Major banks made whole in GM bankruptcy

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Major lenders to General Motors (GM) will not lose any money as a result of the automakers' bankruptcy, according to several media accounts. Senior secured lenders—all major Wall Street banks and finance houses—will be made whole, realizing the full $6 billion they are collectively owed. In sharp contrast, the estimated $35 billion GM owes its current and future retired workers in the form of pension and healthcare obligations will be subject to ruthless cuts, overseen in large measure by United Auto Workers (UAW) executives.

Because the banks will recover "about 100 percent of their investment," the *New York Times* notes, additional protection purchased on their loans through the credit-default swap market will only have to "cover administrative costs and the like." In other words, the major banks, including J.P. Morgan Chase & Co., Citigroup Inc. and Credit Suisse, will lose not a penny on their failed investments. This in spite of the fact that, since the onset of the financial crisis, J.P. Morgan and Citigroup have been handed tens of billions in taxpayer money through direct cash infusions, Federal Reserve loans, and guarantees on their debts.

Even many so-called "subordinated lenders," mostly bondholders, will be covered in full. Though they will receive only 12.5 cents per investment dollar through bankruptcy proceedings, debt insurance paid out through credit-default swap contracts will in many cases cover the rest. Bondholders will take over about 10 percent of "the new G.M." and control another 15 percent in stock warrants.

A third category of investors—those who bought into GM when its demise was imminent—stand to reap "one of the greatest payoffs in the history of long-short investing," Citigroup Inc. analysts write. These groups bought into GM's secured loans and at the same time acquired derivatives tied to the company's unsecured debt that would pay out when the company defaulted. They were essentially gambling that the Obama administration would make whole the secured loans, which are dominated by the top Wall Street finance houses. Among the firms that reaped windfall profits in this manner is the hedge fund BlueMountain Capital Management LLC.

"G.M. bonds have been changing hands rapidly" among a number of hedge funds, *Times* business columnist Andrew Sorkin noted in March, "suggesting that some hedge funds have been plowing into them, gambling that these investments soon will be worth even more." Among these concerns are Fidelity Investments, Research & Management, Loomis, Sayles, the Pacific Investment Management Company and Franklin Resources Inc. The guarantees on the banks' and hedge funds' GM debts exposes the real workings of the "free market." On the market, these securities would be worth pennies on the dollar. But because the real market value is unacceptable to the financiers, the Obama administration—and his Auto Task Force, led by billionaire private equity manager Steven Rattner—intervened to ensure that they realize their full investment in the failed corporation.

The Obama administration's guarantees of the banks' and hedge funds' GM debts exposes the class character of its intervention in the auto industry. The concern was never to "save" the auto industry—i.e., the jobs, living standards and communities of auto workers. It was from the beginning a wrecking operation designed to plunder the retirement benefits of workers and the remaining profitable parts of GM—to the benefit of the Wall Street finance industry, whose reckless gambling triggered the financial crisis in the first place.

More fundamentally, the Obama administration has used the forced bankrutpcy of GM and Chrysler to launch a far-reaching attack on the jobs, wages and living conditions of workers. Just as the struggle of auto workers in the 1930s once raised living standards for the whole working class, so now the Obama administration seeks to use the impoverishment of auto workers and their communities as a bludgeon against the working class as a whole. It is notable in this regard that the forced bankruptcy of GM, once the nation's largest provider of decent-paying industrial jobs, has been quickly followed by the de facto forced bankruptcy of California, the nation's most populous state, which once fostered its highest standard of living.

Indeed, while GM's creditors will lose nothing in bankruptcy, Obama and his Auto Task Force predicated loans to GM and rival Chrysler Corp. on plant closings, layoffs, wage and benefit cuts, sacrifices in working conditions, and the forced closure of thousands of auto dealerships. These draconian measures will devastate communities across the nation, especially in the hard-hit industrial states of Michigan, Ohio and Indiana, where only one year ago Obama campaigned feverishly for the presidency on the promise that he would save jobs.

More devastation is to come. Top members of Obama's Auto Task Force have warned that the "culture" of the auto industry—which they associate with steady employment and decent standards of living—continues to be a barrier to profitability.

"Addressing cultural issues is just as fundamental to our assignment as addressing the balance sheet or financing," said Steven Rattner, Task Force head and close Obama ally. And Task Force member Ron Bloom, who has close ties to both Wall Street and the AFL-CIO, warned that "General Motors has been kicking problems down the road for a long time." The Auto Task Force has made interim GM CEO Fritz Henderson's job dependent on his willingness to overcome this "culture," a recent *Times* article explains. No jobs will be safe. "Mr. Henderson said that changes were coming at G.M. that would demonstrate his willingness to break from the past. For example, Mr. Henderson said that by the end of the year, G.M. would reduce its executive ranks by 35 percent from 2008 levels," the *Times* writes.

Things must be called by their right name. Auto workers face no more ruthless enemies than those who claim to be their allies—the Obama administration, the Democratic Party politicians, and the UAW. UAW executives have worked intimately with Obama's Auto Task Force to prepare and push through the bankruptcies of GM and Chrysler in the interests of Wall Street. In so doing, the UAW officialdom has secured for itself a majority ownership of Chrysler and a major stake in GM. It will hereon in have a direct, and pressing, interest in driving down the wages and benefits of workers.

To defend their jobs and communities, workers must break once and for all from these false friends and take matters into their own hands. Workers must build rank-and-file defense committees and link their struggles with the widest sections of the working class and with auto workers all over world on the basis of a socialist program. The stranglehold over the economy by the big financial institutions must be broken through the nationalization of the banks under workers' control and the reorganization of economic life to meet the needs of society as a whole.