Closures of US auto dealerships will cost tens of thousands of jobs

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US auto manufacturers Chrysler and General Motors, encouraged by the Obama administration and top Wall Street circles, announced plans Thursday and Friday to close a combined 1,900 dealerships. These closures will result in the loss of some 100,000 jobs and produce economic devastation in many communities across the country.

GM, which notified 1,100 of its dealerships Friday that their contracts would be terminated, plans to eliminate another 1,300 by the end of 2010. Ford, which is not currently receiving federal funds, will also cut its dealerships. The total job losses may eventually run as high as 200,000.

The auto companies are operating with great ruthlessness, tearing up contracts and destroying relationships that have lasted, in some cases, for more than half a century.

Chrysler, which has taken $4 billion in federal loans and entered bankruptcy April 30, considers itself free from any obligation to obey state franchise laws and informed the affected dealerships Thursday that they would be closed by June 9.

The *Detroit News* noted: “The disenfranchised dealers will not be offered settlements, and there will not be an appeal process, [Chrysler Vice Chairman Jim] Press said. Chrysler will not review its decisions.

“The automaker will help closing dealers sell their inventory of about 44,000 new vehicles and parts to other dealers, but will not buy any inventory. Press said the inventory should be absorbed over about six weeks.” Commentators were skeptical that surviving Chrysler dealers would buy the unsold inventory.

A coalition of rejected dealers plans to fight the auto company in court. A lawyer representing the Committee of Chrysler Affected Dealers, Stephen D. Lerner, alleges that the closures are unlawful and that some 100,000 employees stand to lose their jobs. Lerner argues that the rejection of dealer agreements and closures violate numerous state laws, “which are designed to protect dealers from unfair business practices by the large auto manufacturers” (*The National Law Journal*).

Lerner commented: “Chrysler is attempting to use the bankruptcy to avoid their obligation to these dealers. The other thing that is remarkable is that Chrysler has not provided...any soft landing or opportunities for dealers to have time to address these concerns.”

General Motors sent letters Friday to the dealerships whose contracts it will not be renewing in October 2010. Many are expected to close their doors this year. In addition, GM plans to shut down 500 dealerships that sell only Saturn, Hummer, Saab and Pontiac—brands it is closing down or selling. The company plans to announce the elimination of another 400 dealerships in the coming months and expects 400 to disappear through attrition. Some 300 outlets have gone out of business or been swallowed up by larger dealers this year. By the end of the process, the auto firm anticipates ridding itself of 40 percent of its retail network.

In the past, paring down the number of brands and dealerships has been an expensive proposition for the auto companies. Dispensing with the Oldsmobile brand, for example, a process completed in 2004, cost General Motors approximately $1 billion. This time, however, “the cash-strapped GM is not offering payments or vehicle repurchases to dealerships in this current round of cuts” (CNNMoney.com).

GM has to wait for the dealer agreements to expire to avoid expensive buyouts because it has not yet declared bankruptcy. The company has borrowed $15.4 billion from the federal government and faces a June 1 deadline to demonstrate that its economic prospects have improved or it confronts insolvency.

Many analysts expect General Motors to file for bankruptcy on that date, notes the *New York Times*, “and at that point the company could start trying to cancel franchises and shorten the time frame for the cuts.”

Attorneys for GM dealers plan to challenge the company in court, charging that the decision not to renew agreements is equivalent to wrongful termination of a contract.

The Obama administration, with its usual icy indifference to the fate of the population, has fully backed the closure of the dealerships, with the resulting mass loss of jobs. The Treasury Department, in a statement issued Thursday in response to the Chrysler closures, declared: "We understand that this rationalization will be difficult on the dealers that will no longer be selling Chrysler cars and on the communities in which they operate. However, the sacrifices by the dealer community—alongside those of auto workers, suppliers, creditors, and other Chrysler stakeholders—are necessary for this company and the industry to succeed."

The statement asserted that the Treasury Department "played no role in deciding which dealers, or how many dealers, were part of Chrysler's announcement today." Press, Chrysler's Vice Chairman, made the same claim.

The *Detroit Free Press* came closer to the truth May 10: "President Barack Obama's auto task force has pushed for a massive downsizing of dealer networks as a fundamental component of the restructuring of GM and Chrysler. Capstone Advisory Group, which is directing much of Chrysler's financial makeover in U.S. Bankruptcy Court, has suggested Chrysler support only those dealers that 'will have value to the acquiring company [Fiat].' "

The *Los Angeles Times* took note of Press's denial of an Obama administration role in the closures, adding, however, "GM officials, including Chief Executive Fritz Henderson, have acknowledged pressure to make 'faster and deeper' cuts to the company's distribution network." In *Time* magazine, Douglas McIntyre of 24/7 Wall Street argues that the federal government is "encouraging an action that will put tens of thousands of taxpayers out of jobs."

The impact of the closures will be immense. A spokesman for the National Automobile Dealers Association (NADA), David Hyatt, told the press, "It's not a haircut for dealers. It's a beheading." Apocalyptic language was the order of the day. The dealership closures were described as "an economic tsunami for communities" by one journalist; another described cities "bracing for a wave of blight." The number of employees who will lose their jobs as a result of the closures is greater than the total workforce employed by Chrysler and General Motors.

Kim Hill of the Center for Auto Research in Ann Arbor, Michigan suggested that, "for every job in a dealership, there is one other job in the community associated with it."

The American relationship with the automobile is no small matter. NADA estimates that car dealership sales on average represent 20 percent of total retail sales in a given community. Dealerships currently employ 1.1 million people in the US, with a total annual payroll of $54 billion and an annual average payroll per dealership of $2.59 million. Auto sales in the US continue to plummet: in April, the annualized rate for 2009 stood at 9.5 million, down from a total of 16 million sold in 2007.

While GM has not announced the locations of its closed dealers, Midwest industrial states will bear the brunt of the Chrysler cuts. Pennsylvania will lose 53 dealerships; Ohio, 47; Illinois, 44. Metropolitan Detroit alone will lose 14 Chrysler dealers and Michigan, 40.

California will lose 32 Chrysler outlets, most of them in small and mid-sized towns. The *Los Angeles Times* reported on the case of a Jeep and Dodge store in El Centro, California, owned by Dave Merrill. The dealership's elimination will leave "the closest Chrysler location 60 miles away—in Arizona."

" 'I think it's criminal,' said Merrill, who has owned the location for a decade and whose sales have fallen about 45 percent this year. 'It gets to be 115 degrees here in the summer. You break down. Where are you going to go to get serviced?' "

Merrill won't have to close his operation, because he also sells Hyundais and Hondas, but he will be forced to lay off 20 employees, "pushing them into an Imperial County job market that has a staggering 25 percent unemployment rate."

Various commentators point to falling tax revenues, charitable contributions and the impact of closed dealerships coming onto an already disastrous real estate market.

In California, car dealerships are one of the biggest sources of tax revenue. Cerritos, California, for example, depends on sales taxes to fund one-third of its annual budget, according to the *LA Times*. Tustin, in Orange County, relies on car dealers for a quarter of its funding, and late in 2008 the town's Director of Finance declared there had been a "frightening" drop in collections.