Facing bankruptcy threat, General Motors to slash thousands more jobs

David Walsh
8 July 2008

Auto giant General Motors, an icon of American capitalism, is preparing to lay off thousands more white-collar employees and may sell or close down one or more of its numerous brands, according to press reports Monday. In addition, the firm may demand further concessions from the United Auto Workers union.

The moves will deepen the devastation in many North American towns and communities, reeling from the economic slump. More than 17,300 employees left GM payrolls June 27, having opted for buyouts. Some 8,500 of those workers were in Michigan, already experiencing the highest unemployment rate in the country; the Flint, Michigan area, many of whose residents have been reduced to near destitution, lost 1,800 more jobs through the buyouts.

In early June, GM announced it was closing plants by 2010 in Janesville, Wisconsin; Moraine, Ohio; Oshawa, Ontario and Toluca, Mexico, eliminating more than 8,000 jobs.

White-collar jobs have also been savaged in recent years, although Wall Street investors still complain that there is “too much fat” in GM’s middle management.

In any case, despite the slashing of jobs and costs, the firm’s financial hemorrhaging has not stopped.

GM lost a staggering $38.7 billion in 2007 and is continuing to “burn” cash at the rate of an estimated $3 billion a quarter, notes the *Wall Street Journal*. Its sales are down 16.3 percent this year and last week GM’s stock price closed below $10 for the first time in 54 years; the price of company shares was $43 as recently as last autumn. The Detroit-based auto manufacturers combined accounted for just 47 percent of the US market in June. GM’s share hit an 83-year low.

The *Journal*’s article, based on the comments of “people familiar with the matter,” asserts that the new round of job cuts is likely to be approved when the auto company’s board of directors convenes in early August.

Officially, the new cuts are part of an effort to return the company to profitability by 2010. The numbers suggest, however, that General Motors is engaged in a desperate effort to stay afloat.

The Associated Press indicated that “all the options are being considered” by GM management, as the company tries “to cope with the dramatic shift in consumer buying habits from trucks to cars and crossover vehicles.”

A company spokeswoman would not comment on its plans, but Renee Rashid-Merem told the AP, “If conditions persist or deteriorate, then we’ll continue to take aggressive actions.”

GM currently produces vehicles under eight brand names. Until recently, company CEO Rick Wagoner insisted that dropping several of the brands was out of the question. Top-level company thinking, however, has apparently changed on that front. The auto firm is offering Hummer for sale, and insiders indicate that only Cadillac and Chevrolet are safe from sale or elimination.

GM’s stock price fell to its half-century low July 2 after Merrill Lynch analyst John Murphy asserted that the auto firm needed to raise as much as $15 billion in cash to shore up its liquidity and that bankruptcy was “not impossible” if the car market continued to decline.

Murphy commented, “The recent extreme deterioration in volume and mix is driving much higher cash burn and eroding GM’s cash position. We believe $15 billion is necessary because there is downside risk to our current estimates and a greater cushion is essential.”

Several other Wall Street banks also downgraded automakers and parts suppliers July 2, including Citigroup. One of the bank’s analysts lowered his estimates for 2008 vehicle sales to 14.5 million units from 15 million, “saying plummeting resale values of trucks and SUVs was crimping demand already hurt by weak housing and tighter credit” (Reuters).

The *Financial Times* noted July 3: “In the credit derivatives market, the cost of default protection for both GM and Ford is hovering around its highest levels ever. Standard & Poor’s last month put GM, along with Ford Motor and Chrysler, on creditwatch with negative implications, but said it expected the three automakers’ liquidity to be adequate through to the end of 2008.

“‘We’re comfortable they have enough liquidity for this year,’ said S&P’s credit analyst Robert Schulz. ‘But if these current conditions persist—lower volumes and an adverse mix—as you move through 2009, liquidity could get to undesirable levels.’”

GM, according to the *Financial Times*, is expected to try and raise $10-$15 billion in the next few months “offering as security its foreign operations, trademarks, inventory and its 49 per cent stake in GMAC, the financial services group it co-owns with buy-out group Cerberus, which also majority owns Chrysler.”

Merrill Lynch, however, noted that GM had “not recognised the stress in capital markets.” Shelly Lombard, senior high-yield analyst with Gimme Credit, told the *Financial Times*, “It’s a tough market to get anything done, then when you put the word ‘auto’ in front of the company, it’s a more difficult deal to do.”

On July 5 *Time* magazine ran an article headlined, “Can General

Motors Recover?” and Rupert Murdoch’s *New York Post* published a contemptuous piece last Thursday, “General Meltdown,” which observed that “Even towel purveyor Bed Bath & Beyond and motorcycle-maker Harley-Davidson now enjoy richer market values than GM.

“‘It’s become a single-digit midget,’ said Peter Schiff, president of Euro-Pacific Capital.

