

# White House pushing GM toward bankruptcy

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The Obama administration is aggressively pushing General Motors into bankruptcy, the *New York Times* reported Monday. The White House wants to use bankruptcy courts, the newspaper said, to break up the century-old industrial icon and sell off its profitable parts to private investors. Meanwhile, the company's undesirable assets, including health-care and pension obligations, would be liquidated in drawn-out bankruptcy proceedings.

"The Treasury Department is directing General Motors to lay the groundwork for a bankruptcy filing by a June 1 deadline," the newspaper reported, "despite GM's public contention that it could still reorganize outside court, people with knowledge of the plans said during the weekend."

The announcement further undercut GM's stock market value—which fell 16 percent Monday to \$1.71 per share—making a bankruptcy even more likely.

Under a so-called "363 sale"—named after Section 363 of the US Bankruptcy Code—the administration would split GM into two companies. A new, "good" GM would include Chevrolet, Cadillac and Buick, the latter of which has proven highly profitable in China. This company would enter and exit bankruptcy protection in as little as two weeks, using \$5 billion to \$7 billion in federal financing, the newspaper said, citing a person briefed on the plan last week.

"Less desirable assets, including brands, factories and health care obligations," the newspaper said, "would be left in the old company, which could be liquidated over several years," the *Times* reported.

Last month the White House forced out GM CEO Richard Wagoner—who reportedly was resistant to bankruptcy—and replaced him with Chief Operating Officer Fritz Henderson, who Wall Street analysts say was more amenable to the idea.

The threat of bankruptcy is being used to extort unprecedented concessions from GM's 60,000 hourly workers and 800,000 retirees and their dependents. If the United Auto Workers union fails to impose drastic wage and benefit reductions by May 31, then a bankruptcy judge will be brought in to do it.

Last month the Obama administration rejected the

restructuring plans submitted by GM that included the elimination of 47,000 jobs—21,000 in the US—14 plant closings in North America and Europe, and the reduction of wages and benefits to the level of non-union workers at Japanese-owned plants in the US by 2010.

The president said the plan had not gone far enough and insisted on more "painful concessions" from auto workers. The president's auto task force said the company would only be judged "viable" if it assured an "adequate return on capital" to Wall Street, under all conditions, even a severe economic downturn.

While praising the UAW for its past concessions, auto task force member Jared Bernstein told WWJ Radio in Detroit that far deeper concessions, including wage and benefit cuts from current workers, were required. Previous givebacks, including reducing new-hires wages to \$14 an hour, he said, were "deep, significant and important." Nevertheless, he said, most of past concessions "apply to new workers, entry-level workers coming in. There are still lots of workers who are older, more experienced and still benefit from contracts that were signed a long time ago," he said, indicating that these past gains would have to go.

In the face of this attack, the UAW has maintained complete silence. Behind the scenes, the UAW bureaucracy has been engaged in intense negotiations—not to protect the jobs and living standards of its members, but to secure for itself whatever it can from the wreckage of the auto industry.

According to reports, the UAW could emerge as one of the biggest shareholders in the "new" GM, giving the union bureaucracy a direct financial stake in boosting the profits and share value of the company through the destruction of members' jobs, wages and benefits. [See "The UAW's silence"]

Furthermore, there is reason to believe the UAW favors bankruptcy for GM. In this way it could avoid having to bring another concessions contract back to the membership, where it could be defeated by a rank-and-file vote. Moreover, the UAW leadership might believe it could dodge responsibility for the concessions by blaming a bankruptcy judge instead.

The UAW has reportedly already agreed to concessions on wages, benefits and working conditions. It has balked, however, on the government's demands for a further reduction in payments to the union's retiree health care trust fund.

In 2007, the UAW agreed to cut the wages of new-hires in half and free GM, Ford and Chrysler of tens of billions of dollars in retiree health care obligations in exchange for the setting up of a union-controlled trust fund, known as a Voluntary Employees' Beneficiary Association or VEBA. GM owes \$20 billion to the UAW fund. Last month GM proposed the UAW accept \$10 billion in preferred stock with a 9 percent interest rate and \$10 billion in cash over 20 years.

According to a JPMorgan Chase report, GM is expected to present a much harsher offer to the UAW this week. The Treasury Department's auto task force wants to see GM wipe away far more than half of the UAW liabilities, *BusinessWeek* reported. "That means GM needs the union to take much more than half the value of remaining union health-care liabilities in stock."

Top UAW officials—who are being advised by Wall Street firm Lazard—were depending on the VEBA to provide a lucrative source of investment income, to offset the loss of dues revenue that has resulted from the downsizing of the auto industry.

Moreover, the financing of the VEBA with virtually worthless stock ensures that the trust—which the union claimed would be solvent for eighty years—will soon run out of money. This means the UAW, which will take over the provision of retiree benefits in January 2010, will be responsible for slashing the medical coverage of thousands of UAW retirees and their spouses.

In addition to gutting health care benefits, the government is also demanding a sharp reduction in pensions. Under a bankruptcy, a judge is likely to allow GM to terminate pensions and dump its obligations into the government's Pension Benefit Guaranty Corporation, which is already facing a multi-billion deficit. Such a scenario would leave hundreds of thousands of retirees with drastically reduced benefits.

The Obama administration is acting on behalf of the most powerful sections of the financial elite who want to destroy the past gains of auto workers and use this to set a precedent for a sweeping attack on the living standards of every section of the working class.

The dismantling of the auto industry—which will provide another windfall for Wall Street—is undoubtedly part of the Obama's administration economic "recovery" plan, which is designed to boost the fortunes of America's financial aristocracy through the impoverishment of the working

class.

Auto workers have bitterly opposed Obama's demands. Brian and his brother, Dan, spoke to the *World Socialist Web Site* at the Pontiac Truck and Bus assembly plant, north of Detroit. Brian, 54, has been an autoworker for 36 years having hired in at the age of 18. His brother started four months later.

Brian said, "We haven't being told anything about what's going to happen to this plant; there are rumors, but no word from the union. Obama wants more concessions. But we've been giving up concessions for the last 3-4 contracts, for the last 12 years. People don't know how much we've given up," he continued.

Noting that former GM CEO Richard Wagoner had gotten rid of 147,000 jobs over seven years, he said, "But that wasn't good enough for the government. They want job cuts now. They're after the working class. The Bush Administration had been doing it for eight years, and now Obama's doing it."

He continued, "They're telling us, 'your contract will be null and void.' That's hard to take. They feel like they can do anything they want with our contract. The average worker supported Obama. And now he's turned around and wants to lay off workers.

"The union people have nice cushy places downtown. They drive nice cars, and they want to protect their jobs. That's all they're after."

A young worker named Jeff told the WSWWS, "The UAW is going to get something out of this. They will sell us out in a second. It would be nice to try to organize a fight to stop this but the union says 'don't do that.' They are not protecting our interests.

"Obama is bailing out on what he promised. They are targeting UAW workers not the top executives. Wall Street investors are still making their money; they robbed the country of so much, and they are set for life. They said you can't touch the contracts for the AIG executives who got those bonuses, well what about our contracts?"



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