages and benefits for each worker. When Canadian auto workers rejected the same package, saying they did not recognize the right of the US Congress to dictate the terms of their contract, Fraser offered to cut another \$25 million from US workers.

On January 7, 1980, Fraser joined President Carter at the White House for the signing of the bailout bill. Worn down by the union's sabotage, workers reluctantly accepted the agreement signed by Fraser in ratification votes the following month.

With the massive concessions in hand, including another \$125 million from white-collar workers, Chrysler management proceeded to sell off unprofitable sections of the company. Under the terms of the federal bailout, a five-member Loan Guaranty Board was set up, headed by Federal Reserve Chairman Paul Volcker and Treasury Secretary Bill Miller. The board was empowered to review corporate decisions and supervise significant expenditures by the company until the loans were repaid. According to author Doron Levin, in his *Behind the Wheel at Chrysler: The Iacocca Legacy*, Miller immediately pressed for permanent cutbacks in the company's workforce, telling Iacocca "You haven't thrown off any ballast yet. When the ship starts to sink, the first thing you do is get rid of ballast."

Over the next few years Chrysler closed nearly 30 factories throughout the US, including four assembly plants, and reduced its blue-collar workforce from 98,000 to 45,000. It slashed the number of white-collar employees from 40,000 to 22,000. Younger, more militant workers in Chrysler's Detroit's plants were targeted as part of a drive to break down resistance to further concessions and speedup.

In a government report drawn up during the debate on the federal loan guarantee, Detroit was described as one of the areas "known to have some of the most inefficient and troublesome workforces available." Chrysler dealt with this problem by shutting nearly a dozen factories in the Motor City and wiping out nearly 40,000 jobs in the metropolitan area. The official unemployment rate in Detroit, which had never recovered from the downturn of 1974-75, jumped to 14.6 percent.

Summing up the complicity of the UAW bureaucracy, Marc Stepp, the union's vice president in charge of Chrysler, said, "I believe that the company will have to trim operations down. But what can you do about it? We have free enterprise in this country. The corporations have a right

to make a profit."

The UAW bureaucracy assisted Chrysler in blackmailing workers at threatened factories into giving up more concessions. UAW locals would fight each other over which plant should be closed first. According to author Doron Levin, "Douglas Fraser, in his role as a Chrysler director, began to monitor plants targeted for shutdown so workers had a chance to propose efficiencies that might keep the plants open. For years manufacturing experts had been warning—and Fraser knew—that typical American auto factories employed far too many people and didn't utilize their labor efficiently. Publicly the United Auto Workers never conceded this point, but Fraser was well aware that factories could be run with far fewer workers if they and the managers cooperated."

By 1982 the UAW had handed over to Chrysler a total of \$1.1 billion in concessions—nearly \$10,000 per worker. Give-backs were subsequently granted to Ford and GM, also in the name of keeping them "competitive." Fraser later boasted that UAW-backed concessions allowed the Big Three automakers to lower their break-even point from 7 million to 4 million cars a year.

Corporatism

At the UAW Constitutional Convention in 1983 the union officially adopted corporatism as its guiding principle. According to this outlook, the working class had no independent interests divergent or distinct from those of the capitalist owners. The UAW's primary role, accordingly, was to collaborate with management in boosting productivity and cutting labor costs in order to help US companies compete against Japanese and European auto companies.

Fraser's entry onto Chrysler's board of directors was held up as an exemplar of the successful "partnership" of labor and management, and a whole series of joint union-management programs were proposed to increase productivity, improve quality and reduce absenteeism. Workers' living standards would be tied to the profitability of the auto companies by instituting "profit-sharing" instead of annual wage improvements.

The proliferation of labor-management committees and structures at every level—national, regional, and within the factory—was aimed at effacing the militant traditions of the past and eradicating any vestiges of class consciousness among the workers. At the same time, joint investment and educational funds and other programs provided the UAW bureaucracy with new sources of income to offset the loss of dues money from a dwindling membership.

Over the next decade the UAW would continually justify its collaboration with management and its acceptance of new concessions with the claim that only by making such sacrifices could workers achieve job security. All sorts of supposedly "iron-clad" guarantees, employing various schemes such as "job banks" and moratoriums on plant closings, were written into the contracts. Also written in were ample loopholes. The companies were permitted, for example, to shut factories if the closures were called "idlings." There were escape clauses permitting layoffs for "economic" reasons. Under a series of UAW agreements labeled "job security" contracts by the union leadership, the number of UAW workers in the Big Three auto plants fell by another 156,000 between 1982 and 2000.

