As global auto crisis deepens

Bush administration stalls on bailout

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As of Wednesday, the Bush administration had yet to present a bailout proposal for US automakers General Motors and Chrysler, which have indicated that they may be unable to make payments to their creditors and suppliers by year's end. The Bush administration has indicated that it will provide some additional funds to the auto industry, perhaps as part of an organized bankruptcy proceeding. Meanwhile, the global auto industry has largely ground to a halt.

Treasury Secretary Henry Paulson has said that loan money—made contingent on massive layoffs and pay cuts for autoworkers—will be delivered, but he did not indicate when this would take place. "We need to do this but we need to do it right. The autos will get the money as quickly as we can prudently do it," Paulson told CNBC. For his part, President Bush told CNN that he is "mindful of not putting good money after bad, so we're working through some options." White House press secretary Dana Perino added that the White House "is not going to be rushed into it."

The US political elite's delay with the auto industry stands in sharp contrast to the alacrity with which they moved to rescue Wall Street in October. Over a two-week period, Paulson worked feverishly with the support of top Democratic and Republican lawmakers, including Barack Obama, to craft a $700 billion rescue package that contained virtually no oversight of the major financial institutions.

Whether or not the Bush administration provides money, any final rescue package will aim to create bankruptcy-like conditions in which factories will be shuttered, workers laid off, and wages and benefits slashed. Moody's Investors Services puts the probability for what it calls a "prepackaged bankruptcy" contingent upon federal funding at 70 percent.

In such a scenario it is likely that the Bush administration will demand concessions from autoworkers that closely resemble those demanded by reactionary southern legislators in the US Congress. Senate Republicans rejected a deal brokered among the Unite Auto Workers, the Democratic congressional leadership, and the Bush administration for not reducing wages rapidly enough. Moody's believes that such an "orderly restructuring" will have as its primary aim protecting the interests of the Big Three's major bondholders, who could lose their entire investment if the automakers wind up in bankruptcy court.

There is an element of recklessness in Washington's confused and somewhat indifferent approach to the crisis in the auto industry. New studies have pointed to the devastating impact bankruptcy would have on the larger economy.

Mark Zandi, chief economist at Economy.com, a web site associated with Moody's, said that a "freefall" bankruptcy at one or more of the Big Three "would throw the broader economy into chaos, costing the economy 2.5 million jobs at its peak impact in summer 2010 and pushing the unemployment rate to a depression-like near 11 percent." Zandi's estimate of job losses resulting from a collapse of the auto industry corresponds to an earlier estimate made by the Center for Automotive Research.

On Friday, Standard and Poor's predicted that if no bailout is arranged, GM and Chrysler would be forced into bankruptcy by the first week of January, when major payments to part suppliers come due. But even if an "orderly restructuring" for the Big Three based on federal funds takes shape, it will do nothing to resolve the crisis of the auto industry, which is accelerating in the US and internationally.

Johnson Controls Inc., one of the auto industry's biggest parts makers, released its 2009 outlook Tuesday, which predicted that only 9.3 million cars and light trucks will be sold in the United States next year, down from 16 million in 2007 and about half of the nearly 18 million cars sold in 1999. Johnson Controls is predicting auto production will fall 25 percent and 32 percent next year in North America and Europe, respectively.

If US car sales drop to 9 million vehicles next year, it will be the first time—with the exception of the World War II years—that the number of cars sent to the scrap yard will top the number of new cars sold. Economists call this "auto deflation." Johnson Controls is itself in crisis. It announced a restructuring plan in September that will result in the closure of 21 plants in North America and Europe.

The collapse of Chrysler appears imminent. On Wednesday, Chrysler said it would stop production at all of its facilities for at least one month, beginning Friday. It is quite possible that many if not all of these plants will remain closed permanently. Meanwhile, Chrysler's financial wing has told dealers it is likely to suspend loans utilized by its dealers to keep its cars in showrooms. It will also start to charge fees to dealers who have been unable to sell new cars that have been in stock for more than 360 days.

Earlier in the week, GM announced plans to shut down twenty factories in North America and has indefinitely ceased production of a developing plant in Flint, Michigan, that would have built engines for its forthcoming hybrid model, the Volt. GM aims to cut production by 60 percent in the first quarter of 2009 from last year's level. Ford Motor Company will also suspend production at most of its plants during the first week of January as part of a broader plan to cut its production by nearly 40 percent.

The collapse in the auto industry is accelerating in Europe and Japan as well. In Europe, new car sales are off 25.8 percent, even worse than in the US. Italian auto giant Fiat SpA has announced plans to idle 40,000 workers on an alternating two- to four-week basis over the coming months. Swedish Volvo, German Volkswagen, and its Spanish subsidiary Seat have also announced major production stops.

Nor have Asian automakers escaped the crisis. Toyota Motor Corp has recently demanded that its major steel supplier, Nippon Steel Corp, accept a 30 percent price cut. It has also indefinitely delayed plans to open a new Prius plant in Mississippi, and Standard and Poor's warned that it may downgrade Toyota's high credit rating. On Wednesday Honda revised its profit estimates downward to 185 billion yen ($2.08 billion) from an October estimate of 485 billion yen, and Nissan announced production cuts in Japan of nearly 80,000 vehicles for the coming year.

Any collapse of the US auto industry would devastate both Mexico and Canada, which are fully integrated into a continental system of auto manufacture. On Monday, GM announced that it would idle three production facilities in Mexico. The suspension of Chrysler's production will also affect plants in both Canada and Mexico. According to a *Toronto Star* report, a Canadian government investigation has determined that 582,000 jobs would be lost in Canada within five years if the US automakers collapse, including 323,000 immediate job losses. In the event of a 50 percent production cut among the Big Three—perhaps an optimistic scenario—157,400 jobs would be lost in Canada.

The global automakers and the various capitalist governments offer no viable means for resolving the crisis of the auto industry. What is taking place is only the initial phase of a massive assault on the jobs and living standards of workers the world over. The second phase of this will be ruthless competition among the automakers for rapidly declining market share, supported by the nationalist interventions of the various governments.

The international character of the crisis in the auto industry makes clear that auto workers must unite over and across borders to reorganize the industry rationally, producing according to social need, instead of for the shortsighted profit interests of the auto executives and stockholders. This is a perspective bitterly opposed by the trade unions, who identify their fate with "their" corporations and nations.

Since the failure of the Congressional bailout on December 11, the United Auto Workers union has been largely silent, outside of a Friday morning press conference in which UAW president Ron Gettelfinger revealed that he had substantially accepted the Republican caucus' demands for the impoverishment of autoworkers, only to be spurned. (See, "House signals aid after auto loan bill stalls in Senate: UAW agrees to more concessions")

Gettelfinger said he "went the extra mile" in a private discussion with Republican Senator Bob Corker of Tennessee. "We reached a tentative agreement with Sen. Corker," Gettelfinger said, "with the understanding he could win approval from the Republican caucus in the Senate. Unfortunately, he was unable to do so."

Rather than develop opposition among workers to the impending destruction of jobs and living conditions, the UAW is actively collaborating in this attack.