Ruination of Auto: The Consequences Of Following Fascist Felix Rohatyn

by Paul Gallagher

Both jobs and inflation reports at the end of 2007, massaged and unreliable as they are, showed the "real economy" and the American workforce being hit hard by the ongoing financial crash and banking crisis. From December 2006 to December 2007, the U.S. economy lost 445,000 in goods-producing jobs, according to the Labor Department, accelerating a seven-year loss that now has reached 2.6 million productive jobs. The 2007 fall included, officially, 220,000 jobs lost in construction, and 212,000 jobs lost in manufacturing—meaning that during the Cheney-Bush term, 3.33 million American manufacturing jobs have been lost, 20% of the United States' total when they took office. The actual losses were likely to have been significantly larger, perhaps close to half a million in construction alone, because of the large number of undocumented immigrants there and the Labor Department's practice of continuing to "assume" that unknown small business startups are creating lots of jobs, even when known businesses say they're losing them.

And within the manufacturing sector, 2007 saw 75,000 jobs lost in the auto industry, the primary remaining machine-tool capability that makes the United States still an advanced economy with a capacity for modern industry. Some 350,000 auto/machine-tool jobs have been lost in seven years of Cheney-Bush, nearly 30% of the industry, and 2007 was the worst year. This is the fatal machine-tool capacity collapse, that Lyndon LaRouche told Congress how to stop three years ago, when he proposed what became the Economic Recovery Act. But the Congress, including Democrats from states being whacked by the auto-industry crisis, has not lifted a finger to reverse it.

During 2007, according to the Bureau of Labor Statistics (BLS), the number of unemployed Americans increased by 900,000 to 7.7 million, and the number forced to work only part-time, increased by an additional 456,000 to 4.7 million. Add discouraged workers who dropped out of the labor force during the year, and real unemployment is 13 million, nearly 10% of the non-farm workforce. The fraction of the total American population which is employed, fell 0.7% over the year, to 62.7%, about 3% below the levels of early 1980s.

Confronted with the unmistakable signs of collapse in the U.S. real economy, the Democratic Party in Congress is now engaged in an internal debate supposedly, and tragically, pitting "economic stimulus" against "investment in rebuilding infrastructure." The absurd "reason" for this conflict was simultaneously being preached in a Jan. 5-6 "above parties" meeting in Oklahoma City promoting a Michael Bloomberg corporatist-fascist campaign for President. The claim there was that the nation can't invest in infrastructure without "prioritizing" it over such entitlements as Social Security, Medicare, Medicaid, etc., which must be cut in order, allegedly, to eliminate Federal budget deficits.

The Democratic leadership's addiction to the "Rohatyn infrastructure principles"—as one Congressman expressed it—of fascist New York banker Felix Rohatyn, is crippling them in this profound economic crisis. Rohatyn's dogma is that long-term public infrastructure investment is 1) very sparing, 2) only bought through budget cutting and hard austerity against the workforce and the general population, and 3) merely "incentivizes" much larger investment by *private* capital pools which are formed to buy up and operate the infrastructure.

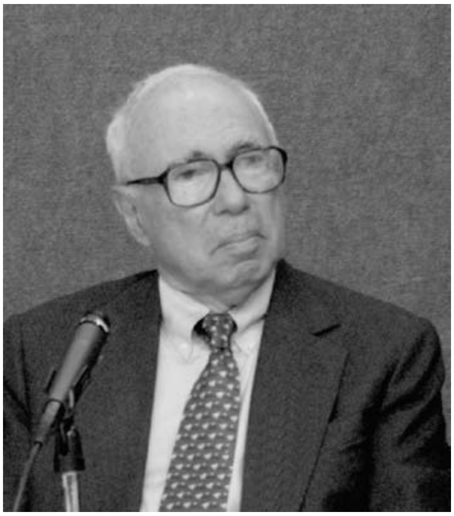
The 'Rohatyn Rules'

Over the past three years, Rohatyn, and the slavish adherence to his "principles" by leading Democrats, have wrecked the auto/machine-tool industry virtually beyond repair.

Coming in as a lead consultant to Delphi Automotive Corp. in May 2005, Rohatyn personally re-injected into the auto industry, the "principle" of using corporate bankruptcy as a strategy to outsource jobs and ruin union contracts; he had first brought these tactics into the 1979 Chrysler bankruptcy. Half a dozen other major auto-parts suppliers picked up the strategy, by imitation and through Rohatyn-allied investment banks and consulting firms. But more broadly, as the U.S.-based automakers sank into the devastating debt crisis which economist Lyndon LaRouche started warning of in February 2005, Rohatyn and his fascist "principles" directly stopped Congressional Democrats from preserving the auto capacity and workforce by adopting LaRouche's proposal, which became the Economic Recovery Act of 2005.

