The Battle To Save GM Is the Battle To Save the Nation

by Nancy Spannau

The battle lines are drawn around the future of the U.S. auto industry, particularly the General Motors Corporation—and the outcome of that battle may well determine the future of the United States as an industrial power. On the one side is the international banking establishment, which has signalled loud and clear its intent to strip and bury the productive core of the industry, in a desperate attempt to save their financial assets and power. On the other side, are the forces led by Lyndon LaRouche, who has the only plan on the table for protecting, and expanding, the machine-tool capability and skilled labor force which the auto industry represents.

As LaRouche's May 10 leaflet explains (see box), a successful outcome in the battle to save GM requires *immediate* action by the U.S. Senate. Delay in implementing the necessary measures will in effect hand the victory to the predatory financier oligarchy, and spell disaster for the future of the nation, and the world.

There is no more blunt voice for the financial oligarchy than the London *Economist,* which speaks for the City of London financial circles. In an article in its May 6 edition, entitled "Two Piles of Junk?" the magazine said that "it remains to be seen how long both firms [GM and Ford—ed.] can remain solvent if their core operations continue to bleed money and their legacy costs continue to grow. Bankruptcy no longer seems far-fetched. Indeed, the opportunity to emerge from Chapter 11 as smaller, leaner operations . . . may be starting to look like an appealing option."

The *Economist* report, coming after the downgrading of GM and Ford stock to junk, and the circling of vultures, such as "King of Las Vegas" Kirk Kerkorian and "bankruptcy specialist" Wilbur Ross, around the auto industry, dramatically underscores LaRouche's warnings. Either leading figures in the Senate, the Democratic Party at large, and the financial community come together now to promote an emergency action plan such as the one LaRouche issued on April 13 (see *EIR,* April 22 or www.larouchepac.com), or it will soon be too late.

The LaRouche Youth Movement held a Day of Action May 12 in Washington, D.C., with the intent of galvanizing the Senate into taking emergency action to save not only General Motors, but the whole economy along with it.

A Financial Explosion

When LaRouche first warned back in late February about the impending disaster around General Motors, he pointed to two aspects of the danger. On the one side, there is the vital physical capability which the company represents, as the core of perhaps a half-million people in the high-skilled machine-tool center of the U.S. economy. On the other, there is the danger that pulling the plug on GM, which has created a huge, unsustainable financial pyramid of speculation in real estate, derivatives, and other iffy investments, could detonate the already bankrupt world financial system.

A series of panicked warning signals about hedge fund losses that have appeared in the week following the May 5 downgrading, imply that this second danger may be playing itself out right now.

"GM Earthquake Shatters Hedge Fund Industry," read the headline of the normally staid (to say the least) paper of the Swiss banking establishment, the *Neue Zürcher Zeitung,* on May 12. "The Tick, Tick of GM in Hedge Fund Derviatives," headlined a Bloomberg wire on May 13. "The market has been on edge. People still have memories about Long-Term Capital Management," the huge hedge fund that blew out in 1998, noted a trader interviewed by Bloomberg on May 11.

In this case, it is prudent to assume that where there's smoke, there's fire. Indications are rife that the downgrading of GM and Ford, which "experts" (other than LaRouche) erroneously indicated was not going to occur for months, created problems in the stock and corporate bond markets, which in turn created severe problems for several large hedge funds. In the recent period, the hedge funds had sharply increased their exposure to so-called collateralized debt obligations (CDOs), in order to increase their short-term profits. Standard and Poor's announced May 10 that its downgrading of Ford and GM would affect 561 outstanding CDO transactions, a report echoed by Bank of America, which reported the same day that many hedge funds had suffered sharp losses.

"This is the perfect storm to implode some hedge funds," warned independent market analyst Dennis Gartman in a newsletter on May 11. "We expect the rush to the door to be painful," cautioned analysts at Merrill Lynch & Co.

The implosion of hedge funds, which have participated in derivative trades that have gone sour, raises a big red flag to knowledgeable investors, and that flag reads "Long-Term Capital Management." The example is telling. LTCM, a Connecticut company which worked closely with the major Wall St. banks, only had working capital of $2.2 billion, but it had used that money to purchase $125 billion in securities, which it then used as collateral to participate in $1.25 *trillion* in derivative trades. Thus, when the Russian bond market imploded in August 1998, causing losses in the derivatives markets, the impact spread like wildfire, threatening to bring the entire financial system to a standstill. It was only the emergency intervention of the bankers, mediated through the New York Fed, to pour immediate cash into LTCM to cover some of the exposed positions, that permitted the damage to be contained sufficiently to save the bankrupt system.

