

U.S. Auto Supplier Sector In Worst Shape Ever

by Richard Freeman

The shake-out of General Motors and Ford Motor during 2005 has caused the most violent and widespread dismantling of the U.S. auto parts supplier sector in the more than century-old history of the automobile. The supplier sector represents the “undercarriage” of the auto industry: It produces the brakes, electrical wiring, shocks/struts, seats, and other vital components.

During 2005’s first six months, Standard & Poor’s downgraded 25 U.S.-based auto suppliers, while upgrading only one. Tower Automotive, Collins & Aikman, Meridian, Uni Boring, and Trim Trends, went bankrupt. The world’s two largest parts suppliers, Delphi and Visteon, are millimeters from bankruptcy.

This collapse highlights the culpability of General Motors, Ford, and DaimlerChrysler. During the recent three decades, driven by the lunatic monetarist doctrines of “shareholder value” and “globalization,” the Big Three U.S. automakers slashed costs relentlessly, shutting down valuable capacity, laying off workers, cutting not the flab, but the bone and muscle of the companies, all in the frenzied drive to increase the value of the stock and dividends. GM CEO Rick Wagoner, Ford CEO William C. Ford, Jr., and DaimlerChrysler CEO (until the week of July 25) Jürgen Shrempp outsourced production to low-wage plantations in Mexico, China, etc. When the situation got tight, the Big Three broke contracts with the auto suppliers, demanding that the suppliers cut the cost of their goods by 5%, 8%, 12%, again and again. They did this to the suppliers, despite the fact that they had had working relationships with the suppliers for decades. The lower prices drove the suppliers below breakeven.

When, during the first five months of 2005, U.S. auto production fell, and the suppliers’ cost for steel and for plastic resin—which is tied to the cost of petroleum—rose, the suppliers were thrown into a death spiral.

Upon realizing that the suppliers were failing, the Big Three rushed to bail out some of them, *at a cost greater than if they had not tried to chisel the suppliers in the first place*. This shows the bankruptcy of shareholder value/globalization.

Clouding the horizon as well, the speculative hedge-fund locusts have zeroed in on the weakened auto suppliers, to make some quick cash off them.

The auto suppliers’ collapse reminds us that the auto sector crisis is not months away, but upon us. Lyndon LaRouche has said, that unless a mobilized U.S. Senate exercises its responsibility to superintend the retooling of the auto sector’s machine-tool capacity and advanced labor force, to a new mission of producing capital goods for infrastructure and the like, then the disappearance of the sector is a certainty. With it will be lost a priceless technologically advanced machine-tool capacity, and America will be reduced to a third-rate power.

A Big Sector, a Big Loss

The auto supplier sector possesses a much larger machine-tool capacity, and employs far more workers, than the auto sector itself. The auto sector proper is comprised of the final assembly, as well as the transmission and engines, and the stamping and forging factories owned by the major auto companies. (This includes U.S.-based facilities owned and operated by Honda, Toyota, Nissan, Volkswagen, etc.)

Table 1 shows the number of production workers employed in the auto sector proper, in the auto supplier sector, and in the two sectors combined. Job losses were heavily concentrated in the auto supplier sector. Since 1999, the two sectors combined lost 196,300 production jobs; four-fifths of the production jobs losses were in the auto supplier sector.

Epitomizing the manner by which the Big Three automak-

TABLE 1

Change in Number of Production Workers Employed in Auto and Auto Supplier Sectors

(Thousands of Workers)

	1999	May 2005	Change From 1999 to May 2005	% Change
Auto Sector Proper	291.3	253.3	38.0	-13.1%
Auto Supplier Sector	837.1	678.8	158.3	-18.9%
Combined Auto and Auto Supplier Sectors	1,128.4	932.1	196.3	-17.4%

Source: Bureau of Labor Statistics; Bernard Swiecki, Center for Automotive Research; *EIR*.

ers forced auto suppliers to cut their prices, and thus accelerated the suppliers' collapse, is the case of Troy, Michigan-based Collins & Aikman, which produces parts for 90% of the vehicles that are built in the United States.

