

Big Three Auto Shutdown, Layoffs: The First of Many To Come

by Richard Freeman

Ford Motor Company declared on Jan. 11 that it will lay off 35,000 workers globally, and shut down several production plants in North America. Previously, DaimlerChrysler had pronounced large-scale cuts in production and layoffs, and General Motors had announced layoffs.

The moves by America's Big Three automakers will have a two-pronged ruinous effect. First, they signal the start of the permanent dismantling of automotive productive capacity in North America; in particular, in the United States; second, through the multiplier of the bill of materials, they produce a ripple effect throughout America, shutting down production in rubber, steel, aluminum, and other factories that feed the auto industry.

This will create another ratcheting-down in the U.S. physical economy, driving it still deeper into depression.

During the period of August through November 2001, the U.S. economy underwent a dramatic *phase-shift* downward. The production of battered economic sectors, such as machine tools, collapsed further, while unemployment shot upward.

To attempt to slow the rate of collapse, Wall Street flooded the auto sector with money: Starting in early September, auto companies offered zero-percent financing to customers buying new cars. This program bought increased auto sales in the period September through December 2001, at the expense of sales this year. As can be seen—through the bill of materials—while it could not stop the fall in production in other industrial sectors, it could slow the *rate* of fall.

Now, the removal of the zero-percent financing in some cases, and its increasing ineffectiveness in others, will lead to a significant fall in auto production. Accordingly, this will result, through the bill of materials, in a multiplier close-down of production in other sectors. The pent-up U.S. economic phase-shift downward will break out with even greater virulence, intensifying the biggest global economic-financial breakdown in 500 years.

Ford's Production Shutdown

During 2001, the Big Three U.S. auto producers had already made sizeable cuts in production, though of a temporary nature. **Table 1** shows that relative to 2000, General Motors cut production by 11.2%, DaimlerChrysler by 10.3%, and Ford by 14.5%.

Ford's Jan. 11 announcement will enforce a whole new

TABLE 1
North American Vehicle Production, by Manufacturer

(Millions of units produced)

| | 2001 | 2000 | Percent Change |
|------------------|--------|--------|----------------|
| General Motors | 5.001 | 5.630 | -11.2% |
| Ford | 3.993 | 4.670 | -14.5 |
| Daimler-Chrysler | 2.597 | 2.896 | -10.3 |
| Total, Big Three | 11.591 | 13.196 | -12.2 |

level of production cutback. Most importantly, most of these cutbacks appear to be of a *permanent nature*:

- Ford will lay off 35,000 of its total worldwide workforce of 345,000. But within that, the layoffs will hit North America the hardest—22,000—and production workers the hardest of all. Of the 22,000 layoffs in North America, 5,000 will be of white-collar workers, and 1,500 will be “contract positions.” That means about 15,000 production workers jobs will be eliminated in North America: Some 3,000 were laid off in 2001, and the remainder will be laid off in 2002 and beyond. The 15,000 production worker layoffs represent 13.4% of Ford's production workforce at the start of 2001.

- Ford will idle, and then, most likely permanently, will close plants in the following locations: Edison, New Jersey; Vulcan Forge, in Dearborn Michigan; Oakville, Ontario; the St. Louis plant, in Hazelwood, Missouri; and the Cleveland Aluminum plant. But, Ford also announced that it may also close plants in Avon Lake, Ohio, and Cuautilan, Mexico.

- Ford announced that it will reduce its worldwide auto production capacity from 5.7 to 4.8 million units, a cut of 15.8%, most of it concentrated in North America. But that apparently does not include the potential closing of the Avon Lake, Ohio and the Cuautilan, Mexico plants, and thus, Ford could be shutting down, most likely permanently, one-fifth of its production capacity.

Multiplier Effect

The auto shutdown is broader: Daimler-Chrysler has reported that it may lay off as many as 38,000 of its 128,000



'Roll-Over'

North American workforce, and close three to five plants. General Motors has announced plans to reduce salary workers and contract jobs by 5,760 workers, but has not, as yet, announced any production cutbacks.

The Big Three shut-down will devastate the auto plants, and the workers who work at them, as well as the communities in which they are located. However, the close-down in auto will have a much broader effect on the economy.

The auto industry consumes a significant portion of the output of other industries; *EIR* found that the U.S. automotive industry, as America's largest manufacturing sector, consumes 14.7% of America's annual steel production, 21.2% of its annual aluminum production, 76% of synthetic rubber production, 72% of lead production, and significant percentages of zinc, glass, and platinum, as well as machine-tool production.

In a Dec. 9 discussion, economist and 2004 Democratic Party Presidential pre-candidate Lyndon LaRouche pointed out that, in addition to temporarily increasing auto sales at the expense of future sales, the zero-percent auto financing was deployed to prop up both auto industry and its feeder industries.

The difficulty that the zero-percent financing is now ex-

periencing, which will worsen, is removing that prop, and will trigger a multiplier close-down of production in other sectors.

'Benchmarking'

The principal cause of Ford's shutdown of a portion of its production, is the collapse in living standards, which is reducing sales. But an additional reason for its problems, is its adoption of the practice of "benchmarking." Benchmarking refers to the incompetent use of linear computer modelling as a replacement for the necessary experimental methods of machine-tool design in the development and testing of automobiles and other products—products which are marketed with very little design-testing other than on computer simulators. The practice has led to serious engineering problems in both the European and American auto industries' products.

Again, Lyndon LaRouche: "Compare the issue of the difference between science-driven experimental design of products and processes with the sterility and ultimately bankruptcy of so-called 'benchmarking.' . . . Ask the question: What is the economic function of science, as opposed to benchmarking, with respect to both survival of the enterprise and the contribution of the activity of the enterprise to the economy as a whole?"

Ford has adopted benchmarking to the point that it permeates the corporation's culture. Ford used benchmarking to design its Explorer sport-utility vehicle (SUV), which exhibited stability and steering problems, causing the vehicle to roll over, and several deaths. In 2001, Ford spent \$3 billion to recall and replace Firestone tires, which it did as a business expense, in part, in a lame attempt to shift the blame from the vehicle to the tires. Despite this, people stopped buying Explorers, adding to the drop in sales caused by declining living standards generally.

Now that Ford still emphasizes benchmarking in the design process, it has had to recall the Expedition, Ford's small SUV model, five times.

New Direction

Were the auto plants that are slated to be closed down, reconverted instead, this productive capacity—just as with Boeing and the aerospace sector—could be utilized for infrastructure-building capabilities, vital for the Eurasian and American Land-Bridge projects. They could produce components for high-speed and magnetic-levitation railroads, nuclear power plants, etc.

If that doesn't happen, the next announced phase of elimination of production capacity by Ford and others, will intensify the world economic collapse.