

# What is Good for General Motors?

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America's automobile industry is in chaos. Chrysler is a lost cause, losing \$US1,700m. in 1980. American Motor Corporation has been taken over by Renault. In 1980, GM lost \$US763m. while Ford lost \$US1,500m. And worse is still to come.

Before 1985, the US auto-makers have to retool their entire plant to meet pollution, safety and fuel consumption standards with an investment of \$US80 billion - more than it cost to put a man on the moon. In effect, this changeover means writing off all existing investments in passenger vehicle production.

## Crisis and Uncertainty

Such a massive destruction of capital would be awesome at any time. Four additional facts make it terrifyingly so for the 1980s.

First, the whole process may have to be repeated in the later 1980s, if passenger cars switch from petrol to diesel or electricity for their fuel. The very profitable 'planned obsolescence' of the 1950s and 1960s has given way to the case guzzling 'premature obsolescence' of the 1980s.

Second, the United States market will not grow as far or as fast as it did in the 1950s and 1960s when sales rose at an average of four per cent each year. The 1980s growth rate will be closer to the 1970s annual average of one per cent. This downturn is partly due to the depressed economic conditions generally, and partly due to the fact that most North Americans who would afford to buy a car had done so by the end of the 1960s, after which most sales were replacements, and no longer represented expanded demand. The industry keeps banking on an expanded replacement demand when people abandon their larger cars for lighter ones. This instant switch-over has not happened, and if it did the immediate beneficiaries would be the Japanese.

The most optimistic expectation for car sales throughout the 1980s is for a 2.1 per cent growth rate, making for total sales of 13.4 million in 1990, against 10.7 million in 1979. As sales keep dropping, the 2.1 per cent growth rate is a euphoric rather than an optimistic estimate. Even if a 2.1 per cent growth rate were attained, it would not be enough to justify tens of billions of new investment and the destruction of plant that has been made prematurely obsolete by the so-called 'small car'.

What will make that destruction and investment occur are the two other forces which simultaneously will make the new investment so hard to afford, namely, the inter-locked pressure from lighter cars and from their Japanese makers. Most of the new investment will be in the smaller and lighter models. Although people talk about the 'small car' what they really want is a lighter car in order to get improved fuel economy. Because of the image-makers, big lighter cars do not sell as well as small heavier ones. The demand for lightness has led to the replacing of steel with aluminium and plastics. More recently, it has encouraged front-wheel drive which eliminates the differential and other heavy parts. Much of the new investment is required for this move across to front-wheel drive models. To get each extra kilometre per 2.67 litres of fuel economy, US manufacturers have to take 90 kilos of weight out of a car. GM Corporation invests a billion US dollars to improve average fuel consumption by a mere 0.4 litres per 100 kilometres.

The light car is the US public's way of meeting the rising petrol prices imposed by the oil companies. After a brief panic in 1974, following the first major oil price rise, the US automobile industry, consumers and government went on using petrol at the old rate and at a declining real price until the 1979 round of price increases and, more especially, until the spot shortages.

Within the US's 'Big Three' car-makers, only General Motors could afford to move towards smaller and lighter vehicles. As a Chrysler executive lamented: "If you're General Motors you can move whenever you want to. If you're a Ford or a Chrysler you tend to move when you have to."<sup>1</sup> Since 1975, GM has spent \$3.2 billion a year - a 135 per cent increase - on the necessary retooling. While some critics allege that "Detroit slept through the discovery"<sup>2</sup> of the small car, such comments ignore the financial problems involved in dropping down from six and eight cylinder production and across to front-wheel drive compacts. Profit margins on smaller cars have always been lower than those on the larger models. Henry Ford II's maxim that "minicars make mini-profits" is no longer as true as it was in the 1960s, but it is still truer for US makers than it is for their Japanese competitors. Today, buyers will pay higher prices for light cars if they have luxury trimmings such as FM radios.

When Henry Ford II scrapped his executives' \$2 billion plans for a new front-wheel drive compact car in favour of 'downsizing' existing models of the LTD, his decision was made because he feared that a first quarter deficit of \$11m. would spread across the rest of the year. Ford's fateful 'NO' was not the product of his personal rigidity or crankiness.

Furthermore, General Motors' self-generated working capital of \$8 billion a year allowed it to develop the Chevette, but overall limits on capital accumulation within the less profitable US auto firms meant that, after 1978, the door was wide open for imports from Japan where domestic demand had always been for a smaller and lighter car. As a result, the fourth and final act came into play when Japanese imports took a quarter of the US market. In the 1970s, all the growth, marginal as it was, went to imports. Between 1969 and 1979, the number of US-made cars sold inside the USA actually fell slightly. Imported cars took 18.3 per cent of the market in 1977 and peaked again at 27 per cent in 1979 when half of all sales in California went to imported vehicles, mainly Japanese. During 1980, the volume of imports flattened out at around 1.7m. vehicles.

