

# The Cerberus-Chrysler deal: The case for public ownership of the auto industry

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With the sale of Chrysler Corporation to the private equity firm Cerberus Capital Management, the most powerful Wall Street financial interests are in position to press ahead with their plans for a radical restructuring and downsizing of the North American auto industry. The buyout—the first by a private equity firm of a major auto producer—threatens the jobs and livelihoods of Chrysler’s 80,000 workers in the US and Canada and sets a precedent for an intensified attack on all autoworkers.

The Cerberus takeover marks a new stage in the decades-long assault on the jobs and living standards of auto workers and industrial workers as a whole. It is the product not simply of the subjective greed of corporate executives and speculators, but of the crisis and failure of the capitalist system itself. Ever more brutally, the living standards of working people all over the world are being sacrificed to maintain a parasitic and socially destructive system that subordinates all social needs to the further enrichment of a financial elite.

The global character of the attack on auto workers demonstrates that it is the expression of a systemic crisis in the auto industry and the profit system as a whole. Auto plants are being closed, jobs destroyed and wages slashed in Germany, France, Spain, Brazil and other countries, as production is shifted to cheap-labor havens around the world.

Often called a “vulture fund,” Cerberus has a record of taking over troubled companies, including airlines, textile mills, telecommunications firms, supermarket chains and auto parts makers, drastically slashing labor costs, and then reselling all or part of the businesses at an enormous markup. With other private equity firms eyeing General Motors and Ford, Chrysler will be a test case for a new wave of plant closures combined with unprecedented wage cuts and the gutting of healthcare and pension benefits for retired workers and their families.

Only days after the sale of Chrysler to Cerberus was announced, Chrysler CEO Tom LaSorda said the new “Chrysler Holding Company” would seek to slash \$300 million from retiree medical benefits, imposing out-of-pocket expenses on retirees and their dependents for the first time in 40 years.

The purpose of this cost-cutting is to boost the rate of return for big investors who have long considered the auto industry an unattractive investment. At present, the world auto industry averages a 5 percent return for investors, with many companies, especially the US manufacturers, losing money. Cerberus averages a 22 percent rate of return. It is impossible to achieve such a return on investment through the normal business of building and selling cars. It can be achieved only by carving up the industry and driving up the rate of exploitation of workers to levels not seen since the 1920s.

One possible scenario was outlined in *Newsweek* magazine May 17, which wrote, “Rather than each Detroit automaker building every kind of car and truck—and losing their shirt on most of them—they could be design and brand houses that build only the things that make them money.... Why

not focus on designing a car, marketing it and selling it, rather than manufacturing it? This might be heresy in the Motor City, but it’s commonplace in other industries.”

Such a plan would entail the shutdown of much of what remains of the US auto industry and the outsourcing of production to low-wage contractors and subcontractors in the US and around the world.

The near-collapse of the US auto companies expresses in concentrated form the anarchic and irrational character of the capitalist system. The increasing globalization of production, fueled by major advances in technology and science, has heightened the fundamental contradictions of the profit system: between world economy and the nation-state system to which capitalism is wedded, and between socialized production and private ownership of the means of production.

While technological advances and the addition of new auto-producing countries, such as China, India and Brazil, have sharply increased output, the traditional markets in North America, Western Europe and Japan—where 70 percent of the world’s vehicles are sold—are already saturated. The majority of inhabitants in the rest of the world—where six out of seven people on the planet live—are too poor to own a car.

Auto industry analysts and Wall Street investors are demanding a drastic reduction in global automaking capacity, on the order of a one-third cutback in the current annual output of 66 million vehicles. The entire auto industry in North America could be shut down and the global industry would still, in their eyes, have “excess capacity.”

The support given to the buyout by the United Auto Workers (UAW) and the Canadian Auto Workers (CAW) unions is a historic betrayal of the working class. Even before DaimlerChrysler officially announced the sell-off of Chrysler at a press conference on May 14, the UAW issued a statement endorsing the deal, saying it was “in the best interests of our UAW members, the Chrysler Group and Daimler.”