Could it happen again? The bankers know it can, because the financial authorities did nothing to change the gambling system that caused LTCM. In fact, the financial system is even more riddled with unpayable gambling debts today, and one sudden series of bad bets, could bring the whole house of cards tumbling down.

A Physical Solution

The proper political perspective, enforced by the sovereign power of the U.S. government in the way LaRouche has proposed, could, of course, bring the financial problems which are spinning off GM and the rest of the auto industry under control. Unpayable speculative debts can be set aside,

Guts and Government

by Lyndon H. LaRouche, Jr.

This LaRouche PAC leaflet was issued on May 10, 2005.

General George Washington's actions against the Hessians, like Frederick the Great's decision at Leuthen, Czar Alexander I's courageous acceptance of the Prussian leaders' advice on trapping Napoleon's invading forces, General Douglas MacArthur's Inchon Landing decision, are only typical of famous cases in modern history in which a situation required a combination of competence and courage from an exceptional individual who acted against the lack of a quality of command-decision capability by a majority among other leaders. The General Motors crisis is such a kind of national crisis, when a decision by some exceptional leadership must override the impulse of the majority to equivocate and vacillate.

Right now, our Congress and other leaders are vacillating while the GM crisis is at point where the future of our nation hangs on having a leadership with competence and guts to make a crucial strategic decision. So far, such competence and leadership is not being shown by the leadership of our government or our political parties. Use your political shoes to kick them into the needed upward experience.

You must now demand the needed quality of leadership which will act now, before it is too late to save the imperilled vital machine-tool capability represented by our national auto industry.

Certain powerful international financial interests, acting in collusion with elements of the Federal Reserve System and the Bush Administration are acting to cut a deal around General Motors which will virtually shut the most vital part of the productive potential of the U.S. national economy, while swindling GM employees and retirees of present, vital pension and other entitlements. If that deal is pushed through, it would virtually ensure the end of the U.S. as a leading economy of the world.

One of the leading reasons for the lack of competence being shown by much of our nation's political leadership now, is that the present generation in the Congress and our industrial enterprises are victims of about forty years of brainwashing in the cult of a post-industrial society. For that reason, leading figures in government, and other relevant institutions are seeing the GM crisis as just another financial crisis; they have not faced the reality that the life-or-death issue is not the financial crisis itself, but the danger of losing our most vital physical production capabilities.

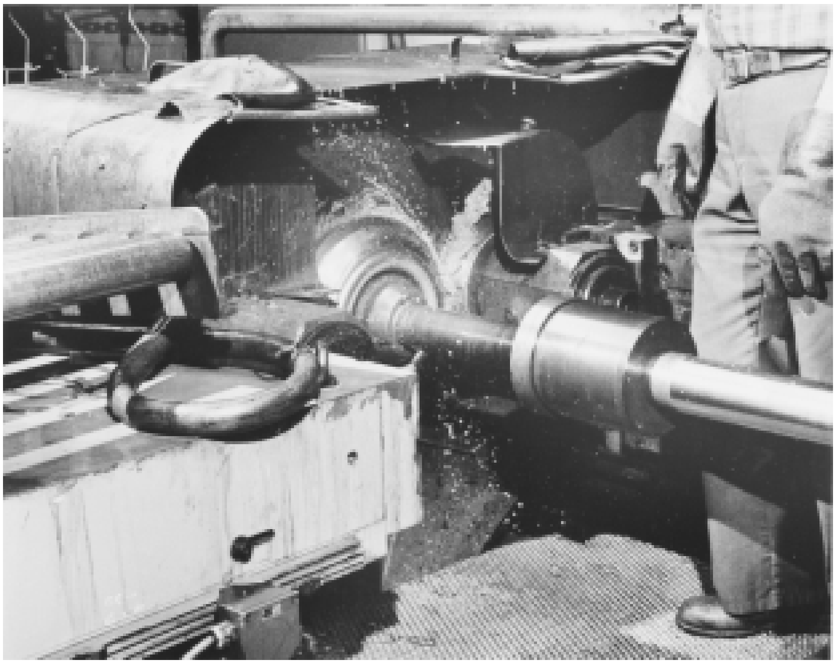
The fact is, that the financial system is already hopelessly bankrupt. The biggest financial collapse in world history is now coming on. That governments can deal with, to organize a recovery, as President Franklin Roosevelt did. However, if we break up the structure of our most vital national industry, in the machine-tool sector of the auto industry, not even a Roosevelt could organize a recovery in your lifetime.

