General Motors: From auto manufacturer to financial institution

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It has been said that the hegemony of the US within the international financial system amounts to an arrangement in which the US makes the dollars while the rest of the world makes the things they can buy. The comment is an exaggeration of course, but given the increasing indebtedness of the US as its balance of payments deficit climbs to over $500 billion per year it does contain more than an element of truth.

The US rose to global pre-eminence in the twentieth century on the basis of the vast growth of its manufacturing industries. Today, however, major US corporations are becoming increasingly dependent on profits derived from the provision of financial services.

Recent results from General Motors—the world's largest manufacturing company—are a case in point. In the second quarter of this year, despite a weak economy and falling car sales, the company managed to turn in a profit of $901 million. It seemed to be a healthy result, even beating so-called "Wall Street expectations." Closer examination of the figures, however, tells another story.

Out of the total profits, only $83 million came from the company's North American vehicle operations, down from $1.3 billion a year earlier. The remaining $818 million came from the company's finance arm General Motors Acceptance Corp (GMAC). Even the majority of these profits did not come from financing the sale of cars but from GMAC's home mortgage business, which last year financed more than $72 billion in loans, making it one of the largest mortgage providers in the US.

So dependent has the company become on financial operations that *BusinessWeek* recently commented: "These days, GM looks more like a financial institution that happens to sell cars and trucks than a successful automaker."

It does not seem likely that profits from car and truck making are going to increase in the near future. Faced with over-capacity and with inventories running 21 percent above normal, GM will cut production by 6 percent in the third quarter and expects to lose $150 million on its auto business.

The GM result raises questions about how secure are profit figures from other major corporations. As a recent Reuters report noted, despite the predictions of an economic rebound, "revenue growth remains elusive" and there are concerns that companies are "cutting corners" to reach profit forecasts.

Besides the GM result, the report noted that much of Coca-Cola's 11 percent jump in profit was due to the impact of a lower tax rate and a weaker US dollar. IBM matched Wall Street forecasts but relied on acquisitions and foreign exchange gains to generate a 10 percent increase in revenue. Microsoft reported a $689 million gain in its investments of which $409 million came from interest income. United Technologies, which makes elevators, jet engines and helicopters, reported an increased profit due to cost-cutting and increased global sales. But it later disclosed that half of the profit growth came as a result of changes in foreign exchange operations.

The increasing dependence of US corporations on financial operations to boost profits and the continued decline of US manufacturing industry—more than two million manufacturing jobs have been lost in the past two years—have drawn attention to comments by US Federal Reserve Board chairman Alan Greenspan. Speaking at the House Financial Services Committee last month, Greenspan questioned whether the US needed a manufacturing industry at all.

"Is it important for an economy to have manufacturing?" he asked. "There is a big dispute on this issue. What is important is that economies create value, and whether value is created by taking raw materials and fabricating them into something consumers want, or value is created by various different services which consumers want, presumably should not make any significant difference so far as standards of living are concerned because the income, the capability to purchase the goods is there."

In other words, so long as it is possible to "make the dollars" through financial operations, it does not matter how the commodities and services they are used to purchase are created.

From the standpoint of an individual corporation Greenspan's remarks are true. But the situation changes when the issue is examined from the standpoint of the economy as a whole. Here the crucial question is whether a particular type of economic activity involves the extraction of additional surplus value from the workforce or whether its profits come from the appropriation of a share of surplus value that has been created elsewhere in the economy.

If, for example, a bank lends money to a corporation to manufacture commodities or to a high-tech firm to provide computer software, the bank will make a profit from the interest it charges on its loans. But that interest does not represent additional wealth. It is a portion of the surplus value obtained by the corporation from the employment of its workforce but which it is forced to hand over to the bank.

While financial institutions play a crucial role in the functioning of the modern capitalist economy the profits they obtain for their "services" do not represent an addition to the overall mass of surplus value but are an appropriation of already created surplus value.

In other words, the profits obtained by these institutions are the result of essentially parasitic activity. As can sometimes occur in Nature, this parasitism performs a necessary function—no modern economy, and certainly not manufacturing industry, would be able to operate without the provision of financial services. But when the profits derived from what are essentially parasitic financial operations start to assume ever increasing importance—even to the extent that manufacturing corporations such as General Motors become dependent on them—it is a sure sign of a crisis in the very heart of the capitalist economy itself.