There is every indication that the UAW was given assurances by the new owners that the perks and privileges of the labor bureaucracy would be protected and even enhanced. The *Wall Street Journal* reported May 15 that Chrysler and the other Big Three automakers are considering a plan to turn over the companies’ multibillion-dollar retiree healthcare funds to the union, making the UAW “one of the largest private-sector providers of healthcare in the US.” Such an arrangement would provide the union bureaucrats with a massive stream of income, while giving the auto companies a chance to dump their under-funded liabilities and leave it up to the union to cut medical coverage for 1 million UAW retirees and their dependents.

To oppose these attacks, North American autoworkers must consider the root causes of both the auto companies’ attacks and the treachery of the unions. There is a need for militant action—organized independently of the UAW and CAW—including strikes, mass demonstrations and other forms of solidarity from all sections of the working class, both in the US and internationally. But such action cannot succeed unless it is connected to a new political strategy—one that proceeds from a recognition of the

historical failure of the profit system and the need to build a mass socialist movement of the working class in opposition to all of the parties of big business. In the US, this means a clean and irrevocable break with the Democratic Party.

The transformation of the UAW into an appendage of corporate management, with ambitions to become an outright capitalist enterprise, provides a definitive historical verdict on the conception that working people can defend their interests through organizations that accept and defend the profit system.

Although socialist and left-wing workers played the crucial role in the mass movement that established the industrial unions, including the UAW, in the 1930s, from the time of its inception, the leaders of the Congress of Industrial Organizations (CIO) explicitly defended the capitalist system and excluded any far-reaching demands that challenged the property rights and decision-making monopoly of the capitalist owners. This defense of the profit system was politically maintained through the union bureaucracy's opposition to the development of an independent party of labor and its alliance with the Democrats.

After World War II, UAW President Walter Reuther spearheaded an anticommunist witch-hunt to purge the unions of socialist influence. The marginalization of socialists fatally undermined the unions, although its full implications were masked for a time by the temporary and extraordinary conditions of the postwar economic boom.

The subordination to the Democratic Party was based on the fiction that it was possible to reconcile the interests of the working class with those of the capitalist ruling elite. The UAW entered into a devil's bargain with the auto monopolies: In exchange for the union's guarantee of labor discipline and the exclusion of any challenge to the basic prerogatives of corporate management, the companies would provide auto workers with regular wage increases, long-term employment and other benefits. In essence, Reuther tied the future of the working class to the hope that US capitalism and the US-based auto companies would maintain a hegemonic position on world markets forever.

By the 1970s the postwar boom was unraveling and a growing world crisis was centered in the decline in the global economic position of the United States. The response of America's corporate and political elite to the mounting challenge from Japan and Europe was to embark on an offensive against the working class.

The Chrysler bailout of 1979-80 was a major turning point. The auto bosses and the Democratic administration of Jimmy Carter used the threatened shutdown of the near-bankrupt company to extract sweeping concessions from autoworkers. The UAW joined with the government and Chrysler in imposing massive job cuts and wage concessions against the bitter resistance of rank-and-file workers. In return, UAW President Douglas Fraser was given a seat on Chrysler's board of directors.

The Chrysler bailout set the stage for the violent union-busting and wage-cutting of the 1980s and 1990s, beginning with Reagan's smashing of the PATCO air traffic controllers' strike in 1981. Rather than defending the hard-won gains of its members, the UAW and the AFL-CIO offered their services to crush rank-and-file resistance and impose the demands of the corporate bosses. The union bureaucracy claimed that the class struggle had been superseded by a new struggle to defend corporate America against its foreign competitors. A new labor-management partnership was needed, the UAW claimed, to "save American jobs." Corporate bosses like Chrysler Chairman Lee Iacocca were presented as workers' saviors, while the UAW organized racist campaigns against Japanese imports.

The UAW's chief negotiator with Chrysler, Marc Stepp, summed up the position of the entire labor bureaucracy by declaring, "We have free enterprise in this country. The corporations have a right to make a profit." On this basis the UAW supported the shutdown of dozens of plants, the elimination of 50,000 jobs and the imposition of \$500 million in wage

cuts and other concessions.

The betrayal of the UAW was rooted in the nationalist perspective to which it was, as an organization defending American capitalism, wedded. The globalization of the auto industry undermined the ability of nationally-based unions to extract concessions from management by withholding or threatening to withhold labor. Under conditions in which vehicles were produced increasingly for a world market and production was organized on a global scale, the auto companies were able to shift production from one country or region to another. The role of the unions was transformed from extracting concessions from the employers to extracting concessions from their own members, in an attempt to convince US automakers to keep production at home and thereby prop up the union's membership rolls and dues base.