LaRouche's researchers, along with auto union local leaders, documented that 30-40% of the auto industrial sector's machine capacity was unused or underutilized already by late 2005, and that 80-100 million square feet of it were slated to be closed down and sold off for scrap by 2008 (in fact, more than 30 significant plants have closed down over 2006-07).

At that time, the U.S. banking system still functioned and was lending freely, unlike the present crisis. It could have conducted Federal infrastructure-project credit into contracting and using the super-versatile auto/machine-tool plants, to build components for a new national economic infrastructure, from high-speed intercity rail systems to new generations of nuclear power plants and water management infrastructure. This was LaRouche's Economic Recovery Act proposal. Rohatyn's influence over leading Democrats killed it, despite widespread demands from local auto union leaders and elected officials.


EIRNS/Dan Sturman

Felix Rohatyn: The Democratic leadership is on his leash, and their adherence to his "principles" has wrecked the auto indutry.

Instead, U.S. banks, during two and one-half of those three years, plunged their—and others'—assets into the riskiest of mortgages, mortgage securities, and financial derivatives on the scale of a vast "bubble," now collapsed. They pushed themselves, and banks in other parts of the world, toward insolvency. That huge "ocean of liquidity" and private capital that Rohatyn and his coterie of Democrats, Schwarzeneggers, and Bloombergs claimed was ready and waiting to invest in economic infrastructure, is now vaporizing before the eyes of the horrified financial markets of the world.

Global Fall of Auto Sales, Production

The auto/machine-tool sector has been ruined as a result; the last moments are at hand for turning around what will otherwise be an irreversible collapse. More than 200,000 of the 350,000 auto industry jobs lost since 2000, have disappeared just over 2005-07, meaning that the industry's workforce has shrunk by nearly 20% in three years, and most of that not by "layoffs," but by permanent early retirements.

Cerberus-run Chrysler, which eliminated 13,000 jobs over 2006-07, has announced that during 2008 it will cut 13,000 more, of its roughly 70,000 remaining employees, including 5,500 jobs lost around Detroit and 2,000 in Ontario. With both managers and employees saying that Cerberus's New York financial office calls Detroit every few hours each day for a new cash-flow report, the automaker's financial situation is desperate, loaded with old and new debts and owned by a private equity fund which has been losing money on most of its "deals" in the financial crash. Gone is the grand Cerberus plan to merge Chrysler Financial with GMAC and dominate the auto- and consumer-lending sector. Now it's merge Chrysler with Ford, or sell it to Nissan.

Ford, which shed 18,000 employees in 2006-07, is likely to eliminate up to 20,000 more during 2008. It took on $25 billion in new debt in the past year, and every asset of the company is hocked. General Motors, which is down to 72,000 production workers from nearly 110,000 two years ago, has so far announced only that it will buy 5,200 more into retirement. But all three companies are cutting their production schedules, by roughly 10% with each new quarter.

And all three have forced the effective hiring wages in the auto assembly industry to be cut *nearly in half*, and have reduced their overall labor costs by 25-30% in a couple of years, a shocking and unprecedented development for the whole Midwestern industrial section of the nation's economy. But it has, and will do the automakers no good.

U.S. auto sales in 2007 fell to 16 million in the crash, from 17.1 million three years ago, and according to grim estimates by several auto-parts supply companies, they are going to collapse to 14.5 million in 2008. This is far below the "red line" at which some of the six biggest auto producers working in the United States have to collapse into each other, shutting down some of their product lines and still more of their capacity.

The parts-and-systems production companies, often with more advanced machine-tool capacities than the big automakers, are making such relatively realistic estimates of the collapse in sales, because they will lose even more. If 35,000 more automaker jobs are eliminated now, the parts companies are likely to lose over 100,000 more.

For the first time in the globalization/outsourcing era of the auto industry, car and truck production in the last half of 2007 was declining simultaneously throughout North America, in the United States, Canada, and Mexico—as well as in Japan and Europe. The fall in auto sales is worldwide, and accelerating: The drop in 2007 was 3% in the United States, 9.5% in Japan, 4% in Korea, 9% in Germany, 3.3% in France, 3.5% in Mexico. Much worse is ahead.

Even a move to aggressive protection of the remaining U.S. auto industry from imports would not stop the collapse now. Only a national infrastructure and industrial investment policy may be able to rebuild auto/machine-tool capacity in the process of rebuilding economic activity and productivity. And first, we have to save from insolvency the nation's system of chartered banks, which LaRouche warned "has only a minimal chance of surviving through March." These banks cannot be turned back from insolvency without the "firewall" of LaRouche's proposed Homeowners and Bank Protection Act.