Chrysler 1979: Lessons from an early corporate “bailout”

Lessons from history

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In 1979, Chrysler Corporation, the third largest US automaker, hovered on the verge of collapse, a victim of sharply declining revenue and cash-on-hand that had reached the level of threatening daily operations. In August 1979, President Jimmy Carter’s Treasury Secretary, G. William Miller, proposed a government intervention in the form of $1.5 billion in guaranteed loans. The sum was considered an astonishing total. It was by far the largest government bailout in US history. On September 7, 1979 Chrysler formally petitioned the US government for the loans, and on December 20, 1979 Congress ratified the appropriation in the “Chrysler Corporation Loan Guarantee Act,” which Carter subsequently signed into law.

The loans stipulated major concessions from Chrysler’s workers, represented by the United Autoworkers Union (UAW). The political and media elite had successfully shifted blame for the corporation’s collapse—and by extension the overall decline of US capitalism—onto the working class. The UAW and the AFL-CIO buckled to the concession demands, a capitulation that cleared the path for an onslaught on working class living standards that has continued to this day.

There were profound pressures at play in the near-bankruptcy of Chrysler. The reemergence of the US’s capitalist rivals, especially Japan and Germany, was felt keenly in the auto industry through declining market share. Even the more immediate cause of Chrysler’s demise—the oil shocks of the 1970s that reduced demand for the large and inefficient vehicles that had been Chrysler’s stock-in-trade—testified to the declining influence of the US, which was reflected in its inability to dictate production quotas to the oil states.

Now, in the midst of the proposed bailout of the entire US financial industry, the experience of Chrysler in 1979 holds critical lessons for the working class.

The Chrysler bailout set in motion processes that have only intensified to this day. First, the working class would henceforth have to foot the bill for the decline of US capitalism through its own impoverishment, carried out in the name of “competitiveness.” Second, the corporate and financial elite, who bore primary responsibility for this decline, would henceforth reap windfall profits not only *in spite* of this decline, but precisely *because* of it.

These processes found embodiment in Chrysler CEO Lee Iacocca, who soon after the bailout was making millions of dollars, even as he ruthlessly axed tens of thousands of jobs.

A special place of shame must be given to the national media and political elite. In 1979 they raised a hue and cry about the need for Chrysler’s workers to “sacrifice” and extolled the virtues of the free market. Today they offer few such sermons to the financial elite responsible for the current crisis. But they continue to insist, as they did in the days of the Chrysler bailout, that the working class must pay the bills for the failures of American capitalism. The working class is being asked to fork over trillions of dollars—the sum would have been unfathomable in 1979—to bail out a criminal financial aristocracy that has bankrupted American capitalism, and very nearly the state itself.

The Chrysler bailout

When the bankruptcy of Chrysler appeared imminent, an intense debate developed within the ruling elite over how to approach what was viewed as the most disastrous sign to date of the decline of US capitalism. Should the nation’s third largest automaker and tenth largest industrial employer be allowed to fail? Or should there be a bailout? And, if so, under what conditions should Chrysler be “rescued”?

Ultimately a bailout prevailed over what had been quite intense Congressional opposition. The new consensus in favor of federal intervention was based on pressing wage and benefit concessions on Chrysler workers.

By late October 1979, UAW President Douglas Fraser had already agreed to substantial concessions. The UAW would allow Chrysler to defer $200 million in payments to the union’s pension fund, and it would hand over nearly all of the UAW’s $850 million pension fund to Chrysler as a loan. He also indicated that the UAW might accept a pay cut.

But in November, as the bill to bail out Chrysler hung in the balance, Alfred E. Kahn, chairman of the Carter Administration’s Council on Wage and Price Stability, testified before the Senate Banking Committee that the proposed $1.5 billion loan would be almost totally consumed by the UAW’s three-year contract with

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Chrysler. Kahn's testimony was considered quite surprising, inasmuch as it appeared to undermine his own administration's proposed bailout.