David Stockman, the former U.S. Office of Management and Budget director, served as the president of Collins & Aikman during the early 2000s. He built C&A through a series of mergers, including C&A's purchase of a plastics trim business for \$1.2 billion in August 2001. In the course of this, C&A inherited from the companies it purchased, contracts to supply parts to the Big Three automakers, some of which were already unprofitable—i.e., C&A had to supply parts even when it lost money for every part it produced. Nonetheless, the C&A plan was to produce the goods, and when the old contract expired, negotiate a new contract on better terms. In 2004, DaimlerChrysler threatened that unless C&A reduced prices, it would give some of C&A's contracts to a rival. C&A decided to make concessions to keep the business.

According to documents obtained by *Detroit Free Press*, published in its July 27, 2005 edition, on May 24, 2004, DaimlerChrysler coerced Collins & Aikman into signing an agreement to give back to DaimlerChrysler 8.5% of the value of the contract that C&A had with DaimlerChrysler to produce plastic trim for the 300 Magnum Charger vehicle. C&A was already losing money on that contract, even before the give-back. DaimlerChrysler also compelled C&A to give back more than 10% of the value of the contract that it had with DaimlerChrysler to produce parts for the Town & Country minivan and the Dodge Ram and Dodge Durango pick-up trucks.

By Spring 2005, as the GM and Ford crisis deepened, C&A was so short on cash, its suppliers would not ship it goods and material, and C&A had to shut some of its plants. A desperate Stockman threatened to stop sending C&A instrument panels to DaimlerChrysler's plant in Brampton, Ontario. The other Big Three automakers, and some Japanese automakers, also squeezed C&A. On May 12 of this year, Stockman was fired. On May 17, C&A filed for Chapter 11 bankruptcy protection.

However, because C&A produces some parts that the Big

Three automakers absolutely depend upon, since C&A's bankruptcy, DaimlerChrysler, GM, Ford, Honda, Toyota, and Nissan have had to infuse \$330 million into the company to keep it going. This deal includes allowing C&A to charge 15% more on their contracts with the Big Three than it previously did. This \$330 million bailout is far, far more than the Big Three and Japanese automakers had extracted from C&A in concessions. Plus, C&A is a shell of its former self.

But this methodology and the psychotic "shareholder value" and "globalization" doctrine that underpins it, proliferated:

- On July 12, GM agreed to purchase both parts and financial assets of the parts supplier Tower Automotive, after Tower had earlier filed for Chapter 11 bankruptcy protection. This constituted, in part, a bailout.

- In late May, Ford Motor Company announced a restructuring plan/bailout for Visteon, the nation's second largest parts producer, which had split off from Ford in 2000. Ford had also squeezed Visteon for price cuts. Under the agreement, Ford took control over most of Visteon's factories (putting them into a limited liability corporation), and had to infuse more than \$1 billion into a Visteon bailout.

- GM has been in discussion for some form of bailout with Delphi, the world's largest parts supplier, which had split from GM in 1999. GM reportedly is trying to gain concessions from the United Autoworkers as part of the deal. Last year, Delphi lost \$4.75 billion. Delphi has recently hired a new CEO, Robert "Steve" Miller, who is known to apply a ferocious "chain saw" approach to problems. During the 1990s, Miller headed Bethlehem Steel, when he pulled the swindle of putting it into bankruptcy, to pass its pension costs onto the Federal Public Benefit Guaranty Corporation.

The "shareholder value" and "globalization" doctrines are variants of the post-industrial society policy, which the Wall Street/City of London financier oligarchy imposed upon the United States during the 1960s. This originally produced the crisis in the auto sector and America's heavy industry. To apply it during a depression to the auto supplier sector, has lawfully precipitated bailouts and doubled the damage to the productive economy.

Hedge-Fund Locusts

Making the situation more dire, the \$1 trillion hedge-fund sector now plans to parasitize the auto suppliers industry. The July 25 *CraigslistDetroit.com* reports, "A new type of investor smells opportunity in the struggling auto supply industry, one willing to put money at risk but expecting quick and high returns: hedge funds." The hedge funds are interested in these transactions to make quick cash. This would accelerate the shrinkage of auto suppliers.

The Troy, Michigan-based Intermet, which owns and operates nine iron factories and eight magnesium and die-cast plants, is under siege from the hedge funds. On Sept. 29, 2004, Intermet filed for bankruptcy protection. Now, two hedge funds—R2 Investments and Stanfield Capital Partners

LLC—have offered to help bring Intermet out of bankruptcy by investing \$75 million. The catch? The hedge funds would obtain a majority of Intermet's new stock. They would assist in stripping the assets of Intermet, and then likely sell off the remaining company, hoping that Intermet's bonds appreciate somewhat, so that it can make a profit on selling them, too.

