How Chrysler was driven to the brink—part 2

The first installment of this two-part series, which appeared last week, analyzed how the Chrysler Corporation, founded as an innovative, technology-proud company, was boxed in during the 1950s by General Motors' ability to manipulate its market share and production philosophy. The sabotage against Chrysler was more than a case of unfair competition. It has been run by an alliance between General Motors and banking interests headed by the Morgans and Mellons who are committed to locking U.S.

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industry into a "British System" of technoligical stagnation, environmentalist obstacles, and financial dependence.

Part 2 takes us through the 1960s and the "crisis management," asset-stripping, and related policies that were imposed on Chrysler to the present. The importance of Chrysler's fate is that it is not simply an automaker. Its concentration of productive power and employment make it a major national asset.

Following the late 1950s reorganization at the hands of a GM-oriented "Sloan Management" team, Chrysler was at a turning point. Reorganization had left the company with a sizeable debt and a large deficit in capital spending. The 1957-1958 recession had knocked Chrysler for a loop.

What Chrysler needed in the 1960s was to expand its plant and equipment or else face severe problems as facilities aged, productivity dropped, and its market share retreated further. But this infusion of new capital improvements never materialized in the dimensions required.

Chrysler did build spanking new modern plant and equipment overseas in the 1960s, recognizing that lower lower labor costs combined with tax breaks could propel it into the international market, which experts predicted would become very profitable. But, at the same time, Chrysler failed to expand the number of its domestic automobile assembly plants beyond the eight it already had. Chrysler had intended to build, but never did, a new assembly line inside its New Stanton, Penn. assembly plant. The plant had to be sold in 1975.

Instead, Chrysler was drawn into the heady atmosphere of a domestic market share increase based on the consumer credit bubble—an increased market share provided to Chrysler by GM. The middle 1960s were the gravy years, until reality intervened in 1969-1970 in the form of a sharp recession. GM pulled the plug on Chrysler's market share in the midst of this economic downturn. The last opportunity for building new plant and equipment

Enter Ralph Nader

In the early 1960s, a CIA Latin American specialist and protégé of Arthur Goldberg and Daniel Patrick Moynihan, was given national prominence by the media. His name was Ralph Nader and he was British Intelligence's case officer for "consumerism and environmentalist" in the United States. Nader made a well publicized attack on the auto industry in the mid-1960s in his book *Unsafe at Any Speed*, which only gained notoriety when certain GM officials tried a heavy-handed and deliberately scandalous attempt to buy Nader off with women.

GM's attitude toward the environmentalists, as noted in part one of this series, was to be continued secret cooperation. GM knew that Nader's proposed restrictions on autos would ruin its competitors while GM would survive.

Nader's work—funded in part by Stuart Mott, heir to the GM fortune—culminated in the environmentalist codes imposed on the auto industry in the Energy Act of 1975. The codes mandated downsizing of cars, fuel emission standards, safety standards, including air bags, and auto industry average miles per gallon of 27.5. This placed incredible expenditures on the auto industry, but expenses which have been unevenly distributed. For example, between 1978 and 1985 Chrysler will spend nearly the amount per car for environmentalist standards of that spent by GM, according to the consulting firm H.C. Wainright. Already Chrysler shells out $620 per car meeting government regulations, compared to $340 per car for GM, deeply eroding Chrysler's profit margin.

By 1974, with the onset of Henry Kissinger's "Oil War," Chrysler began to show the costs of having failed to modernize its plant and equipment and the effects of GM's tightening control. Spiraling oil prices hit the auto industry hard. While GM and Ford's profits fell to 40 percent of 1973 levels, Chrysler actually ran a net loss of $52 milion. In 1975, the worst effects of the oil hoax hit, as large portions of the industrial Midwest closed down and auto layoffs reached 135,000 workers. Yet, by the end of 1975, GM was able to raise its profits 25 percent above 1974 levels, while Chrysler's loss that year ballooned to $260 million.

From this point on, Chrysler's history is essentially

UAW's Fraser defends environmentalism

At a press conference in Chicago on Aug. 9, United Autoworkers President Douglas Fraser defended the UAW leadership's support for environmental restrictions on the auto industry—though the union admits that such restrictions have contributed to the near-collapse of the nation's number three car producer, Chrysler.

