Sprinzen, Standard and Poor's chief auto analyst and the point man for S&P's credit downgrade of GM bonds to "junk" status on May 5, said on June 7, "25,000 [lay-offs] seems like a big number, but when you consider what the natural attrition might be in any case, it really is unclear just how much is new here, apart from the figure of $2.5 billion of annual savings." He continued, "It's not clear if this is the new round of restructuring that many have been anticipating." This threat, is that GM would not have its investment rating restored, or could be subject to further downgrades, unless it produces the "restructuring"—including employee health care and pension cuts—that the financial sector demands. The *Detroit News* reported June 8, "Analyst Stephen Girsky at Morgan Stanley recently estimated that 45% of GM's North American production capacity—the equivalent of 15 plants—is unused or produces models that generate little or no profit," a clear demand for more closings.

There are strong indications that GM is maneuvering to foist its current workers' and retirees' pensions, with a $45 billion estimated deficit, onto the Federal Pension Benefit Guaranty Corporation, which would mean steep cuts in the benefits of 1.2 million GM pensioners. Meanwhile, GM's financial instability—with $270 billion in junk bonds—puts the world's $400 trillion derivatives market on the verge of *systemic collapse.*

Auto Parts Suppliers Failures

The shake-out at GM and Ford Motor Company, has intensified the damage at the auto parts supplier industry.

Delphi: On June 9, 100 UAW officials from Delphi and GM gathered to discuss the dire situation at Delphi. Twelve of its 23 plants in the United States are losing money, and have been rounded up into a special holding company. The financially troubled Delphi, whose credit rating has sunk five levels below "junk bonds," is considering selling or closing these 12 plants. The world's largest auto parts supplier, Delphi laid off 1,500 workers during the first three months of 2005, and announced another 7,000 layoffs for this year.

Visteon: Recently, Ford and Visteon (which spun off from Ford in 2000) announced that 15 of Visteon's 24 U.S. plants would be placed in a special "limited liability holding company." A few of these plants are being reintegrated back into Ford; the rest, put up for sale or closing. Late last year, Visteon, America's second-largest auto parts supplier, announced that it would slash 8,300 workers' jobs during 2005.

Arvinmeritor, with more than 30,000 workers around the world, announced that over the next two years, it would close 11 plants, most in the United States, and cut its workers' health benefits.

Metaldyne announced that it was ending retiree medical coverage effective Jan. 1, 2006.

Since January 2005, auto parts suppliers *Collins & Aikman; Meridian Automotive; Tower Automotive;* and *Intermet Corp* have filed for bankruptcy.

'Enron Accounting' and Dereg Kill Pensions

by Paul Gallagher

The ugly face of the U.S. corporate pensions collapse was exposed in the United States Senate on June 7: The head of the retired airline pilots' association explained why he's getting a pension of $205/month after 26 years flying for TWA; and the flight attendants' union leader, Patricia Freund, testified that most of her members will receive less than half of their contracted pension benefits, because of bankrupt United Airlines' dumping of its pensions on the Federal Pension Benefit Guaranty Corporation (PBGC). Many of those employees, having already "given back" large chunks of their wages, will have to stay in airline work to age 65 or older. The spectacle of life-long skilled employees retiring on the equivalent of a welfare check (plus their Social Security benefits, fortunately), shows the severity of the rapidly worsening pensions crisis.

Globalization, deindustrialization, and "free trade" have shrunk the number of industrial pension plans by 75% since 1978—but by one-quarter just since 1999. More than 1 million—about 5%—of the remaining covered workers are, in fact, "covered" only by the PBGC, their employers having failed or abandoned their plans to the government insurance agency. And that percentage is now rising rapidly. At the Senate Finance Committee hearings on June 7, the CEOs of both Delta and Northwest Airlines—Gerald Grinstein and Douglas Steenland, respectively—threatened to go bankrupt soon in order to dump their "unmanageable" employee pension plans (which cover 150,000 workers and retirees combined), as bankrupt United and US Airways have already done. Under deregulation, the airlines are losing billions each per year, and putting nothing into their pension plans: What Delta and Northwest were demanding, was a law to allow them to continue putting nothing into the plans for years to come! This kind of "Enron accounting" has deepened the pensions collapse caused by the *drastic shrinkage of employment* in virtually all the industries in which stable retirement plans used to be widespread.

