General Motors, the 'world car,' and the Newly Industrialized Countries

by Richard Freeman

The U.S. auto industry, battered and damaged by seven years of inflated oil prices, increased and expensive environmental standards, and a devastating credit crunch engineered by Federal Reserve Board Chairman Paul Adolph Volcker, will be further phased out of existence by the plans launched by General Motors to create a "global car."

This plan foresees an internationalized auto market which is stagnant in size, but whose production is shifted to the Third World. Much of the production of final cars, and especially of components—engines, transmissions, transaxles, chassis, and other parts—will be shifted to the Third World as well.

The planning for this shift of the U.S. auto industry is going on at the highest levels at the London-based Royal Institute for International Affairs (RIIA), the mother organization for the New York Council on Foreign Relations. As outlined by a symposium and series of papers produced by the RIIA in 1980, certain nations in the Third World have been designated as "Newly Industrialized Countries," or NICs, such as Brazil, Taiwan, and Hong Kong. Auto-parts production, steel, cheap electronics, and pharmaceuticals are being built up there. In the advanced sector, the United States and Western Europe will be turned into "postindustrial" economies, or "Once Industrialized Countries" (OICs). Trade, finance, and other production items will be restructured to conform to this pattern.

Inside the United States, this means some specific changes. Continued declines in the American standard of living will wipe out the last resistance to accepting unsafe and uncomfortable subcompact cars. This view has been spearheaded by General Motors, the nation's largest auto producer and the company most committed to a "global car."

GM's chairman, Roger Smith, threatened to move production outside of the United States, unless autoworkers' wages are slashed, at a May 22 stockholders' meeting. However, even before making that public threat, Smith and GM committed $18 billion, or at least 30 percent of total investment, to overseas investment during the 1980s. In planning this move, Smith was assisted by GM's chief economist Marina von Neumann Whitman, a member of the Trilateral Commission and the New York Council on Foreign Relations, who has publicly advanced the simultaneous transferral of production to the NICs and disinvestment of the advanced sector.

Smith and Von Neumann Whitman's strategy reflects the London *Economist* Intelligence Unit's projection that where, internationally, auto production increased at a 43 percent rate in the 1970-78 period, this growth rate will be reduced to 8 percent in 1978-85. In reality, in the last two years, the global level of auto production fell, for the same reason the *Economist* Intelligence Unit made its prediction: the collapse of income levels worldwide.

As a result of this shift, according to one auto industry source, "GM and Ford are pumping money to modernize some of their components plants inside the U.S.;

Japanese cars at the port of Jeddah.

those that don't get the money will probably be soon shut down in favor of getting parts abroad." Likewise, the big auto-parts producers, like Bendix and Dana Corporation, which used to produce 80 to 90 percent of their sales revenue from auto parts, diversified such that only 20 to 30 percent of their sales revenue comes from the parts business. It is predicted that most of the electronic components for American autos, with the exception of GM, will come from Japan in the future.

Where does this leave American auto production, the 900,000 workers who were directly involved in auto production, and the additional 1.2 million who made auto parts? As part of the "global car" plan that GM's Smith is endorsing, one can draw two conclusions. First, the entire scale of U.S. auto production, from parts and components to assembly, will be *permanently contracted.* Second, within a new "restructruring of the world economy," the United States will be consigned to be primarily an auto assembler. Parts and components production have much more value added; the United States takes the more backward, "Third World," labor-intensive chore in this division of labor.

A world division of labor in auto or any other production is, of course, not objectionable. If the United States were to move into more high-technology fields, such as stamping out monorail systems or producing fusion and nuclear power plants for use here and abroad, that would be an eminently good division of labor (especially if the NICs were able to introduce 21st-century auto production methods). But the blueprint GM's Smith is working from is to have the United States phase out heavy industry and expand the service and "technetronic" sectors.

Oil hoax and credit squeeze

As long as the U.S. auto market was a fast-growing market, committed to manufacturing safe, high-powered cars, the chance of a global car on a major scale was slim. The plan presupposed that the U.S. auto companies would be financially undercut, and that Americans could no longer afford decent-sized families and decent-sized cars.

There can be little doubt that this was done with aforethought. In an interview in the May-June 1981 issue of *Challenge* magazine, GM's Marina von Neumann Whitman notes:

> The situation in our industry shifted dramatically in response to major developments apart from oil. . . . The United States was known for large, high-performance, high-comfort automobiles. The rest of the world was known for smaller, more spartan, more fuel-efficient vehicles. . . . The product demanded in the United States mass market reflected high incomes. In the rest of the world, the product had to be affordable for lower incomes; the income gap between the United States and other countries was quite substantial. There were quite differentiated products appealing to different areas.

The 1973-74 and 1978-79 oil hoaxes made driving large cars prohibitive. Combined with this, the excessive, Naderite environmentalist restrictions that were imposed on the auto industry ran nearly $70 billion in capital costs over the next several years, wrecked cash flows, and made it more onerous to maintain several product lines. Then, applying the coup de grace, Paul Volcker imposed his credit crunch, starting in October 1979. The effects of the Volcker measures, particularly on working capital levels, have been acute.