To save the nation, we must keep the labor-force organized around our automobile industry's vital machine-tool capability intact, in place, employed, and functioning. That decision must be made now, or very soon, the time will come, when it can not be made at all.

The U.S. Senate must act to cause our government to put our presently bankrupt major automobile enterprises into a special kind of Federal receivership for the purpose of keeping the machine-tool-centered labor-force and production facilities of the U.S. automobile industry intact and functioning on our national territory. At some future time, the financially reorganized industry will be returned to a new, healthy form of independent private ownership. In the meantime we must save an industry which is a most vital strategic asset of our nation.

The required recovery program will diversify the produced output of that industry to include what are presently urgent needs for products other than automobiles, products which require the kind of productive capability which the automotive industry's machine-tool element enables that industry to provide. Much of this market for the industry's work involves areas of urgently needed basic economic infrastructure. That diversification will play a key part in expanding the base of our physical economy in ways which reverse the presently accelerating collapse of our increasingly bankrupt national economy.

On this issue, we must act now, as if our lives depended upon that action. Our nation's economic future, and much more besides, does depend upon that action.



Machine tool capabilities, like those used in the production of passenger car wheels at the Kelsey-Hayes Corp. in Illinois, for General Motors' plants during the 1980s, will be lost if GM is allowed to be dismantled.

to be sorted out later, and Federal credit can be utilized to maintain payments for the physically productive component of the industry, while protecting it from financial predators. To do this requires only the political will.

The real danger lies in the efforts currently being taken by the incompetent GM management, and their financial creditors and advisors, to actually destroy the productive power of the auto industry. This is occurring both in the United States and Western Europe, as management moves to try to violate union contracts, shuts down plants, and even threatens to break up the company.

On the top of the target list for the GM management are the obligations to pay health care and pensions for their workers and retirees. Exemplary of the outlook was the position put forward by former General Electric CEO Jack Welsh on May 8, in which he declared that the unions had to agree to reduce the huge health costs which GM, by contract, is obligated to pay. Not mentioned, but obviously also on the chopping block, are GM's pension obligations, which are estimated to amount to $90 billion.

It is widely rumored that, if GM doesn't get cooperation from the United Auto Workers (UAW) in reducing these costs, it would use the threat, or actuality, of declaring bankruptcy in order to shed them.

Another prominent proposal being bandied about as some kind of "solution" for the GM crisis, is the idea of splitting up the company. In the United States, the most common proposal is to split General Motors' finance arm, GMAC, off from the production unit. Since GMAC, the speculative arm, is the only portion of the company that is making money (for now), it is expected that such a move would be preparatory to a declaration of bankruptcy for GM itself. In Germany, GM's Opel company has been secretly attempting to sell off components of its plant in Kaiserslautern, in violation of its recent contract with the IG Metall union, which called for preserving the unity of the plant, and for ensuring a certain level of jobs and production. It is not clear what the company will do, now that the union has discovered the maneuvering, and threatened to take action.

Meanwhile, GM continues to shut down production facilities, such as the Baltimore, Maryland and Lansing, Michigan plants which we profile below. It is not currently known whether the physical plant and equipment from these plants is being removed and shipped overseas, but such a pattern has prevailed in the past. As for the workers, their inability to work and care for their families represents not only a net drain on their communities, but also threatens to result in the demoralization and collapse of a skilled labor force which is very much needed by the economy as a whole.

Crisis To Get Worse

There is no question but that, even barring a general financial blowout, the immediate financial crisis around General Motors and Ford is going to get much worse, very fast. On May 13, Moody's joined Standard & Poor's in downgrading Ford's credit, although its rating remains above junk. At any point, Moody's and Fitch could take further action against GM's debt.

The end of May will be a turning point for GM, Ford, and the bond market. Under current rules, Lehman Brothers will then have to drop the bonds of both GM and Ford ($292 billion for GM, $161 billion for Ford), from its U.S. investment-grade index, and add them to its junk bond index. This will have implications for some holders of GM and Ford bonds. Bond dealers expect turmoil as the junk bond markets absorb $452 billion in new junk, an amount more than 15 times the amount of debt that flooded the market when WorldCom, previously the largest "fallen angel," lost its investment-grade rating.

In June, GM is faced with the demand for a major debt rollover, not to mention more by the end of the year. At this point, the company can only borrow by providing security, in terms of income streams, to the lenders. Unless there is a turnaround in policy like that proposed by LaRouche, bankruptcy and a dismantling of capability are only a matter of time.