In fact Kahn was supplying the Senate with a new rationale for supporting the bill. In his testimony, he took the position—shared by the Carter Administration—that Chrysler workers had to sacrifice still more in the way of wages, benefits and conditions in order to rescue the corporation's profit margins. The leading Democrat and Republican on the Senate Banking Committee, William Proxmire of Wisconsin and Jake Garn of Utah, who had previously opposed the bailout, then fell in line. Soon the Banking Committee was proposing stipulations to the package that included a renegotiation of the UAW contract, $525 million in concessions from workers, and a three-year wage freeze.

As *New York Times* correspondent Judith Miller put it in 1979, "there was widespread agreement ... that workers must make sufficient 'sacrifices' to help their employer recover." The senators bullied, cajoled, and blackmailed the UAW, Garn threatening the union—in words eerily similar to current Treasury Secretary Henry Paulson—that "if they're not willing to act in response to an extreme situation quickly, then let Chrysler go."

In the weeks that followed, the national media and leading politicians launched a propaganda campaign demanding that Chrysler workers "sacrifice" in order to "save" Chrysler. The *Times* editorial page weighed in on December 10 ("What Price Chrysler Jobs?"), sanctimoniously declaring that "Chrysler workers should contribute significantly to their own rescue." "The possibility of corporate failure," the *Times* lectured, "is crucial to the health of a free economy. Without the market's discipline, incentives for efficiency and innovation disappear."

If Chrysler were to collapse, the editorial continued, "some workers would lose their jobs; most would be forced to renegotiate their wages downward. But the economy as a whole would benefit: Chrysler's inefficiency would be removed as a drag on productivity... [i]t makes no sense to put the taxpayers at greater risk than Chrysler's workers. If saving jobs is the most important rationale for a bailout, surely the public should expect major sacrifice from those with the most to gain." The editorial then went on to denounce the UAW concessions already on the table as insufficient, warning that if the union "really prefers bankruptcy to a wage freeze, the public would have no reason to decide otherwise."

(The *Times*'s idolatry of the free market, as expressed in 1979 when Chrysler workers' jobs were at stake, is in noticeably short supply in 2008 as the government intervenes to bail out wealthy financiers—albeit once again at the expense of the working class!)

Out of this increasingly belligerent environment, a "compromise plan" was ultimately worked out that required, in exchange for the $1.5 billion guaranteed loan to Chrysler, $462.5 million in wage cuts and benefit concessions from workers.

The 1979 Chrysler bailout was a significant turning point in US history.

Chrysler had been a major and iconic presence of US industry for decades. Its collapse was a milepost in the long-term decline of US capitalism, which had resulted from the reemergence of major capitalist rivals and the enormous quantities the US spent on its military and related industries. The reemergence of Europe and Japan was the outcome of long processes that had been set in motion much earlier, when in the wake of World War II US capitalism—as a means of forestalling world revolution—rebuilt its major rivals.

At the helm of Chrysler stood Lee Iacocca, the human embodiment of another new historical process: the celebrity CEO whose personal wealth and prestige grows in inverse proportion to the decline of the corporation that he nominally represents.

At the helm of the country was the Democratic Party, which controlled the presidency and Congress. In the bailout, the Democrats joined with the Republicans in isolating the UAW. In so doing, they distanced themselves from the limited reformist agenda that the party had championed between the 1930s and 1960s. Since the 1970s the Democratic Party has been an equal partner with the Republicans in the steady rollback of the social gains and democratic rights won by the working class in the preceding decades.

Finally, the capitulation of the UAW and the AFL-CIO without a fight in order to "save jobs" gave the green light to what has been a three-decades-long assault on the living standards of the working class. The UAW's plan to "save jobs" has failed miserably—hundreds of thousands of auto jobs have been wiped out since 1979—but much like Iacocca and the managerial elite, the bureaucracy has prospered in spite of its pitiful track record. The Chrysler concessions were a major step toward the open conversion of the bureaucracy into a profit-making enterprise, a process that has come to full fruition in the UAW's recent ascension to the management of the auto industry's enormous health care liabilities.

The *Bulletin*, the forerunner to the *World Socialist Web Site*, warned in 1979 that "there is one essential question that arises out of the Chrysler bankruptcy: Who is to pay for the breakdown of the capitalist profit system, the working class or big business? The answer of big business, the banks, the Democrats, the Carter administration and the UAW bureaucracy is, of course, the working class."

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