The simplest way to measure the devastating impact that Volcker's interest rate policy has had on the U.S. auto industry is to look at the working asset levels of the Big Three automakers.

As sales of domestically produced U.S. autos plunged from a level of 9.308 million in 1978 to 8.316 million in 1979 and 6.581 million in 1980—a 29.3 percent drop in two years—the working asset levels that permit these companies to do business were demolished. Ford Motor Company, the number-two U.S. auto producer, two years ago seemed immune to financial crisis. In 1978, Ford's working capital level stood at a robust $3.092 billion; in 1979, it was still a comfortable $2.308 billion. By 1980, however, after sales losses of over $1.5 billion for the past 18 months, Ford's working capital level was down to $487 million.

Even this figure disguises the magnitude of Ford's financial position. According to a source close to the Department of Transportation, "In the last 18 months, Ford and GM together have brought about $12 billion in from their overseas markets, either by borrowing abroad, having their foreign subsidiaries pay high dividends to their U.S. center, delaying payment to their subsidiaries for parts already shipped from abroad, taking special tax breaks, or whatever." Of this $12 billion, $4 to $5 billion was probably Ford's share.

As *EIR* has documented, Ford is using various accounting devices to hide what are in effect borrowings, but not officially recorded as such on the balance sheet. For example, this year Ford has reduced its purchases from suppliers by 26 percent because of the depressed auto market. But on its balance sheet Ford has shown a $700 million increase on the line reading "trade payables." Ford is making its suppliers bear the expenses. Given the depressed state of the auto parts and suppliers industry, suppliers can hardly afford that, and they have simply lined up at the banks to fiannce this process, which clearly has its limits.

Unless Ford's sales picture improves—revenues plummeted from $43.5 billion in 1979 to $37.1 billion in 1980—Ford cannot carry out its capital-spending program and continue to meet current payments.

GM is about two years away from Ford's position.

In 1978, GM's working capital level was $7.7 billion; last year, it was $3.1 billion and falling.

Chrysler shows what the U.S. auto industry as a whole may become. Its working capital was $1.2 billion in 1978, but $300 million in 1979; if showed a large negative figure in 1980, and will show a still larger one, probably close to negative $1 billion, this year. What has kept Chrysler afloat are the $1.5 billion federal government loan guarantee, of which Chrysler has only $300 million remaining to draw down, bank loans, a killer rebate program, and a permanent reduction in Chrysler capacity.

According to one auto industry source, "If you took Chrysler's plants one by one, those that they have operating are probably earning a small profit on a plant-by-plant basis. This means two things. First, Chrysler still has a huge amount of debt to pay off for its headquarters and corporate obligations. Chrysler has put this amount off until 1983 through 1990. But that debt amount is still there. Second, Chrysler is a 1.25 to 1.5 million cars per year production company on the North American continent. It is no longer a 2.5 to 3.0 million car per year company. That is the past."

Chrysler had succeeded in moving its share of the U.S. auto market from 9 percent last year to 12.5 percent in 1981 through its aggressive rebate program. But as one Chrysler official conceded, "We got our share size up, but this hasn't brought in profit. Now we have to concentrate on making some money."

Many regard Chrysler's recent agreement with Peugeot, in which Chrysler will buy up to 450,000 1.9-liter diesel engines for use in Chrysler autos starting with 1984 models, as more than just a supply deal; it is probably a step toward a merger. Peugeot-Citroën brought Chrysler's European operations in the late 1970s, and Chrysler owns 15 percent of the French company's stock.

With the U.S. auto industry hemorrhaging red ink, auto dealers going out of business at a record level, and new car purchases being curtailed for the average consumer, it became appropriate to shift into the global car.

In this respect, the Japanese—through no fault of their own—are to be used by the postindustrial strategists to force the "global car" into reality.

According to an authority connected with the Department of Transportation, "the scope of the shift projected for the U.S. auto industry is amazing. The Japanese, for example, may not chose to produce cars in the late 1980s. They are moving heavily into producing components and parts, which has very high value added.

"This is part of a larger Japanese shift in which they will be getting more of their coal supplies by investing directly in the U.S. Far West, like Wyoming and Colorado. The Japanese own 50 percent of Alumax, the fastest-growing aluminum company in the world, and Sumitomo is now the best producer of drilling equipment for oil exploration. Combined with their computer markets, the Japanese may not be concerned with the final assembly of autos, which is more labor-intensive."

If the Japanese move more toward components and parts production, how will this affect the U.S. auto market? From 1965 until 1979, U.S. import of auto parts, engines, bodies, and chassis, have, according to Department of Commerce figures, grown from $193 million to $6.965 billion. About half that total has been supplied by American auto plants in Canada, and under current trade agreements would not be counted as imports. But of the remaining half, the amount imported from the six largest countries of Europe went from $50 million in 1963 to $1.059 billion in 1979. Amazingly, imports of these components from the Third World went from $23 million in 1963 to $1.072 billion and those from Japan from $7 million to $1.084 billion.