Fraser's remarks followed an emergency session of the union's Chrysler bargaining council, called to consider the company's extraordinary request for a two-year freeze on wages and benefits. In a printed statement, Fraser announced the union's rejection of the company's request and reiterated the UAW proposal for the federal government to buy $1 billion worth of equity—a third of Chrysler's total—in the financially troubled corporation. The government would then use these voting rights to place representatives of labor, government, consumer and environmental groups on Chrysler's board of directors.

Fraser's proposal is reminiscent of the tripartite governing bodies set up in Italy by Benito Mussolini in the 1920s. The emphasis, as in the milder U.S. version, the 1932 National Recovery Administration (NRA), is placed on austerity management and labor "sacrifice," as opposed to a technology improvement and investment strategy.

The UAW statement conceded that "socially useful" environmental requirements put Chrysler at a competitive disadvantage. Asked whether the UAW shares the assessment that capital-diverting environmental demands supported by the UAW were a major contributor to Chrysler's current problems, Fraser replied that he "fully agrees with environmentalist restrictions. If people refuse to use catalytic converters, there wouldn't be any air to breathe," he stated. Under "no circumstances" would the UAW support a relaxation of environmental or mileage requirements for Chrysler or any other automaker. Fraser then called for "even greater capital expenditures on environmental matters...."

Fraser also rejected the idea that aid to Chrysler should be part of a high-technology-oriented economic development proogram or that such a program would be necessary to ensure the corporation's, and the auto industry's, full recovery.

The UAW president declined to comment on whether the union might join the campaign launched by the National Anti-Drug Coalition to end the drug problem in U.S. schools, neighborhoods, and factories—notoriously including Chrysler's. Fraser commented that his union is opposed to "illegal drug use," but said that the issue was "not relevant to the matter at hand."

—M. Moriarty

that of treading water, waiting for the Naderite hatchet to strike.

In 1976, Chrysler posted a profit of $423 million and a smaller profit in 1977. But in 1978, the roof caved in. Instead of participating in the generally good sales of the year, Chrysler capsized and lost $207 million.

Chrysler's investment bank, First Boston Corporation, began advising it to liquidate its most pofitable overseas operations.
ping," has divested Chrysler of the following properties, which were earning Chrysler its sole profits:

- In February 1976, Chrysler sold its Airtemp division to Fedders Corporation.
- In December 1978, Chrysler sold 51 percent of its equity in its Argentina operations to local interests.
- In February 1979 Chrysler sold its plant and other assets in Venezuela plus equity in Chrysler Colmotores (Colombia) to General Motors.
- In August 1978, Chrysler sold Chrysler Europe to PSA Peugeot-Citroen.
- In August 1978, Chrysler sold 60 percent equity in Chrysler Turkey to local interests.
- In May 1979, Chrysler sold one-third equity in Chrysler Australia to Mitsubishi Motors Corporation.

1979: Midyear crisis

Chrysler's finances, while temporarily stabilized by the sale of its foreign assets, did not improve; by mid-1979, in fact, they were rapidly deteriorating. The company's working capital had shrunk from $1.15 billion in 1978 to $800 million early this year, and is shrinking further toward the critical level of $600 million. If Chrysler falls below this level, according to one working agreement with its bankers, all its loans are recallable.

Meanwhile, Chrysler's short-term debt mushroomed this year, as it rapidly entered a cash squeeze. Chrysler Financial Corporation, the financing arm which helps finance Chrysler dealerships as well as consumer purchases of Chrysler cars, was likewise in financial straits with an additional $1.6 billion in short-term debt of its own.

Then came the announcement of Chrysler's huge second-quarter loss of $207 million and its need for accelerated tax credits on Aug. 2, 1979. This move was accompanied by both Moody's and Standard and Poor's rating services' downgrading of Chrysler Financial Corporation's senior commercial paper to the levels of Baa and BB, respectively, which is known on Wall Street as "junk bond quality." This shut Chrysler Financial out of the short-term markets. But Chrysler Financial had the problem of $100 million of senior debt maturing Aug. 15 on top of hundreds of millions of dollars of its short-term 90- to 120-day debt coming due within weeks.

