Obama’s “Path to Viability for GM & Chrysler”: The ruthless language of Wall Street

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On Monday, President Barack Obama issued a set of ultimatums to General Motors and Chrysler that represent the direct intervention of the US government to effect a brutal restructuring of the American auto industry in the interests of Wall Street.

The measures demanded by Obama include the elimination of Chrysler as an independent company, either through a merger or outright liquidation, and the downsizing of GM well beyond the already massive scale proposed by GM management, with the agreement of the United Auto Workers union.

At the heart of the "New Path to Viability" outlined by Obama's Auto Task Force is a far more "aggressive" shutting of plants, elimination of models and nameplates, closing of dealerships and destruction of jobs, combined with deeper cuts in wages, benefits and work rules and the ditching of the auto companies' pension and retiree health care obligations.

Obama announced that his Auto Industry Task Force had rejected the restructuring plans submitted by GM and Chrysler, required under the terms of the $17.4 billion in emergency loans granted by the Treasury last December under the Bush administration's Troubled Asset Relief Program (TARP). He also announced that his administration had forced the resignation of General Motors Chairman and CEO Rick Wagoner and would oversee the departure of the majority of GM's board of directors.

He gave Chrysler 30 days to finalize a merger with Fiat or another company and allotted GM 60 days to comply with his Task Force demands, and indicated that the best means for carrying them out was a "supervised bankruptcy" process under which a bankruptcy court could terminate union contracts.

Under TARP, hundreds of billions of dollars in taxpayer money have been handed over to banks and the insurance giant American International Group (AIG), with no strings attached. No Wall Street bankers have been removed from their posts, even though Citigroup and Bank of America have each received $45 billion in TARP funds plus some $300 billion in government guarantees for their bad debts.

The double standard between the administration's treatment of Wall Street and the auto industry is blatant. It was already prefigured in the personnel appointed by Obama to his Auto Task Force. The group is headed by Treasury Secretary Timothy Geithner, who was the president of the New York Federal Reserve Bank prior to joining the Obama administration. In that position, he played a key role in fashioning the Bush administration's bank bailout policies.

Just one week prior to Obama's auto announcement, Geithner revealed a scheme to allow the banks to offload their bad debts by using hundreds of billions of taxpayer money to subsidize and insure lucrative profits for hedge funds and private equity firms that agree to buy the banks' "toxic assets" at inflated prices.

Geithner's chief advisors on the Task Force are investment bankers. There are no people connected to the auto industry on the panel.

Auto workers do not need to read the statements issued Monday by the Task Force to know that their jobs and livelihoods are being destroyed in the name of restoring the auto companies to "viability." However, it is worth reviewing these declarations to get a better sense of the naked class interests that determine the policies of the Obama administration.

It is extraordinary that a government should, in its name, publish documents that unabashedly articulate the interests and aims of a financial elite that constitutes a miniscule portion of the population.

The overview of the Task Force's findings carries the euphemistically cynical title "Obama Administration New Path to Viability for GM & Chrysler." After summarily rejecting as inadequate the downsizing and wage- and benefit-cutting proposals of the companies, the statement declares that "...both have *unsustainable liabilities* and both need a fresh start. Their best chance of success may well require utilizing the bankruptcy code in a quick and surgical way... a structured bankruptcy process—if needed here—would be a tool to make it easier for General Motors and Chrysler to *clear away old liabilities* so they can get on a path to success..." [Emphasis added].

What are these "unsustainable liabilities" that must be "cleared away?" They are the pensions and health benefits of 800,000 GM and 125,000 Chrysler UAW retirees and their dependents. There is, of course, no mention of the unsustainable costs of food, shelter, health care, housing and education that more than a million workers will face—having been robbed of benefits they earned through years of onerous labor and which were guaranteed under legal contracts between the companies and the union.