The pro-capitalist and nationalist policies of the UAW have produced an unmitigated disaster for workers. By the end of this year, there will be only 46,000 United Auto Workers members left at Chrysler, down from 110,000 in 1979. All told, the number of UAW members at the Big Three plants in the US will have fallen by a staggering 76 percent since 1979—from 750,000 to 177,000.

Entire cities—such as Detroit and Flint, Michigan, which once enjoyed the highest per capita incomes in the US—have been reduced to industrial wastelands plagued by chronic unemployment, cash-starved schools and record numbers of home foreclosures.

The Chrysler bailout also gave rise to the "celebrity" CEO, who, along with corporate raiders and Wall Street speculators, openly set out to reorganize industry in order to funnel vast resources into their own pockets. Over the next quarter of century, a vast redistribution of wealth took place from working people to the richest 1 and 2 percent of the population. In the 1960s, top executives of manufacturing companies made 25 to 40 times the median pay of production workers. By 2006, CEOs were making 400 times the pay of their employees. The top 1 percent of the population—300,000 people averaging more than \$1 million in yearly income—received their largest share of the national income since 1928, and collectively accounted for as much income as the bottom 150 million Americans.

These huge fortunes were not—as was the case with the nineteenth century robber barons—associated with the expansion of mass industries. On the contrary, financial speculators and top corporate executives were making vast sums by destroying the productive forces. Summing up the ruling elite's contempt for production and for the working class, Ray Diallo, the founder of the hedge fund Bridgewater Associates, who made \$350 million last year, said, "The money that's made from manufacturing stuff is a pittance in comparison to the amount of money made from shuffling money around."

The mass industries can no longer be allowed to remain the personal assets of America's wealthy elite, who dispense with them as they see fit. The first step to protect the interests of working people is to institute democratic control over all business decisions affecting work, safety, salaries, hiring and hours. These decisions should be made not by the wealthy few, but rather by committees of factory floor workers, technicians and other experts committed to the interests of working people. The establishment of industrial democracy requires the opening of the books of all corporations for inspection by the workers, and the ratification of corporate leadership by a democratic vote of all employees.

If the auto industry is to be run for the good of society, it must be transformed into a publicly owned enterprise and integrated into a planned socialist economy. The global auto industry involves the activity of millions of factory workers, engineers, designers, scientists, accountants and other working people, and consumes large portions of the world's steel, rubber, glass and oil. Such vast human and natural resources can be marshaled in a rational and environmentally sustainable fashion only if the world's producers cooperate on the basis of a scientific plan to produce

safe, high-quality and affordable transportation.

The vast sums of capital that travel through the world's financial markets each day are the product of humanity's labor. The vital decisions of where to invest society's financial resources must be made democratically by the people, not behind closed doors by speculators and other financial parasites. The major banks and investment houses must be placed under public ownership. At the same time, the tax cuts for the rich implemented by the Bush administration must be repealed and taxes on those earning over \$300,000 drastically increased in order to fund social programs and reduce taxes on working people.

Workers must reject the American chauvinism of the labor bureaucracy and the Democratic Party, and unite with their class brothers and sisters internationally against the global auto giants. Rank-and-file committees should be set up independently of the UAW and CAW in order to unite blue-collar and white-collar workers in the US and Canada to fight against the dismantling of Chrysler, and stand with workers throughout the industry to defend jobs and living standards. Chrysler workers should prepare strike action, plant occupations and mass demonstrations to link their struggle with every section of the working class.

The policies outlined here are anathema to the Democratic Party, which, like the Republicans, is a political party financed and controlled by the financial aristocracy. Because the interests of the working class cannot be reconciled with the profit system, it is necessary for workers to break with this big business party and build a mass socialist party of their own. Only in this way can every struggle—against job-cutting, militarism and war, attacks on democratic rights—be united in a single political struggle to establish a workers government and create genuine democracy and social equality.

We urge Chrysler workers and their supporters who are looking for way to fight the onslaught on jobs, wages, pensions and health benefits to contact the *World Socialist Web Site* and the Socialist Equality Party and discuss this perspective.



To contact the WSWS and the  
Socialist Equality Party visit:

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