Obama and the Crisis of the U.S. Auto Industry

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Making sense of the recent developments in the automobile industry is a difficult process. If you look to the media or the government for answers, you'll receive a long-winded description of behind-the-scenes deals between Obama and his advisers, their Wall Street friends (the bond holders — big banks and hedge funds), and lastly the United Auto Workers (U.A.W.).

It seems odd hearing the U.S. President combing over the business details of Chrysler: whether or not a merger with the Italian automaker Fiat will happen; whether or not the banks and hedge funds will be willing to relinquish enough of Chrysler's debt; and whether or not labor will make major concessions.

To grasp this odd dynamic one must first understand the motive to "restructure" Chrysler. According to the Obama administration, because Chrysler has produced more cars than people are currently able to afford as a result of the recession, the company has to be turned "inside out."

Plants must be closed, wages and benefits must be slashed, and machines must be sold for scrap iron.

Instead of "restructuring" the plants to produce mass transit vehicles, electronic cars, or selling cars at government subsidized prices, the Obama administration is intervening solely with the principle that the automobiles must "make a profit" on the "free market."

When achieving this goal means that thousands of workers will lose their jobs, while those left will make substantially less money and receive fewer benefits, the average person will question the virtue of Obama's capitalist principles.

The strategy Obama is using to achieve his goals is indicative of his general free market perspective. Obama essentially held a gun to the U.A.W. when he announced that they had 30 days to agree to major concessions or have Chrysler be "liquidated" with the union contract being torn to shreds in a bankruptcy court. After decades of the U.A.W. making concessions, the leadership once again urged its members to bend backwards for "job security."

U.A.W. President Ron Gettlefinger rationalized the sell-out contract by saying:

"Our members have responded by accepting an agreement that is painful for our active and retired workers, but which helps preserve U.S. manufacturing jobs and gives Chrysler a chance to survive."

After it was announced that the contract was ratified, rumors started spreading that

Chrysler would be pushed into bankruptcy anyway: the U.A.W. concessions would stand as a starting point for a quick "bankruptcy court restructuring."

Gettlefinger's treacherous role in the whole affair was praised by the always business-friendly New York Times, who commented:

"Mr. Gettelfinger, the current president, has also been an effective, steel-nerved leader, and has managed to maintain the union's importance in recent negotiations, even though the U.A.W. has lost nearly 200,000 members since he took office in 2003." (April 29, 2009)

Of course any union president who has presided over a loss of 200,000 members is a pathetic failure.

Interestingly, the big banks and hedge funds, the bondholders, claimed that they were being treated unfairly in the restructuring process, and that the U.A.W. was being given special treatment. The U.S. government was asking the bondholders to accept substantial losses to their previous loans to Chrysler to avoid the messy proceedings of bankruptcy court, where typically they would lose nearly everything.

Because of the close ties these banks and hedge funds have with members of the Obama administration, and since they were treated so nice during the bank bailouts, they decided to drive a tough bargain with the government. The group elected a committee for intense negotiations. The New York Times reports:

"The steering committee for the lenders is made up of JPMorgan Chase, Citigroup, Morgan Stanley, Goldman Sachs, and four other investment firms. Together, they represent a wider group of 45 banks and hedge funds."

When it became obvious that this coalition might ask for more than even the Obama administration was willing to give and thus threaten a Chrysler bankruptcy, the Governor of Michigan pleaded "…I am publicly asking these hedge funds to not be greedy…" One would sound equally foolish asking snakes not to slither on their bellies.

The question that should be asked here is why Obama was willing to entertain this group at all? If it was imperative that the bondholders take a giant loss in the Chrysler affair, couldn't Obama just make it happen? Wouldn't this make the whole process go much smoother?

Again, this would violate Obama's sacred belief in the market economy. If the government injected enough funds into Chrysler to nationalize the company, not only could the workers keep their current level of pay and benefits, while the industry could be "re-tooled" and planned in a much more rational way, but the bondholders could be quickly pushed aside empty handed.

Such a development, however, would require the Obama administration to be explicitly pro-worker. As it stands now, Obama is doing his best to maintain the market economy; and although he is pressuring sections of the business class to make concessions — in this case the bondholders — his general approach is to insist workers lower their wages and benefits so that the companies they work for can be more profitable and thus more competitive.

Perhaps the oddest part of the preliminary Chrysler restructuring plan is that the U.A.W. would emerge as the largest shareholder in Chrysler. After sacrificing all their wages and benefits, the workers would, in effect, own the company.

This might be reason to rejoice if not for the current leadership of the U.A.W., and their blind adherence to competition on the free market, and thus their belief that workers must be paid as low as the lowest paid workers elsewhere — so that, again, the company can be successful.

Abandoning this slavish obedience to the market economy is overdue for the labor movement. Conceding wages and benefits with the hopes of gaining job security has only made the corporations greedier and more demanding of workers; meanwhile jobs continue to be slashed.

Whatever emerges out of the Chrysler bankruptcy court will surely be mimicked by GM. This is an important point: no labor struggle exists in a social vacuum; CEO's pay close attention to labor/corporate relations to see what is likely to work for their workforce. Workers should do so also.

This is relevant even on a national level, especially during times of recessions, when corporations heighten their never-ending attempt to compensate for their dwindling profits by taking from the workers. Whereas a losing battle for workers creates widespread demoralization, an inspirational victory resonates equally.

The employers are using this recession to take back what was taken from them in previous decades, starting with the autoworkers. GM already has plans to cut 47,000 jobs internationally — they will certainly ask for concessions similar to that of the Chrysler workers. A U.A.W. rank and file upsurge could easily push aside the Gettelfingers within the union, while inspiring workers everywhere in the process.

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