

Corporate Strategy by Leif Johnson

The end of the family car

Loan guarantee or not, Chrysler Corporation is about to be trimmed down to size and the rest of the industry will be forced to adjust to the standard.

As of this writing the Chrysler Loan Guarantee Board has again postponed its decision on whether to release \$1.5 billion in federal loan guarantees for the ailing automaker. Whether Chrysler gets the loan guarantees or not (it probably will get them in the end) the die is already cast for Chrysler and the U.S. auto industry.

"Detroit has been living too much in the past," Lester Brown, president of the Worldwatch Institute, told a financial reporter last week. "The auto industry is run by an aging bureaucracy. But, fortunately, circumstances are forcing the industry to adjust."

Brown, the ubiquitous environmentalist and doomsayer, recently coauthored the book *Running on Empty: the Future of the Automobile in an Oil-Short World*. Last week, he predicted that with the decontrol of domestic oil prices now underway, "it is quite likely that on Oct. 1 the price of gasoline will be \$2.00 plus—probably closer to \$3.00. You can extrapolate the effects on American driving habits and the automobile industry. There may be ebbs and flows in interest rates. However, a general transformation of the economy is now under way."

Brown added that in testimony before Congress he has repeatedly opposed the placing of any restrictions on auto imports, because in his view the rising level of foreign car imports has had the salutary

effect of forcing Detroit to produce smaller, more "fuel efficient" cars in order to compete.

"U.S. automakers are now beginning to lop off their big car facilities," he commented. "You may have noticed that all the major plant closings announced recently—such as the Ford plants in Los Angeles and northern New Jersey—are big car plants."

As of this week, Chrysler—already in default on some \$601 million in current obligations—will not have sufficient cash to meet its regular payroll. The need for the loan guarantees has become critical. The guarantees have been held out as the "carrot" to get Chrysler to streamline itself into a much smaller automobile company producing much smaller cars. To win approval of the loan guarantees, Chrysler announced within a space of ten days last month:

- A cut-back in its automobile lines from three families to two. As of four months ago, Chrysler hoped to keep five families in production. Now it will maintain only its Omni/Horizon compact model and its new front-wheel-drive "K-car" due out next fall.

- A 20 percent slash in its white collar staff and blue collar support staff (including everyone from janitors to scientists and engineers). The layoffs will reduce the size of these staffs by 35 percent from January 1979 levels.

Last summer, Rep. Henry

Reuss (D-Wisc.) suggested that Chrysler convert a portion of its capacity over to the production of pollution abatement equipment for other companies.

In the new twist of the loan guarantee saga—the Public Citizen Litigation Group, the legal arm of Ralph Nader's Congress Watch, filed a suit in federal district court last April 25 demanding that the Chrysler Loan Guarantee Board conduct its meetings in public. The group, which contends that the board is subject to the Sunshine Act on public disclosure, won a temporary restraining order; all the proceedings of the board's meetings are now being recorded on tape or otherwise pending the outcome of the law suit.

"There is a lot at stake here," an attorney for the group explained. "There is a lot of taxpayers' money involved and some very critical economic issues. We want to make sure that Chrysler is forced to meet federal standards on air pollution and fuel efficiency, for example. We firmly believe that Chrysler is no longer viable in its present size and in its present intentions to remain a producer of a full line of cars."

On the similarity of the group's views on Chrysler to those of many Wall Street investment bankers, the attorney noted that there was a tremendous interest in the suit from Wall Street. "As soon as word got out about our suit we got a lot of calls, including from financial reporters. Judy Miller of the *New York Times* called. She had been talking to people in the financial community who were very interested in our suit. It seems that they share many of our views about Chrysler."