“‘It’s now 1/25 the size of Toyota’s market value. The question now is who will go into bankruptcy first, GM or Ford?’”

Schiff bluntly told the *Post*, “The US car market is dead. It makes cars no one wants to buy, and people are too broke to pay for them if ... they do buy.” Customers are now defaulting at record levels on financed cars, he asserted.

Portfolio.com commented July 2 that the “B-word,” bankruptcy, is “Haunting Detroit.” Noting that in 2005 a GM executive dismissed “darker speculation” about the company, saying, “The idea of bankruptcy is nuts,” the web site continued: “Such talk has sounded more and more sane as the company struggles with huge losses and sagging sales.”

The potential financial failure of General Motors is a major historical event. The company, which will be 100 years old in September, was at one time the largest producer of cars and trucks in the world and perhaps its largest private employer, exceeded only by the state industries in the Soviet Union.

Considered the model of a successful American corporation, particularly under the direction of Alfred P. Sloan in the 1930s and 1940s, General Motors became the largest US company in terms of its revenues as a percentage of GDP in the postwar period.

The auto company had played a central role in the American effort in the Second World War, when its factories were entirely turned over to manufacturing for the conflict. From 1940 to 1945, GM delivered war material valued at $12.3 billion; it produced 13,000 airplanes alone and one-fourth of all US aircraft engines.

GM’s president, Charles Wilson, who famously declared that “what was good for the country was good for General Motors and vice versa,” was named by President Dwight Eisenhower as US Secretary of Defense in 1953. GM was the first US firm to pay taxes of more than one billion dollars in 1955. In 1960 the giant firm made six of every ten cars bought in America (and Detroit’s auto companies still controlled 90 percent of the domestic market).

The workers who departed with buyouts in late June represented about one-quarter of GM’s remaining 74,000 US hourly workers. Four years ago, the company had 118,000 hourly workers—in 1979, it had 600,000.

The price of one General Motors share, $10.24 Monday afternoon, compares with $543.91 for a Google share. The *Financial Times* observed sardonically on Saturday: “The decline of Detroit’s three carmakers has come to this: General Motors’ market value sank this week below Mattel, the maker of Matchbox toy cars.”

In its efforts to survive, GM cannot count on any mercy from the financial markets and billionaire investors. These are sharks circling the boat. The auto company can rely, however, on the never-ending willingness of the United Auto Workers bureaucracy to accept and impose on its membership ever greater concessions.

As the *Wall Street Journal* notes, “GM could also offer the United Auto Workers equity in the company in return for more cost concessions, Mr. Cole [David Cole, president of the Center for Automotive Research in Ann Arbor, Michigan] said. Although the union has already given GM considerable help on costs, Mr. Cole said he suspects ‘that you will see when push comes to shove, they’ll do more.’” No doubt they will.

There is talk of GM and the other auto companies attempting to ‘open up’ the rotten contract signed with the UAW last year, i.e., to obtain more and harsher concessions.

The UAW has issued no statement in reply to the reports of the new white-collar cuts. The media could not extract any comments, and the union’s web site has nothing to say about the new job destruction. On the UAW web site, however, is a recent press release announcing the ringing endorsement of Sen. Barack Obama for president, who, according to the union, “has a strong program for a safe and secure America.”

General Motors was the pre-eminent corporation during the period of America’s rise to global dominance—its bankruptcy is the bankruptcy of American capitalism as a whole, a declining economic power, whose ruling elite has turned to the most parasitic methods of making profits in recent decades: stock market and other forms of financial manipulation.

Manufacturing itself is now held in contempt by the most powerful financial interests. As noted by the WSWS last week, Bruce Birger, managing director of Birger Capital Management, asked the *Detroit News* rhetorically, “What’s GM worth now—$7 billion? ... People can write checks for that amount.” To have “auto” as part of a firm’s description is now a liability. This kind of a turnaround has enormous social and political implications.

A historian comments that “In the 1950s, social scientists and journalists held up the auto industry as an example of the end of class conflict in America. They argued that auto workers, who enjoyed hefty paychecks and good benefits, had become ‘embourgeoised—that is, they had entered the ranks of the middle class. By the mid-twentieth century, a majority of Detroit residents were homeowners; many autoworkers saved money to send their children to college; and tens of thousands could even afford lakeside summer cottages—leading to the rise of blue-collar resort towns throughout Michigan.” [http://www.historynow.org/03_2007/historian6.html]

Auto workers were never “embourgeoised,” of course, they remained the victims of exploitation even at the best of times. Nonetheless, the conditions that prevailed in the industry, based on the global dominance of American imperialism, certainly encouraged illusions in capitalism and its ability to satisfy the elementary needs of the population. The reversal of this situation will contribute to the radicalization of wide layers of the population and the emergence of social upheavals.