GM continues job slashing in effort to stave off bankruptcy

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In what it termed a move to "bolster liquidity to protect against a prolonged US downturn," General Motors announced plans Tuesday to slash jobs, wages and benefits of its salaried workforce. It will also further reduce production at light truck manufacturing plants, move to sell off assets, and suspend dividend payments to shareholders for the first time since 1922.

The measures—aimed at saving $15 billion—were announced just weeks after GM said it would shut four plants in the US, Canada and Mexico and lay off 8,000 workers. They are the latest in what appears to be an increasingly desperate attempt to quell Wall Street rumors that the world's largest automaker is running out of cash and could soon file for bankruptcy.

Earlier this month Merrill Lynch auto analyst John Murphy—citing the fact that GM was "burning" up to $1.5 billion a month in cash reserves—said bankruptcy was "not impossible if the market continues to deteriorate and significant incremental capital is not raised."

In Tuesday's conference call with investors, CEO Richard Wagoner sought to assure Wall Street that the actions, along with existing financial reserves and credit lines, would give GM "ample liquidity through 2009" even if US auto sales fell to 14 million a year. Vehicle sales have averaged 16.8 million this decade.

Wagoner acknowledged that the turbulence produced by record high oil prices and tight credit markets and the nearly 20 percent decline in GM vehicle sales last month had caught upper management off guard. "Since the first of this year, our progress has been threatened as US economic conditions have become increasingly more difficult. We are having a tough time getting clarity in our crystal ball."

The bulk of Tuesday's announced cutbacks will fall on the company's salaried workforce, which has already been cut from 44,000 to 32,000 since June 2000. Twenty percent of the company's engineers, designers, accountants, managers and other white-collar workers—some 6,400 employees—will lose their jobs.

Those salaried workers who remain will see their pay frozen for the remainder of 2008 and 2009. In addition, GM will end health care coverage for retired white-collar workers over age 65 as of January 1, 2009, leaving thousands of former workers and their spouses with nothing but government-sponsored Medicare coverage.

The company also announced it would cut production of pickups and SUVs by 300,000 units by 2009, nearly doubling its initial target announced in early June. In addition to accelerating the previously announced plant closures and shift eliminations, the cutbacks will result in thousands more blue-collar layoffs at assembly and related component, stamping and Powertrain plants.

Over the last two years GM has eliminated the jobs of 53,000 unionized workers, reducing its blue-collar workforce to below 60,000. In 1979, at its peak, there were more than 600,000 United Auto Workers members employed at GM.

GM also announced it would defer until 2010 any payments into the newly established retiree health care fund, or VEBA, which will be controlled by the UAW. As part of the deal to relieve it of any future obligations to provide retiree medical coverage GM had been committed to pay $1.7 billion into the fund over the next two years.

In order to sell huge wage and benefit concessions to its members, the UAW claimed that getting control of the multibillion-dollar trust fund would guarantee decades of medical coverage, even if one or more of the automakers went bankrupt. The deferred payment—along with the plunging value of GM stocks, which funded much of the trust fund—now threatens to throw the whole scheme into insolvency, leaving tens of thousands of former workers and their dependents with few if any benefits.

In line with its pro-business policies, the UAW has issued no statement about GM's action or the increasing talk that the Detroit automakers might reopen labor agreements and extract even further wage and benefit concessions from auto workers.

Neither presidential candidate offered any serious response to the ongoing destruction of auto workers' jobs. After expressing his obligatory sympathy for those being affected, Barack Obama, the presumptive Democratic presidential nominee, said, "When a mainstay of the American economy is forced to make a restructuring decision like the one General Motors is announcing today, it is a sober reminder of the difficult economic times we're facing and of why we need change and a new direction in Washington."

Obama, whom the UAW is supporting, has met with GM Chairman Rick Wagoner and Ford Chief Executive Alan Mulally and pledged to be the auto industry's greatest "partner" and aid it in its efforts to streamline and compete with European and Japanese rivals. This pro-company and nationalist outlook, which has long been peddled by the UAW, has produced nothing but disasters for auto workers.

Although Wagoner predicted further profit losses in the immediate future he made it clear the company was prepared to enact drastic measures to return to profitability, including selling off real estate, international subsidiaries and US brand names, as well as a portion of its 49 percent stake in GMAC financing.

GM will also press its suppliers for substantial price reductions—a move that will snowball the effect upon hundreds of thousands of workers in the steel and auto parts industry. Similar price-cutting demands have prompted American Axle, Delphi, Dana and other GM suppliers to slash workers' wages by up to 50 percent.

In a token gesture of "equal sacrifice," Wagoner—whose compensation rose 64 percent last year to $15.7 million, and who was flanked at the press conference by Chief Operating Officer Fritz Henderson ($9.3 million, up from $5.1 million the year before) and Vice Chairman Bob Lutz ($9 million)—announced that the company would cut executive bonuses.

Wall Street gave a lukewarm response to GM's announcement, bidding up the company's stock by 40 cents to $9.85 on Tuesday. Share values remain at a 50-year low, having fallen from $43 a share just a year ago. GM's market capitalization has fallen to $5.31 billion, less than one 28th of the value of Internet company Google.

The possible collapse of GM is of historic significance. Once a symbol of US industrial supremacy, its demise is an expression of the long-term decline in the position of American capitalism in the world market.

In 1955, four out of every five cars in the world were made in the US, with half of them made by GM. The company's main rival, Ford, was half its size, and as BBC News pointed out, in 1955 the largest foreign automaker—VW—was only slightly bigger than GM's own German subsidiary, Opel. Toyota was not even in the running yet at this time, making only 23,000 cars in Japan, compared to 4 million manufactured by GM in the US.

In the 1950s the Detroit area had the highest median income, and highest rate of home ownership, of any major US city. Today, after decades of mass layoffs and downsizing, Detroit is the poorest big city in America with much of its neighborhoods filled with burnt-out and decrepit housing. The rate of home foreclosures is among the highest in the nation.

During the 1990s the Big Three US automakers grew dependent upon highly profitable pickups and SUVs. With oil at $10 a barrel, SUV sales jumped from one to four million, with 60 percent of the Big Three's sales—and nearly all of their profits—coming from the light trucks.

With the American economy quickly transforming from manufacturing to the most parasitic forms of financial speculation, auto executives, driven by Wall Street investors and their own self-interests, sacrificed any long-term interests of their corporations to make the quickest and largest profits. Working people are now paying for this negligence with their jobs and livelihoods.

In addition to GM, Ford and Chrysler have announced reductions in output at truck-making plants in the US. Ford is eliminating 15 percent of its white-collar workforce by August 1. Since 2005 Ford has reduced its total number of North American workers from 135,700 to 88,600.

Wall Street analysts are now suggesting that Chrysler—which was taken over by private equity firm Cerberus Capital Management last year—is the most likely to declare bankruptcy. JPMorgan auto analyst Himanshu Patel said the company is in a far more perilous position than GM because it has limited assets to raise cash and is more heavily reliant on trucks and the North American market.

While declaring bankruptcy could make it more difficult to obtain financing, analysts said, it would have the benefit—from Wall Street's perspective—of allowing the company to tear up its labor agreements and impose sweeping wage and benefit concessions.