By bringing these four facts together we find that the US automobile industry is moving into massive investments for what is an uncertain, slow-growing, less profitable and fiercely competitive market. Some 'obvious' solutions to these difficulties are not readily available. For the total automobile market to grow significantly faster, the world capitalist economy would have to revive at a rate beyond the predictions of even its most cheerful champion.

#### Multinational Integration and Conflict

The fates of US auto makers and of the US economy are very much those of the chicken and the egg since the car industry uses a fifth of US steel consumption and a seventh of its aluminium and copper. Every downturn in automobile production dampens the entire economy and thus further depresses the demand for motor vehicles.

Despite and because of this connection, GM is opposed to tariff protection for US steel makers even though other countries are dumping steel on the US market. Cheaper steel helps GM to keep down its costs and its prices, and thus helps to push up its international competitiveness and its market share, with consequent support for its profits and capital funds. GM is trying to pass on to the steel makers the squeeze which the oil companies imposed on automobile profits with their petrol price increases.

The move to lighter cars cannot be halted without a major reverse for the oil companies, and the motor firms lack the political power to achieve that goal. Fortune's list of the 500 largest industrial corporations shows up the triumph of the oil companies over the car makers. In the 1973 list, only three of the top ten were oil companies: by 1980, they occupied six of the leading ten positions. GMC was head of the list from 1955, when its sales were almost twice those of its nearest rival EXXON, until 1974. GMC regained number one position in 1978 and 1979, but in the 1980 list EXXON was about 20 per cent in front.

Even if fuel prices returned to their 1971-78 real levels, consumers would not rush back to six and eight cylinder cars while cheaper and better quality Japanese four cylinder ones were available. Fuel prices finally imposed on the US auto makers the preferences which consumers had begun to express in the 1960s after the success of the VW beetle and of Ralph Nader's book, Unsafe at any Speed (1965). For more than a decade, most US car makers withstood these consumer pressures because profits lay in the opposite direction. Now that the companies have lost the battle for the survival of the big car, Ford, Chrysler and even GMC face the possibility of ruin as they try to generate additional capital from diminished earnings.

#### Attempts to ease the pressure

A simple solution would be to block imports of Japanese cars to the United States. Wider trade and political considerations make that option very difficult. Ford's 1980 request for import restrictions was turned down by the US International Trade Commission. For several years, the US surrounded its industries with a 'devaluation wall'. By allowing the US dollar to decline in value, the US protected its manufacturers because it took so many extra dollars to buy a Japanese or German car. This devaluation strategy was inherently dangerous and limited in the period for which it could work. By 1981, other methods of reducing import competition had to be attempted and the Chairman of GM called for voluntary restraints by Japanese exporters.

In addition, the US is trying to get Japanese car firms to invest inside the United States, that is, to export capital instead of commodities. Early in April this year, there were unofficial reports of a deal between Ford and Toyota to build 300,000 cars in the US. Such investment would have several benefits for the US car makers. Capital would become available for their retooling programs; Japan's price and finish competitiveness could be reduced by the use of American labour; and Japan would have less capital to invest elsewhere in the world. Not surprisingly, most of the Japanese firms have been less than enthusiastic about these 'spider-to-the-fly' requests. Yet it is clear that the US and Japanese car industries cannot both get through the 1980s without their conflicting interests leading to a major realignment of global automobile production.

#### The Japanese Industry

Japan's automobile industry was almost entirely a product of the 1960s. In 1953, Japan made only 9,000 cars; in 1963, the figure was 408,000. By 1972, this total had grown a thousandfold to over four million, and by 1980 it was more than ten million, almost half of which were exported. Japanese manufacturers felt some of the decline in consumer demand so that their auto production fell in November 1980 and in February 1981 when compared to those months in the previous years. Notwithstanding these interruptions, exports were at an all time high. Indeed the overseas market is of enormous importance to the Japanese economy as a whole. In 1980 Japan's vehicle exports were \$15 billion which was 20 per cent of, as well as the largest single item in its export earnings.

The Japanese vehicle producers also face three major problems as they try to maintain the benefits flowing from their current export trade.

One, Japan's home market is almost saturated and annual sales there cannot grow much above six million. Two, both the USA and the European Economic Community are pushing for voluntary restraints by Japan on its automobile exports with the threat of import restrictions already encouraging the Japanese to hold back. Three, other Asian countries are poised to undercut Japanese sales in the Third World.