The new round of layoffs announced by DaimlerChrysler underscore the fraudulence of the UAW's talk of a "partnership" between the workers and the corporate bosses. A partnership implies equality, but there cannot be equality when one side owns the machinery and the factories, and the other owns nothing but its ability to work. The myth of partnership conveniently overlooks one not-so-minor question—who owns the means

of production?

In reality, the relationship between the worker and the capitalist is one of an exploited class to its exploiter. Whenever the demands of profit and shareholder return require it, the smoke screen of “partnership” is tossed out and workers get the boot.

The UAW and the Democratic Party

The political corollary of the UAW policy of class collaboration on the economic front is its subordination of the working class to the Democratic Party. Throughout the 1980s the UAW bureaucracy continued to oppose any struggle for the working class to break with the Democrats and form its own political party. Instead, the union leaders claimed that the Democrats were “friends of labor,” although it was the Carter administration and the Democratic-controlled Congress that spearheaded the attack on Chrysler workers in the 1979-80 bailout.

The Chrysler bailout and the adoption of corporatism by the UAW set the stage for the government-backed offensive against the working class that entered high gear with the 1980 election of Ronald Reagan and the smashing of the PATCO air traffic controllers' strike the following year. Throughout the decade, union officials would justify their isolation and betrayal of strikes by claiming that nothing could be done until a Democrat was reelected to the White House, and that workers should concentrate all their efforts toward that goal. All the while the Democrats in Congress were supplying the Republicans with the votes they needed to impose Reagan's right-wing agenda.

During this period the unions went from a policy of applying pressure to obtain an increased share of the national wealth for workers, to the opposite—collaborating with big business and the government to effect a decrease in the share of the national wealth going to the working class. This continued during the Clinton years of booming stocks, record profits and multimillion-dollar pay-outs to the auto bosses and other corporate executives, on the one hand, and stagnating wages, longer working hours, and pervasive economic insecurity for masses of working people, on the other.

The Chrysler bailout and its aftermath also revealed the poisonous character of the UAW's nationalist perspective, which took the form of a chauvinist campaign against foreign cars and foreign workers. For two decades, whether the supposed enemy was Japanese, German, Mexican, Canadian or some other nationality, the UAW's aim was the same: to pit American workers against their co-workers in other countries and block a struggle against the US auto companies. If the UAW bureaucrats have refrained to this point from playing the anti-German card against DaimlerChrysler, it is because they are currently allied with the German management, having been assured they will retain their perks and benefits in return for supporting the company's restructuring plans.

Auto workers throughout the globe face a common struggle. Earlier this year GM announced the wiping out of thousands of jobs in Britain and other parts of Europe. DaimlerChrysler will close plants in Canada, the US, Mexico, Brazil and Argentina. The prerequisite for any serious fight to defend jobs is a rejection of national chauvinism and a struggle to unite workers internationally against the transnational car companies.

Twenty years after the Chrysler bailout, what has been the result? Industrial cities like Detroit have never recovered. Many of the victims of the 1980s plant closings can be found today among the homeless population. Those who held onto their jobs lost most or all of their protection against management dictates. They found themselves working longer and longer hours, and had less of an organized voice than at the time of the bailout. Young workers who were hired during the 1990s and

hoped they had found steady employment and the means to raise a family now face the prospect of competing for lower-paid jobs, as the economy turns towards recession.

For the purposes of struggle, the UAW has long since ceased to be an instrument of the working class. New organizations, including factory committees built and controlled by the rank and file and outside of the control of the UAW bureaucracy, must be established to protect workers and fight for their jobs.

Above all, the bitter experience in auto points to the need for workers to build their own political party based on a socialist program. The needs of an increasingly complex, mass society can no longer be held hostage to the anarchy of the capitalist market and the greed of the ruling elite. Social needs—including genuine economic security, improved living standards, quality education and health care—must take precedence over the further enrichment of corporate executives and wealthy stockholders.

This means that working people—who produce society's wealth—must have the determining voice in economic decisions that affect their lives. Industrial democracy and rational planning, however, are only possible under conditions where the auto industry and all the main levers of economic life are placed under the democratic control of working people and operated as public enterprises, not private fiefdoms.



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