

How Wall Street took over the auto industry

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Six years ago, in the spring of 2009, President Obama's auto task force lent roughly \$25 billion to General Motors and Chrysler on the condition that the two auto companies "restructure" their operations by slashing workers' wages and retirement benefits.

At the beginning of the negotiations, GM and Chrysler simply asked for a loan, but, as opposed to the Obama administration's bailout of the banks, the White House Auto Task Force refused to give the auto companies money with no strings attached. The Wall Street investment bankers who ran the task force—Steven Rattner, Ron Bloom and Harry Wilson—identified the bailout as an opportunity to make huge sums of money by liquidating the gains auto workers had made through decades of bitter struggle.

For the past three-and-a-half decades, financial capital has increasingly exerted its power over industry. Because the financial elite holds such a large share of the world's wealth, it is able to dictate the conditions that companies must meet in order to receive financing.

Two economists who served on the task force, Austan Goolsbee and Alan Krueger, recount how this logic played out in the auto bailout:

"President Obama made the decision to reject the viability plans the companies submitted from the first round of loans and ordered a new and more serious restructuring effort, led by the team of private-sector turnaround experts that he brought into the administration.

"Estimates of the hourly compensation of the Big Three automakers put hourly compensation almost 25 percent higher than in the transplants [foreign auto companies operating within the United States]... After including the legacy costs of retirees, average labor costs for the Big Three were almost 45 percent higher... Under these conditions, it was hard to see how a rescue could make the Big Three more cost competitive with rivals at home and abroad for more than a short time, unless it reduced the fixed costs associated with retirees, the uncompetitive compensation levels for existing workers, and the crushing interest payments owed to bondholders."

Nearly all branches of industry have received this "restructuring" treatment from finance capital. Steel, auto, airlines and manufacturing in general have all gone through significant bailouts in which Wall Street lends money in exchange for mass layoffs and concessions.

Ron Bloom, one of the lead investment bankers on the Obama task force, played a role in the restructuring of the airline industry in the 1980s. He worked on the United Airlines pilots union buyout of United, in which the union got 55 percent of the company's stock in exchange for \$4.9 billion in wage and benefit concessions. Just a few years later, the company went bankrupt, wiping out the stock of the workers.

In the United States, the effects of this process can be seen in old industrial centers like Detroit, Baltimore, Chicago and Indiana, where abandoned factories are a common site. In these cities and states, the living conditions of workers have shifted from being some of the best in the country to being some of the worst.

It is obvious who benefits.

Now that GM, Ford and Chrysler-Fiat have cut workers' benefits and wages, the companies are making billions in profits. In March of this year, General Motors was hoarding \$25 billion in cash.

In that month, Harry Wilson, one of the investment bankers who participated in the Obama Auto Task Force, convinced GM, on behalf of a group of hedge funds, to carry out a \$5 billion stock buy-back and pay out another \$5 billion in increased dividend payments to its investors. To put the matter simply: workers' wages and benefits have been liquidated to make big payouts to hedge fund managers and Obama's financial cronies.

Cindy Estrada, the UAW vice president in charge of negotiations with GM, praised the deal, saying, "The strategic process outlined today leaves room for our members to prosper, strong product investment for customers, and a healthy, well-positioned company." These profits, made off the backs of workers, will find their way into the UAW's bank accounts since it remains GM's largest shareholder.

The auto industry's increasing reliance on finance, and finance's drive to cut workers' wages, is the logic of the capitalist system.

Under capitalism, as technology develops and prices drop, there is a constant pressure to incorporate the newest machinery into the production process. This is seen in the proliferation of robots on assembly lines.

Over time, however, this removes human labor, the source of new value. Additionally, more money needs to be spent (and often borrowed) to finance the expensive machinery.

The end result is a tendency towards lower profits, increased competition and overlapping production chains. A brief examination of Ford shows how these pressures forced the company to increasingly subordinate itself to the financial interests of Wall Street.

In the 1980s, all of the major auto companies were experiencing increasingly volatile and declining profits. One way that companies tried to deal with this problem was to take out large loans to create their own financing organizations for their customers.

The International Working Group on Financialization writes in *Financialization and Strategy* that from 1980 to 2003, "finance has made a very substantial contribution to Ford's overall profit, with the credit business accounting for \$47 billion, or about 50 percent of total Ford profit since 1988..."

This, however, required the amassing of a huge debt. "Ford Motor Credit had \$32 billion of short- and long-term borrowing in 1980, \$75 billion by 1993 and \$150 billion by 2003," the study states.

The UK-based working group concludes that this put "an assembler such as Ford on a trajectory of increasing finance dependence and intensifying complications about generating profit."

This attempted fix through finance mirrors the larger national and world economy. From 1960 to 1984, financial profits rarely accounted for more than 20 percent of total corporate profits in the United States. However, between 1990 and 2008, financial profits always made up more than 25 percent of total corporate profits, with many years seeing profits exceeding 35 or even 40 percent of total profits.

However, the growth in finance has not been mirrored by a growth in production. Concurrent with this shift to finance has been the increased pressure on workers' wages, the shutting of factories, and mass layoffs.

This shift away from production towards finance is personified by hedge fund manager Raymond Dalio, head

of Bridgewater Associates, who personally pocketed \$350 million in 2006. Dalio stated in 2004, "The money that's made from manufacturing stuff is a pittance in comparison to the amount of money made from shuffling money around. Forty-four percent of all corporate profits in the US came from the financial sector compared with only 10 percent from the manufacturing sector."

Sergio Marchionne, the CEO of Fiat-Chrysler, has won the trust of Wall Street by aggressively cutting costs at the auto company. In an April 29, 2015 presentation, entitled "Confessions of a Capital Junkie: An insider perspective on the cure for the industry's value-destroying addiction to capital," he announced a plan to further consolidate the auto industry by getting rid of redundancies.

Marchionne's move towards further consolidation would entail even deeper attacks on the working class, with thousands more jobs wiped out. And, as the competition for jobs increased, pay would go down even further.

Technological advancement is, in itself, progressive. It could reduce the amount of time workers have to labor to produce the same quantity of goods. It is only under a system in which industry is privately owned by a few people and run for private profit that this progressive development turns into its opposite, forcing workers to work harder, longer and for less pay.

In a socialist society workers would democratically control the large industries. This democratic and social control of the economy would allow production to be oriented towards social need, not the private profit of bankers and big investors.



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