In contrast, the US industry, which also had been making ten million vehicles, exported only half-a-million of them. The American car giants had exported capital from the 1920s onwards and their overseas sales were through subsidiaries such as Holden in Australia and Opel in Germany. In 1979, all of Ford's profits came from its non-US subsidiaries. Ford's foreign investments brought it into conflict with the industrially militant and politically conscious British working class. After a 1970 strike, Henry Ford II turned some new investments back towards the US and into the 'social peace' provided by Fascist Spain. A British strike in 1978 halved profits and cost Ford as much as \$1.50 a share. The desire to eliminate workers, or at least troublesome and costly ones, is part of the reasoning behind the 'world car'.

#### Realignment and the World Car

America's diversified investments took it behind tariff barriers but at the price of missing out on the longer production runs available to Japanese manufacturers whose success derives from the cheapness and reliability of its light cars which it produces in a few basic models that are changed infrequently. But once US firms retool for lighter car production by the mid-1980s, Japan's advantages will decline while the employment and trade advantages of GM's world car will become more attractive, especially to Third World countries anxious for even a tiny share of automobile production.

The phrase 'world car' requires firmer definition than its current use which slides across everything from the old T-model Ford and VW Beetle to GM's Commodore range. As a strategy for coping with the problems of the 1980s, the 'world car' is largely a short-hand term for the reduction of labour costs. To lose sight of that fact is to risk mistaking side-effects for substance.

As a way of reducing labour costs, the 'world car' presents technical and managerial complications. Global sourcing requires strictly centralised control over design since minor modifications that are introduced to deal with localised production problems can build towards total incompatibility. By concentrating production of each part in one place, the companies also increase the ability of small sections of their workers to halt the production of all vehicles. One solution to this worry has been for firms to build twin plants in different countries. Such double-sourcing calls for much more capital, but without multi-national unions, it offers a way around the power of working people which rests on their capacity to withdraw their labour power.

Yet the 'world car' cannot be the same thing for all vehicle firms. For instance, the 'General Motors' version has the double task of reducing labour costs and of attacking its major competitors. It is important to distinguish two approaches to this question of labour costs. One which globalises sales. The other which globalises sales and production. Labour costs can be reduced by the larger production runs available to any model sold world-wide without modifications. Here the world car would merely catch up with Coca Cola which has imposed its taste on the rest of the world.

Japanese versions of the world car continue in the tracks of the T-model which Henry Ford let buyers have in any colour that they wanted, provided they wanted black. GM's world car for the Eighties aims beyond the attainment of a world-wide market for a single model. GM's now world car will not only be sold globally. It will also be assembled in various countries from parts made around the world. Or in the jargon of the trade, components will be sourced globally - an increasingly difficult procedure as Third World countries impose local content requirements. GM's pursuit of scale allows some local manufacture and therefore appeals to other governments more than does the current Japanese practice of exporting completely built up (cbu) or completely knocked down (ckd) units. While both GM and Toyota need freer trade, the geopolitics of their investments mean that their respective notions of free trade are quite opposed to each other. GM's version of the world car is a strategy for its own corporate survival and not merely the product of universal laws for replacing labour with machinery.

As the late comer to Japanese car making, Honda has the least to loose by diversifying its production which it is doing by opening plants in the USA and in Great Britain in 1981-82. As well, Nissan plans to open a plant in Britain in 1984.

### The decline of Ford and Chrysler

In the era of monopoly capital, competition continues between industries (oil and autos); between corporations (GM and Japan); and between countries (the USA and Japan). The uneven rhythms of these varied competitions require that industries and countries occasionally break ranks in bids for individual prosperity. Allowing then for all manner of interruptions and reversals, the inevitable consequence of these upheavals will be further corporate concentration arranged through banks and the state. These developments are already evident in the difficulties facing Chrysler and Ford.

For more than a decade, Ford's strength has been outside the United States. It consistently outsold GM overseas. Ford took advantage of Europe's freer trade to transnationalise its production and its sales effort. But after 1976 it had to cut back on its overseas spending to finance some building of lighter and smaller cars at home. Because it could not afford to scrap the bulk of its large car plants in the US, Ford merely endangered its European end without enriching its US end, which lost a billion dollars in 1979. By the second half of 1980, Ford's foreign operations were losing money.

Ford's policy of robbing Europe in order to pay America continues. In December 1979, Ford (US) borrowed a billion dollars from its UK and West German subsidiaries at a time when the latter's profits and market share were falling before Japanese and VW competition. A Ford executive vice-president acknowledged late in 1978 that "We can do almost anything but not at the same time. That's the one thing that made me nervous for the first time."<sup>3</sup> During the first half of 1980, Ford's share of the US market fell from 20 to 15 per cent and the company anticipated a world-wide loss on the year's operations. In mid-June 1980, it closed a New Jersey plant thereby 'idling' (Newspeak for sacking) 4,000 workers.