At the hearing, PBGC head Bradley Belt indicated what was expected next, by estimating the *auto sector*'s pension-plan unfunded liabilities at approximately $60 billion. Belt testified that for the whole national economy, corporate pension plans' underfunding hole had worsened by about $75 billion during the 2003-04 year (of Bush's "recovery"). That hole grew to well above the $450 billion estimated late last year (see **Figure 1**). The PBGC itself, under Belt, has devel-

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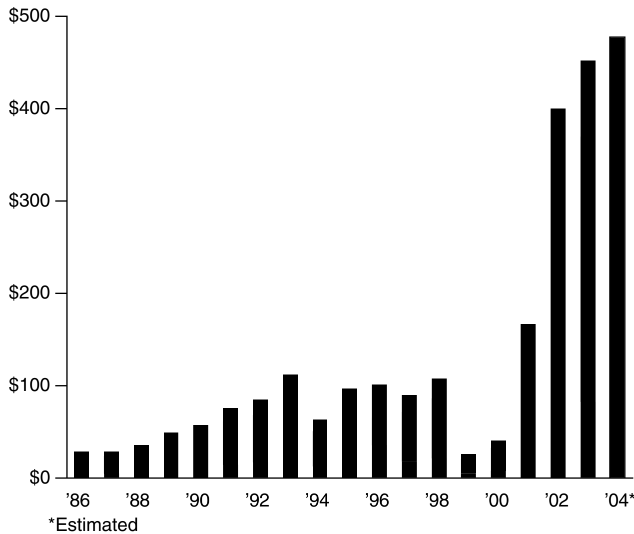
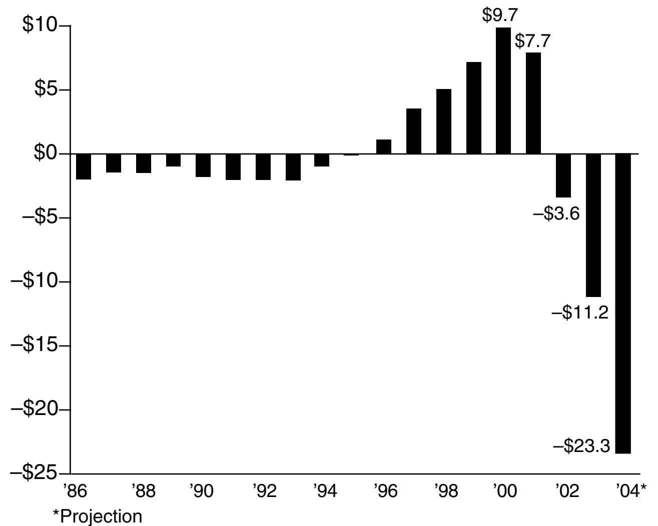
FIGURE 1
Total Underfunding of Federally Insured Employer Pension Plans
($ Billions)



Source: PBGC presentation.

FIGURE 2
Net Position of the Pension Benefit Guaranty Corporation
(Assets Minus Liabilities)
($ Billions)



Source: PBGC presentation.

oped a $23.5 billion deficit of assets and premium income to cover all the collapsed pension plans it has absorbed (**Figure 2**). And that deficit, according to Congressional Budget Office head Douglas Holtz-Eakin's testimony, is set to triple to $71 billion within a decade. (In fact, since PBGC's deficit has quadrupled in the last six years, Holtz-Eakin's warning was greatly understated, unless Congress intervenes *effectively* to cause a revival of the pension plans.)

White House Would Make It Worse

The Bush White House has been pushing a "pension reform plan" since late March, which would exacerbate the crisis, not reform it. The Administration plan is to raise the per-worker insurance premium that corporations pay the PBGC, by 55%, and put penalty premiums on top of that for companies with "distressed" plans. It would also compel faster, more frequent investments by the companies in their pension plans—the worse shape the firm's credit is in, the faster the required investments! The objective is clearly to save the PBGC from requiring a taxpayer bailout, not to save the pensions. Its effect will be to accelerate further the dumping of pension plans by corporations; Democratic leaders in both houses of Congress have opposed it, and come out with legislation to put a six-month moratorium on abandonment of any major pension plans to the PBGC (H.R. 2327 of Rep. George Miller of California, and S. 1158 of Senators Ted Kennedy of Massachusetts and Frank Lautenberg of New Jersey).

But when Rep. John Boehner (R-Ohio) introduced what was supposed to be the Administration pension legislation on June 9, he went the White House one worse. Boehner kept the draconian increases in costs of insuring the pensions. But at the demands of the National Association of Manufacturers and Chambers of Commerce, Boehner's bill allows firms to continue the fantasy assumptions about rates of return on their pension assets, the "smoothing" of returns by averaging several years, and the inflated valuations of assets in their plans. It condones the "Enron accounting" of assets which is contributing to the collapse of pension plans. According to these "Enron accounting" methods, for example, United Airlines was showing, until only months before it abandoned its pension plans, that those plans were *not* underfunded.

Some of the unions most affected by the pensions crisis are vulnerable to the management arguments for "Enron accounting" methods, because it makes the plans appear, on paper, viable for the future. With the whole industrial workforce being decimated by permanent job losses, layoffs, wage cuts, and forced contract "givebacks," the employee groups are desperate not to have their hard-earned pensions turned into welfare—usually with the loss of health-care benefits as well. But if industries, like the auto sector, rapidly shrink in terms of active employment, their pension plans cannot long last. Congress's action has to put real, new productive economic activity behind those pensions, or it will not solve the crisis.