On Aug. 12, Chrysler Financial sold $500 million in accounts receivable (wholesaler credits from Chrysler Financial to Chrysler dealerships) to Household Finance Corporation. HFC will receive whatever interest accrues on the receivables, depriving Chrysler of a profitable source of revenue. Then, on Aug. 14, Chrysler Financial sold off $230 million in accounts receivable (retailer credits to consumer purchasers) to General Motors. This will give Chrysler temporary funds with which to pay off its short-term debt when it comes due, and nothing more. But now Chrysler has placed itself in a position of relying on GM and HFC not only for additional cash, but also to help clear up its poor credit standing.

The dismantling of Chrysler

While Chrysler is being crippled, GM, contrary to the public impression, is not suffering one bit. At $2,445 million, GM's profits for the first half of this year are larger than any GM first half profits in history. Moreover, GM is actually benefiting from the environmentalist laws. According to one authoritative source, GM has accumulated one of the world's largest stockpiles of platinum, which is a key ingredient in the Ralph Nader-required antipollution catalytic converter. Since the 1975 passage
platinum has shot up from $50 to $350 perounce, throwing GM a tidy ripoff profit.

What's ahead for Chrysler, however, is even more asset-stripping and perhaps extinction. This policy was spelled out in the Rothschild-owned London *Economist,* which, in an Aug. 4 article entitled "Chrysler Running Out of Road," writes Chrysler's epitaph. The guillotine is being set up by Treasury Secretary G.W. Miller, who spent his days at Textron Corporation asset-stripping.

On Aug. 8, Miller flatly rejected Chrysler's bid for a plan that would give Chrysler $1 billion over 18 months in badly needed cash in the form of accelerated tax credits. Chrysler also asked for an extension of the compliance date for the environmentalist regulations. Rejecting this bid, Miller recommended that Chrysler seek a $500 million to $750 million federal loan guarantee from Congress.

Presiding over this loan guarantee affair, which will come up on Capitol Hill in September, is Henry Reuss (D-Wisc.), chairman of the House Banking Committee. On New York television Aug. 10, the ultra-liberal Reuss stated that he wanted Chrysler stripped down to a producer of small compact cars, with some mass transit and bus production. Reuss, in short, wants to impose his antigrowth views on Chrysler and wreck it as an auto company.

Joining Reuss in this effort is Senator William Proxmire (D-Wisc.), Reuss's counterpart on the Senate Banking Committee, who used the loan guarantee roulette game on New York City to slash essential services. The entire United Auto Workers-Democratic Party-dominated Michigan congressional delegation is on board with Reuss. The office of Senator Riegel (D-Mich.) indicated on Aug. 15 that Riegel intends to support fully Reuss's decapitation of Chrysler.

The role of the UAW in Chrysler's decline cannot be underestimated. Instead of pressing for modernization or replacement of Chrysler's decrepit inner-city facilities, the union countenanced—if it did not abet—the funneling of worker discontent into proto-terrorist "militant" cells like the Dodge Revolutionary Union Movement (DRUM), an offshoot of the League of Revolutionary Black Workers. The wildcat and other disruptive capabilities of these groupings was significant in the 1960s.

Well known for its role in setting up the Students for a Democratic Society, the UAW has also been one of the most open supporters of Ralph Nader and funders of environmentalism. The UAW energy program, for instance, would eventually shut down the domestic auto industry, its conservation demands are so extreme! The union's specific proposal for Chrysler involves placing consumers and environmentalists on Chrysler's board of directors, and UAW President Doug Fraser has steadfastly refused to support any modifications of the environmental restrictions crippling Chrysler (see box).

And the Republican Party is taking the view that Chrysler should be allowed to collapse, because that's the free enterprise way.

Thus, Chrysler has neither of the two traditional political parties going to bat for it. The United States may soon be given an object lession of how one of the largest industrial firms can be laid low by avowedly pro-British economic warfare deployments. If Chrysler goes, the U.S. economy is next.

—Richard Freeman