What is the American response? GM's strategy is to attempt to produce components plants around the world to compete with Japan and the Third World. Ford, which already has several such plants built, doesn't have the cash to compete and will most likely

How Smith distorted Japan's advantage

In his address May 21 to GM stockholders gathered in Detroit, General Motors Chairman Roger Smith stated, "Our U.S. autoworkers earn $8 an hour more than their counterparts in Japan. Put together with the pay for time not worked here in the U.S., this is too great a differential to overcome."

Smith referred to the $19 per hour total labor costs per average American autoworker versus $11 per hour for the Japanese. Smith cited this information to justify two moves: first, asking UAW workers at GM and Ford plants to make significant reductions in their wages and benefits, and second, following through on plans to move GM and Ford auto production out of the United States.

Like much that GM states publicly these days, Smith's statements were less than fully true.

Since GM and Ford are jointly releasing labor cost figures in an attempt to justify their shifts in produc-

end up buying its components from the Third World and the Japanese. Chrysler, if it survives through a merger with Peugeot-Citroën, will probably follow the Ford strategy.

Ford, for example, claims that it is already getting 5 percent of all its components from "global sourcing," but insiders say the figure is much higher. A Ford Mustang that is built in a Ford plant in Canada is not considered to be an import under the Canada-U.S. marketing agreements. This Mustang will typically have an engine from Brazil, a transmission from France, and a radio from Brazil, but because it was assembled in Canada prior to coming into the United States, the components are incredibly not considered to have been imported.

Both Japanese and auto industry sources report that almost all electrical components for Ford and Chrysler cars in the future will be made in Japan or the NICs.

GM, which currently has 8.5 percent of the auto market outside the United States, is looking for a bigger share (in 1979, vehicle sales outside North America totaled 22.4 million units compared to 15.6 million in unit sales for the U.S. and Canada). The scope of GM's planned expansion in Europe and the NICs is staggering.

- GM has decided to build a new $210 million engine plant in Australia that will export two-thirds of the 300,000 engines it produces each year.
- GM plans to build a new passenger-car assembly plant, metal-stamping facilities, and subassembly facilities in Saragossa, Spain as part of a $2.4 billion overseas expansion plan that will increase overall capacity in Europe by 25 percent, or 275,000 units.
- GM has attempted to enlarge its presence in the Andean common market by purchasing Chrysler's vehicle assembly plant in Venezuela—doubling its presence there—and purchasing a majority interest in Chrysler's assembly operation in Colombia.
- GM has a joint venture in Korea, which it is expanding, and also expanding its engines and transaxles capacity at the Japanese Isuzu Motors, of which GM owns 34 percent.
- GM is building a new passenger-car assemly plant near Mexico City and a new engine plant with a 400,000 engine per year capacity. The latter plant will be integrated with plants GM is building in Texas.

Under present circumstances, where does this reorganization leave the United States? As a giant industrial nation on the road toward the status of Great Britain, an OIC—"once industrialized country."

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tion and labor policy, it is fair to examine the total costs figures for Ford which are higher than GM's. Ford reported that in 1979 it paid an average total labor cost—comprising wages, pensions, benefits, and vacations—of $15.94 an hour, but this figure jumped to $19.99 per hour in 1980, an increase of $4.00 per hour, or 25 percent. Japanese wages by no means increased by 25 percent during 1980.

Improved benefits, negotiated into the 1979 contract, accounted for around 10 to 15 percent of the hourly labor cost increase. What accounted for the remaining increase? This is almost wholly accounted for by inflation and the fact that the severe decrease in auto production spreads constant pension, medical, and other costs among fewer hours worked, thus inflating the hourly labor cost. This is sleight of hand.

There are two additional considerations that the GM chairman neglected to mention.

First, Japanese wages were much lower in the 1960s than American wages, but as the Japanese standard of living has risen, their wages have made a tremendous leap toward U.S. levels. Indexed on a scale in which 1960 equals 100, U.S. hourly compensation per worker equalled 113 in 1967 and 122 in 1976. By contrast, on a scale where 1960 equals 100, Japan's hourly compensation per worker rose to 140 in 1967 and to 300 in 1976. It is likely that during the 1980s, Japan's total labor costs will rise to American levels, and that Japanese hourly compensation will equal that of their American counterparts.

Second, the major reason that Japanese production costs, including shipping to the United States, are still $1,000 per car lower than American costs is that Japanese auto plants use the most advanced level of technology and produce almost 1.5 times as many cars per worker. The highly automated body-framing line of Nissan Motor's Zama plant in Japan has 50 robots in service. The production rate for the line averages out to 800 units a day on a two-shift basis with 80 workers per shift. Each shift has a one-hour lunch break and two additional 10-minute breaks. There are no "indirect," or supervisory, workers at the plant.

As the April 1981 *Production* magazine reports, "The efficiencies [at Zama] are being achieved without benefit of magic wands or sleight of hand. The plant is simply making good use of existing technology and skillful use of its personnel."

Better deployment of personnel and most importantly the employment of advanced technology, not the wage differential, make up the bulk of the advantage Japanese auto production enjoys over the United States. Roger Smith is not ignorant on this point.