US government bailouts: poverty wages for auto workers, trillions for bankers

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In the debate over federal assistance to the failing Detroit automakers, the clear consensus has emerged within the corporate, political and media establishment that auto workers must accept sharply lower wages and benefits as part of any industry bailout.

The White House, Congress and the incoming Obama administration all insist that substantial sacrifices are needed. The United Auto Workers union, which last year negotiated a fifty percent reduction in the wages of new hires, has pledged to reopen contracts with General Motors, Ford and Chrysler and make pay and benefits "fully competitive" with the non-union factories operated by their international competitors in the southern US states.

Such a course of action would result in a historic reversal for auto workers who would then be earning some $14 an hour—or, adjusting for inflation, about half what their counterparts made in the 1960s.

The Democrats and Republicans made no similar demand for sacrifices from the banking executives and financial speculators who were handed $700 billion in last September's bailout of the Wall Street banks.

In fact, whatever supposed restrictions on executive pay and bonuses were included in that rescue package have proven to be a farce. The banking executives and big investors continue to enrich themselves without needing to account for how they have used trillions in public funds.

A report in the *Washington Post* Monday, headlined, "Executive Pay Limits May Prove Toothless," made this clear. The article noted that the Bush administration inserted a last-minute loophole into the legislation that has rendered meaningless any restrictions on executive compensation.

The change meant rules would apply only to executives at financial institutions who received federal money through the so-called reverse auctioning of troubled assets to the government. This was the initial means by which the bailout money would be disbursed, according to Treasury Secretary Henry Paulson. However, the Treasury decided instead to inject public assets directly into the banks. None of the $335 billion committed so far has involved auctions nor will future assets, according to Treasury officials.

This has effectively annulled the only enforcement mechanism in the law, according to politicians and legal experts cited by the *Post*. "The flimsy executive-compensation restrictions in the original bill are now all but gone," Senator Charles E. Grassley (Iowa), ranking Republican on the Senate Finance Committee, told the newspaper.

The Government Accountability Office, the investigative arm of Congress, issued a report earlier this month indicating it was unclear how the Treasury would determine whether banks were following the executive-compensation rules. A Treasury spokeswoman told the *Post* the agency was working to develop a policy, although she did not say when the guidelines would be ready or if they would include any penalties at all. The companies, she suggested lamely, had promised to follow the rules.

As the Wall Street rescue package was being rushed through Congress, the Democrats sought to conceal this naked theft of public assets by claiming the measure contained unprecedented restrictions on corporate pay, "golden parachutes" and other perks. "This is the first time in the history of United States that anything has been done by Congress to curtail excessive CEO compensation," declared House Financial Services Chairman Barney Frank, a Democrat from Massachusetts.

This was a lie, just like everything else the Democrats said at the time to sell the rescue package: there was no time for discussion or debate, they informed the media and the public, because the credit markets had to be unfrozen in order to prevent a global financial collapse and the spread of the disaster from Wall Street to Main Street, etc. In the end, Congress quietly approved the changes made by the Bush administration and handed the banks the money—which has, of course, not been used to stimulate lending, but to acquire smaller competitors, pay dividends to wealthy bondholders, secure the balance-sheets and guarantee the fortunes of the top executives.

In a staggering double standard, the White House, Obama and congressional Democratic leaders, including Senate Majority Leader Harry Reid and House Speaker Nancy Pelosi, imposed drastic conditions on the auto companies, which are seeking a loan of $14 billion—one fiftieth the amount handed to Wall Street.

Insisting that no taxpayer money be used unless the auto companies demonstrate their "viability" and "accountability" to the public, the Congressional Democrats drafted a bill, which would give the president the power to appoint a so-called car czar to examine the companies' financial books, approve expenditures over $100 million and set benchmarks for restructuring. If the auto firms failed to implement plans for job cutting and slashing labor costs quickly enough, the car czar would recall the loans and throw them into bankruptcy.

No such conditions were imposed on the banks. In fact, despite the talk from Treasury Secretary Paulson and Federal Reserve Chairman Ben Bernanke about "transparency," the government is deliberately concealing from the public where the money went and how it has been spent.

Bloomberg News has reported that the Federal Reserve has refused its Freedom of Information request to disclose the recipients of more than $2 trillion of emergency loans and the assets the central bank is accepting as collateral. Fed officials say the release of such data could cause a severe loss of confidence and deepen the global financial crisis.

The cost of the Fed's 11 lending programs—which have even less oversight than the Treasury's $700 billion Troubled Asset Relief Program (TARP)—has exploded over recent months as it reduced standards and purchased largely worthless stocks and mortgage-backed securities from Citigroup, JP Morgan Chase and other major financial institutions. "If they told us what they held, we would know the potential losses that the government may take and that's what they don't want us to know," Carlos Mendez, a senior managing director at New York-based ICP Capital LLC, told *Bloomberg News*.

Since the Senate Republicans blocked the bill to assist the auto industry—demanding even more draconian and immediate wage cuts from auto workers—the Bush administration has been suggesting it may use TARP money to stave off the bankruptcy of GM and Chrysler at least until the Obama administration takes over. Whatever is worked out, however, will be contingent on a massive deterioration in the conditions of auto workers and, inevitably, the working class as a whole.

The struggles of auto workers—beginning with the great 1936-37 sit-down strike at GM plants in Flint, Michigan—put an end to the most brutal and exploitive conditions and won employer-paid pensions, health care benefits and higher wages, which set the standard for industrial workers throughout the post-World War II period. The so-called "middle class lifestyle," however, has been under assault for the last thirty years, beginning with the Chrysler bailout of 1979-80.

This has coincided with an explosion in social inequality. In 1984, the top executives of the US auto industry were paid 12 to 18 times as much as the average blue-collar worker. By 2006, they were paid 122 times more, not including the many golden parachutes worth $100 million or more. The recent labor agreement accepted by the UAW means that auto executives will now earn 240 times what new workers make!

Private equity managers at firms such as Chrysler owner Cerberus Capital Management earn far more still. Last year, the top 50 hedge and private equity fund managers made an average of $588 million—or more than 10,000 times what a current auto worker earns.

The official public opinion makers, corporate spokesmen and politicians insist that the auto companies can no longer afford decent wages, let alone health care and retirement benefits. They claim that to "compete," i.e., to make them profitable for the big investors again, the auto companies must reduce workers' wages to near-poverty levels and erase the gains won through generations of struggle.

State intervention and planning of the economy are indeed necessary, but like the bailout of Wall Street, any intervention by the two capitalist parties is only aimed at preserving the interests of the financial elite. They intend to make the corporations viable at the expense of the jobs and living standards of working people.

This whole reactionary framework must be rejected. Workers are not responsible for the collapse of the auto industry, let alone the financial system. The resolution of the crisis in a progressive manner is only possible on the basis of working people breaking with the Democrats and Republicans and advancing a socialist answer to the breakdown of the capitalist system, including the nationalization of the auto industry and the banks under the public and democratic control of the working class.