Chrysler's position is worse because its losses have gone on for longer and its declining market share was smaller to begin with, down to less than seven per cent in the first half of 1980. This share rose to 10 per cent in the first quarter of 1981 by offering cash discounts which were matched by GM and Ford. Chrysler temporarily survived years of accumulating losses by getting a \$1.5 billion US government guaranteed loan, the terms of which required Chrysler to raise another \$3 billion by itself from banks and other creditors. More importantly, Chrysler had to reduce its capital spending from \$13.5 billion to \$11 billion in the next five years to 1984, cut its productive capacity from \$2.2 million to 1.6 million

by 1983, and close at least one more plant immediately.

To survive, Chrysler was forced to surrender its claim to number three position in the market. Despite these cutbacks, Chrysler was required to spend \$160 million a month during 1980 on programs that could not become profitable until 1982 at the earliest. In fact, the Chrysler loan was nothing more than a system of postponed payments. It was not a plan for Chrysler's survival but rather it became a stratagem for the orderly liquidation of the company so that its creditors can get more than the twenty cents in the dollar that immediate bankruptcy would have brought in. Unlike Ford, General Motors does not want Chrysler to disappear immediately because the Japanese would be prime beneficiaries and Mitsubishi is well placed for a take-over.

#### Pitiless to the Weak

Only General Motors held its share of US sales at just under 50 per cent. This achievement depended on GM's financial resources which had allowed its early success with a small car, the Chevette, or Gemini to Australians. Then, in April 1979, just after the Iranian oil embargo, GM released a front-wheel drive model, the 'X-car', which was two feet shorter and 600 lbs lighter with 25 miles per gallon.<sup>4</sup> GM trusts that by early 1982, its third generation world car, the 'J car', will further strengthen its grip on the US market.

Unlike Ford, GM should be able to generate enough capital to take steps towards a thorough-going world car, a car that is not only designed for sale everywhere, but actually is built around the globe before its parts are shipped to assembly points in the countries of sale. As part of its global preparations for the 1980s, GM established its first international 'project center' in 1979 to co-ordinate its five US and two overseas divisions. This new management structure derives from the fact that GM needs overseas sales to hold on to its domestic dominance. GM is presently fifth in the European market with only 10 per cent of the sales. It hopes that its 'J car' will cut into Ford's 12 per cent and hold the Japanese down around their current six per cent share.

Throughout the 1970s, the dozen major European producers integrated their operations and combined their companies in their efforts to cope with the problems that upset the Big Three in the United States. Fiat and Renault built a \$250 million diesel engine plant in Italy; Renault, Peugeot and Volvo combined on a six-cylinder gas engine factory in France; Peugeot, Citroen, and then European Chrysler, amalgamated to dominate the market with 17 per cent of local sales in 1979, before slumping in 1980. The British government bought into Leyland and tried to prop up Chrysler.

All these moves underwrite the prediction made late in 1978 by Chrysler's new President, Lee Iacocca, who had just parted company with Ford: "There'll be all kind of consortiums and mergers. You're driven into trying to get the economies of scale that only one or two huge companies could do themselves."<sup>5</sup>

Fortune magazine noted that "It is no longer clear that there will be even a big two by the mid-Eighties".<sup>6</sup> Put bluntly, that would mean the end of Ford as a major producer of passenger vehicles. The possibility that a company as large and as famous as Ford could be reduced to a specialist manufacturer suggests how tremendous the upheavals of the 1980s are going to be. In February 1980, Fortune went so far as to outline a scenario by which GM itself could be taken over. Half of GM's vice-presidents had been selling their own stock late in 1979. Going far beyond the takeover of GMC, the US Transportation Secretary has talked about the demise of the entire US industry by 1990. This talk is largely propaganda designed to ease pollution and safety controls, but it indicates the mood of the nation where

Reagan has become President.

US capital has entered a period of restructuring its total investments. Business Week (30.6.80) ran a special issue on 'The Reindustrialisation of America'. Capital will need more direct and indirect state aid - economic and repressive - if it is to pull through the associated turmoil. In the words of Peugeot's chief executive, "We are in an industry that is pitiless to the weak."<sup>7</sup> The weak can include workers and entire countries, as well as other transnational corporations.

#### FOOTNOTES

1. Business Week, 26th March 1979, p.65
2. Fortune, 2nd June 1980, p.59
3. Business Week, 20th November 1978, p.113
4. Forbes, 2nd April 1979, pp.44-48
5. Business Week, 20th November 1978, p.105
6. Fortune, 2nd June 1980, p.53
7. Fortune, 4th December 1978, p.124

Other recent articles of interest include:

'Chrysler on the Brink', Fortune, 9th February 1981, pp.38ff, followed up by an interview with Chrysler chairman Lee Iacocca on 23rd March 1981, pp.145-6.

'How GM Stays Ahead', Fortune, 9th March 1981, pp.48ff.

'GM's ambitious plans to employ robots', Business Week, 2nd February 1981, pp.54ff.

'Machine Tool Upsurge', Forbes, 1st September 1980.



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