Billionaire investor demands General Motors slash jobs, health care, pensions

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Last week the board of directors of General Motors voted to give a seat to Jerry York, a senior advisor to billionaire investor Kirk Kerkorian and a former chief financial officer known for his drastic cost-cutting measures at Chrysler Corporation and International Business Machines. Kerkorian is a Las Vegas casino mogul who owns nearly 10 percent of the automaker's stocks.

The GM board also voted at its February 6 meeting to accelerate the "turnaround" strategy of job cuts and reductions in workers' health and retirement benefits, as demanded by Kerkorian.

GM capped salaried retiree health benefits at 2006 levels starting in January, affecting roughly 100,000 white-collar retirees and about 25,000 employees who have yet to retire. Next year GM will "reassess" medical benefits for white-collar retirees and consider the imposition of higher monthly contributions, deductibles, coinsurance and other options, according to the *Detroit Free Press.*

The company said it will freeze the accrual of pension benefits for salaried workers next month and will probably replace GM's traditional defined benefit plan with a cash balance or a 401(k) plan that would put more of the burden for retirement savings on workers.

Late last year GM imposed unprecedented healthcare takeaways on active and retired United Auto Workers members and announced plans to wipe out 30,000 jobs by 2008, eliminating shifts or carrying out closures at a dozen plants in Michigan, Georgia, Oklahoma, Tennessee and Ontario, Canada.

The reduction in salaried benefits will slash at least $4.8 billion from the company's retiree healthcare liabilities and reduce the reported annual pretax healthcare expenses by $900 million. These cuts are only the beginning, as York and other top managers seek to impose on the backs of hourly and white-collar workers the burden of the company's falling market share, its mismanagement and other failings that contributed to an $8.6 billion loss in 2005.

In preparation for a new round of demands for concessions from UAW members, the board implemented measures to give the appearance that top executives and big investors were also willing to sacrifice to turn the company around. This included a decision to cut GM's $2-a-share dividend in half and reduce the salaries of several top executives, including a 50 percent cut for CEO Richard Wagoner, who in 2004 had a salary of $2.2 million and a $2.5 million bonus.

In a speech to industry analysts in January, York said GM needed to take these actions as part of an "equality of sacrifice" plan to pave the way for more concessions from the UAW. York noted that this tactic was actually suggested by UAW President Ronald Gettelfinger, who told the *Detroit News* that workers would be more willing to accept concessions if they "were confident the sacrifices would be shared equitably from top to bottom—and that everyone would be rewarded fairly when the company got back on its feet..."

York praised the UAW bureaucracy for its collaboration during the Chrysler bailout in the early 1980s and claimed, "in the end all were rewarded" after "sacrifices were made by all." In reality, while York's boss Lee Iacocca became one of the first CEOs to earn a multimillion-dollar salary—after first reducing his pay for public relations purposes—tens of thousands of Chrysler workers lost their jobs and the remaining workers never fully recouped their losses. The Chrysler bailout set the pattern for 25 years of stagnant living standards for auto workers—and the loss of some 600,000 jobs in the industry since 1979—as well as an explosion in CEO pay and payouts to wealthy investors like Kerkorian.

York praised Gettelfinger for his “statesmanship” and expressed his intention to rely on the UAW bureaucracy to push through massive wage- and benefit cuts in talks next year for a new contract, or even sooner. York insisted that “competitive and economic conditions dictate that compensation costs will have to shrink for the domestic industry to survive.”

CEO Wagoner also stated his willingness to “work together” with the UAW on areas “where we are not competitive,” adding that he had “every confidence the UAW is going to continue to work with us on that.” GM executives have hinted that, among other things, they want to eliminate the jobs bank program that provides temporary wages and benefits to workers laid off due to plant closures or production cutbacks. GM and Wall Street investors also want a drastic reduction in “legacy costs,” i.e., the billions of dollars in healthcare and pension payments owed to workers and their families.

York suggested that if workers resisted these demands, GM could use the bankruptcy courts, following the lead of auto parts maker Delphi, to break the resistance of rank-and-file workers. In his January speech, York said GM had only 1,000 days before it would run out of cash at its current rate of losses, unless executives took far more aggressive measures than the job-cutting plan outlined by Wagoner last year.

Pointing to the bankruptcy filings by several US airlines as the only alternative to concessions, York said, “A couple of the analysts have published some estimates of what would happen to salaries and wages, healthcare and pensions in the event of a GM bankruptcy, and it’s pretty ugly. So it stands to reason that most if not all will ultimately see that the ‘equality of sacrifice’ solution is substantially better for all.”

Over the last several months York has acted as a front man for Kerkorian, whose 56 million shares in GM are currently worth about $1.3 billion. York’s elevation to the board of directors was accomplished over the objections of several board members and top management, who resisted the drastic restructuring measures being demanded by Wall Street. Major investors have punished the auto company by unloading its stock, resulting in a 50 percent decline in GM share value over the past year.

In an article entitled “Kerkorian’s Axman Cometh,” *BusinessWeek* recently wrote that York would likely push for more than the 30,000 job cuts already announced, and “though GM has pared one-third of its salaried workforce since 2000, he’s likely to probe the pace and scope of the plans.”

“He has a knack of going into troubled situations and being able to see through the forest and see where the opportunity is,” Edward Breen, chief executive officer of Bermuda-based Tyco, told the *Wall Street Journal*. “A lot of people can figure it out and then they’re afraid to pull the trigger. If you go back over Jerry’s career, it’s very obvious he had no trouble pulling the trigger.”

York personally stands to earn hundreds of millions of dollars from imposing massive concessions on auto workers. While a filing with the Security and Exchange Commission says York will serve as an independent director on GM’s board, not as a representative of Kerkorian’s closely held Tracinda Corporation, he stands to earn 4 percent of any profit Kerkorian reaps from his GM stake in 2009. York said that Kerkorian may buy an additional 12 million GM shares if the automaker follows his recommendations.

One of Kerkorian’s demands now being pursued by GM is the sell-off of a majority stake in the company’s GMAC financing division, which has made huge profits from home and car loans. Analysts say the sale of GM’s financing arm could bring in $11 billion. GM is in the middle of discussion with several potential bidders for a majority stake in GMAC, including Citigroup.

There has been widespread speculation that Kerkorian, who has a long history of corporate takeover attempts, plans to take advantage of GM’s falling share values to buy a controlling interest in the automaker at a fire-sale price. Analysts say he could then sell off the company’s most profitable assets, such as the GMAC financing arm, and push the car company—along with its pension and healthcare obligations—into bankruptcy, allowing him to walk away with billions.