Chrysler's 'final solution' is proposed

U.S. ECONOMY

At deadline, Nov. 1, Treasury Secretary G. William Miller had just announced that the Carter administration will introduce legislation authorizing 1.5 billion dollars in federal loan guarantees for the Chrysler Corporation. Miller said that even if Congress approves the bill, Chrysler must fulfill the following conditions: 1) existing creditors (of whom Manufacturers Hanover is the largest, and which prominently include Salomon Brothers, the investment bank) must maintain their position, 2) Chrysler must raise $1.5 billion in new, unguaranteed funds through a combination of "asset disposition," "financing contributions," and "other concessions from persons with an economic stake" in the company. 3) Chrysler will be required to present a satisfactory four-year operating plan demonstrating that by December 31, 1983 it can function without federal assistance.

The plan was worked out the day before by a group including Vice-President Mondale, White House staffer Stuart Eisenstat, Labor Secretary Ray Marshall, and United Auto Workers president Douglas Fraser. The proposal goes far beyond last month's agreement by union contract negotiators to cut employee wages and benefits. If voted through, it would make the nation's tenth-largest industrial concern into a pilot case for government-forced liquidation and government-labor-industry corporatist management, far beyond anything General Johnson of the National Recovery Administration, a vocal admirer of Mussolini, attempted during the early stages of the New Deal.

The comparison with the 1930s is not a literary ornament. Officials at the highest level of the U.S. auto industry have issued confidential memoranda expressing their fears that a major contraction of the auto industry, resulting in 300,000 layoffs, will occur by no later than January. Not only Chrysler, but Ford is in serious trouble, and will effect an 18 percent cutback in its overall budget by Dec. 15. A Ford management "blue letter" warns top executives: "Brace yourselves, this will be rougher than the 1957 recession."

These predictions, not yet made public, result from evaluations of what will happen to the auto industry as a result of the Oct. 6 actions taken by Federal Reserve Chairman Paul Volcker. But if such catastrophic contraction occurs in auto in the December-January period as anticipated, it will cause concomitant large-scale effects in the principal auto feeder industries—steel, rubber, glass, etc.—by not later than the March-April period.

The industry's predictions are solidly based, assuming Volcker's measures are not reversed. The predictions are in accord, in both their severity and timing, with forecasts derived from a "spectral analysis" of the U.S. economy utilizing the LaRouche "Riemannian" econometric model. (See COVER story). The spectral analysis, which divides the economy into 25 sectors and assigns each a specific "frequency" according to its relative liquidity, obtained results for the auto sector virtually identical to the predictions now being secretly made by the industry's management.

The Volcker credit squeeze hit the auto industry right after one of the worst performances for a quarter in auto's history. Profits took a nosedive in the third quarter as all three major companies posted substantial operating deficits. Notoriously, Chrysler Corporation registered a record $460 million loss, the second largest posted-loss in the history of the U.S. economy, while after-tax profits at General Motors and Ford tumbled 96 and 66 percent respectively. For both Ford and GM, large tax credits masked heavy operating deficits, which are sure to increase this quarter as Volcker's crunch grinds sales further down. GM's loss was the first in nine years.

Chrysler is heading toward the highest full-year loss in U.S. corporate history—over $1 billion. Its third quarter sales dropped 15 percent in dollar terms, from $2.9 billion last year to $2.48 billion. If a 13 percent inflation rate is taken into account, sales actually dropped nearly 25 percent. Chrysler is predicting a $327 million net loss for the fourth quarter—without figuring in the effects of the Federal Reserve's moves.

While its pleas for federal government loan guarantees are meeting resistance in Congress, Chrysler's losses are rapidly consuming its working capital, which was down to $356 million at the end of September as compared with $800 million last June. Further erosion below $300 million will begin to trigger credit line shutoffs.

Major creditors are in fact pulling in their horns. On Oct. 30 Manufacturers Hanover Trust Chairman John McGillicuddy told a House Banking subcommittee that new bank loans to Chrysler without government guarantees are "not feasible for the banking community," citing the fact that federal banking regulators have

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labeled loans to Chrysler "classified." Chrysler, meanwhile, has been shut out of the credit markets, and its $400 million in suppliers-credits from Mitsubishi for marketing its high-sales models was recently withdrawn.

"Big MAC" and corporatism

This situation has put Chrysler in line to become a test case for the managed shut-down of all basic industry. Rep. Donald Riegle (D-Mich.) has submitted a bill mandating the establishment of an oversight board, modeled on New York City's "Big MAC," to de facto run Chrysler if the company is to get any federal financial aid. The board would be headed by Treasury Secretary G. William Miller, whose corporate career has been spent liquidating "unprofitable" divisions and corporations.

There is no evidence that the Riegle bill, which would give Miller the power to suspend federal loan guarantees for the company's debt, would rescue Chrysler any more than the varius financial control bodies have rescued New York City. In any case, whether or not Miller is formally placed on an "emergency financial control board" is of tertiary interest, as the Carter administration has now spelled out its determination to make Chrysler raise cash by selling off its most profitable assets. This will mean divestiture of the rest of their Argentinian facilities, and of their Mexican plants—Henry Reuss has insisted that the company sell the latter at the cost of construction. These are Chrysler's most modern, most productive branches.

It should be noted that other legislative proposals on the table for aid to Chrysler would at best expand the amount and term of loan guarantees without providing either the actual credit or the leadership Chrysler needs to regain its pre-World War II status as a technological frontrunner. Chrysler would remain on the edge of bankruptcy.

The lineup of the House Banking Subcommittee on the Chrysler question remains in doubt. House Banking Committee Chairman Henry Reuss has favored a strip-down of the company, as a precondition for aid, wile his Senate counterpart, William Proxmire, opposes federal aid altogether. Organizations ranging from GM and the National Association of Manufactures (NAM) to Ralph Nader's Congress Watch are heavily lobbying to let Chrysler go under. GM Chairman Thomas Aquinas Murphy told the *Washington Post* Oct. 23 that Chrysler must remember "the profit and loss system" in "a risk business," and he was substantially echoed by the NAM. Congress Watch attorney Howard Symons told the House subcommittee that "the essence of entrepreneurial, risk-taking, and innovative capitalism is that companies thrive and fail."

The UAW role

Meanwhile, according to the terms of the new Chrysler contract announced Oct. 24, the UAW has agreed to forego the 30 percent wage increase over three years granted to Ford and GM workers. The contract also "defers" company payments into the union pension fund, eliminates portions of already-won increases for Chrysler pensioners, and abolishes several paid days off. In return, Doug Fraser will join the board of directors.

Under the circumstances, this is already a major step toward what economists define as corporatism. In a healthy economy, labor-management decisionmaking, as in Western Europe, or informal cooperation, as between Teamsters and trucking operators, can help achieve productivity and capital formation gains, resulting in expanded incomes all around. Corporatism, as introduced in Italy in the 1920s and to a milder extent in the United States under the NRA, mandates "coparticipation" by employees, "consumers" and industrialists to reduce output, investments, wages and working conditions. In 1979, this is supposed to make companies and regions "competitive," while Volcker and Miller's credit policies end any semblance of a "free economy."

—Steve Parsons
and Susan Johnson