A section of this overview entitled "General Motors Viability

Determination" gives an indication of the administration Task Force's definition of "viability," declaring that "GM's current plan will not result in a healthy company that is meaningfully cash flow positive..."

It refers to "*restructuring experts* retained by the Administration" who "will work closely with the company." [Emphasis added]. Who are these "restructuring experts?"

They are more commonly known as asset strippers. They advise Wall Street investors on the best means of making a profit by hiving off unprofitable sections of companies, slashing jobs and gutting wages and benefits.

Geithner's two top advisors on the Task Force are such individuals—the investment bankers Steven Rattner and Ron Bloom. The latter worked for a period as an adviser to the United Steelworkers union, helping to organize the downsizing, closure and merger of steel companies which involved the destruction of tens of thousands of jobs. In the process, the steel bosses offloaded billions of dollars in pension obligations to the government's Pension Benefit Guarantee Corporation, resulting in sharp reductions in pension benefits for retired workers and the elimination of health care benefits for more than 200,000 workers.

The document goes on to lay down as a requirement for the "new" GM what it calls "sustainable profitability," stating: "A viable GM should be able to generate meaningful positive free cash flow in a normalized business environment, generate net free cash flow over the course of a business cycle and enhance its competitive position while also earning an adequate return on its capital."

In other words, a company that can guarantee lucrative profits for its shareholders and Wall Street creditors in any and all economic conditions.

How is this to be achieved? "More aggressive operational restructuring: The restructuring plan must rapidly achieve full competitiveness with foreign transplants and more aggressively implement significant manufacturing, headcount, brand, nameplate and retail network restructurings...

"The best plan to achieve this may well be an expedited, court-supervised process to extinguish unsustainable liabilities..."

There is only one way GM can achieve "full competitiveness" with foreign transplants, which have a fraction of the US company's retirees, and that is by liquidating existing retiree benefit and pension plans—on top of slashing the wages, benefits and work rules of the active workers who survive the restructuring.

In the section entitled "Chrysler Viability Determination," the Task Force hails Fiat's "senior leadership" which "successfully led a turnaround in Fiat over the past five years." That "success story" involved the destruction of many thousands of Italian auto workers' jobs.

In a section entitled "Support for Consumers and the Auto Industry," the Task Force issues the following reassurance to Wall Street: "Our actions are not intended to slow the necessary consolidation and rationalization of key elements of the auto industry, but will help stabilize the industry during this period of transition."

That is to say: "Don't worry, investment bankers and speculators. We are not in the business of retarding the decimation of the auto industry, but of facilitating it."

A separate and more detailed statement on GM issued by the Task Force includes the following remarkable passage: "As GM moves through its forecast period, its cash needs associated with legacy liabilities grow, reaching approximately $6 billion per year in 2013 and 2014. To meet this cash outflow, GM needs to sell 900,000 additional cars per year, creating a difficult burden that leaves it fighting to maximize volume rather than return on investment."

Here, in the cold language of Wall Street, is laid down the fundamental principle that informs the policies of the Task Force and the Obama administration. The aim is not to expand the production of affordable and safe vehicles, provide decent-paying jobs for workers and develop the productive forces of society, but rather to obtain the desired "return on investment" for the financial elite. Where the expansion of production and jobs conflicts with the accumulation of private profit, it is the former that must be sacrificed.

This document concludes with the following curious formulation: "[W]e believe that there could be a viable business *within GM* if the Company and its stakeholders engage in a substantially more aggressive restructuring plan." [Emphasis added].

Why the phrase "within"? The answer, as revealed by the *Wall Street Journal* in a recent article, is a scheme being considered by the administration to use the bankruptcy courts to divide GM into two companies—a profitable company producing popular models that would be divested of retiree obligations, and a "bad" GM onto which pension and retiree health obligations would be offloaded. The latter would remain in bankruptcy until its assets were sold off or otherwise liquidated.

These documents spell out the unambiguously the class interests—those of the financial oligarchy—represented by the Obama administration.