The Dearborn, Michigan-based Meridian, a major parts supplier which filed for bankruptcy this year, is another example. Soros Fund Management LLC, the vehicle of George Soros, and Davidson Kempner Advisors, Inc., another leading hedge fund, have bought up some of Meridian's second-tier secured debt.

The hedge funds would invest and play with the auto suppliers' debt the same way that the vulture funds did with Argentina's in the past few years, leaving them a husk of what they were.

GM's Course

But overriding much of what will happen in the auto parts supplier sector will be what General Motors does over the next few months.

GM CEO Wagoner effectively announced on June 7 that senior management intends to liquidate GM as a functioning enterprise in the United States: He told a stockholders meeting that he would oversee the elimination of 25,000 additional hourly United Auto Workers production workers' jobs, accompanied by the closure of an unspecified number of production facilities—probably seven—all by 2008. Given the speed with which GM is being dismembered, many of these cuts in employment and production will occur in the immediate future. GM had already closed five production facilities before this June 7 announcement.

During the past two months, GM has used an "employee discount price" sales promotion, offering cars to everyone at the discount price that a GM employee would pay. GM reportedly increased sales in June of 2005 by 47% over sales in June 2004, and may register sales increases for July. However, the company sold cars during July with a price incentive totalling \$4,584 per vehicle. On all but a few of its 70 to 80 models, it likely lost money per unit car sold. GM simply cleared out inventory.

Most frightful is the direction of the policy that GM plans to pursue. The July 24 *CarConnection.com* reported that "GM recruited Stephen Girsky, a respected Wall Street analyst, to act as a full-time adviser." In truth, Girsky, who works for Morgan Stanley, had, in the words of the June 8 *Detroit News*, "estimated that 45 percent of GM's North American production capacity . . . is unused or produces models that generate little or no profit," and thus could be shut down. With Girsky as an advisor, GM would be pursuing a course of dismemberment.

In view of the speed with which the auto shutdown has been proceeding, the LaRouche solution on retooling must gain force.

China's Controlled Reform To Keep Currency Stable

by Mary Burdman

The People's Bank of China, the nation's central bank, ended the peg of the renminbi (RMB) to the U.S. dollar and adjusted the RMB-dollar exchange rate by 2.1%, to 8.11 to the dollar, on July 21. The PBOC had been directly pegged to the dollar since 1995. The PBOC announcement, issued late in the day from Beijing, said that beginning July 21, "China will reform the exchange-rate regime by moving into a managed floating-exchange-rate regime, based on market supply and demand, with reference to a basket of currencies." The aim of the PBOC is to maintain a "basically stable" RMB exchange rate, "so as to promote the basic equilibrium of the balance of payments and safeguard macroeconomic and financial stability." In a press statement July 19, after a two-day meeting in Hohot, Inner Mongolia, of the PBOC's head officers and provincial branches, the Bank announced it would keep the RMB rate "basically stable at a reasonable and balanced level" in the second half of 2005.

The daily dollar-RMB trading price "will continue to be allowed to float within a band of 0.3% around the central parity published by the PBOC" each day, "while the trading prices of the non-U.S. dollar currencies against the RMB will be allowed to move within a certain band announced by the PBOC," the Bank's statement said. It will adjust the exchange-rate band "when necessary according to market development as well as the economic and financial situation." Malaysia ended the dollar peg of its currency, the ringgit, the same day.

This very important decision in Beijing, was *not* the change which the Bush Administration, some members of Congress, and central banks in Japan and elsewhere have been demanding of China since the beginning of 2003. The pressure has been as heavy as that exerted on Japan to sign on to the 1985 "Plaza Accord"—which plunged Japan into a huge financial bubble and bust—and as that on China to *de-value* during the height of the 1997-98 Asian financial crisis, which China rejected then.

High-level economists in Beijing are emphasizing that China has not in reality "converted to 'floating' its currency." The PBOC statement is very carefully worded: The RMB exchange rate is now being determined "in reference to" a basket of currencies, including the U.S. dollar and others. The dollar peg was very specific; now, that is not the case. This situation gives the People's Bank "a free hand" to maintain