

- GM is deferring paying worker pension fund pay-ins for its accrued pension fund account for all workers now on layoff. GM says that this is legal, and that in the future, it expects a “lower labor force content,” that is, fewer workers. GM is also shortening payments for delivery of its autos to dealers from a 20-day grace period to immediate payment on delivery of the autos from the factory to the auto dealership. This one-shot deal is giving GM an added cash flow of \$1 billion or more, according to one expert.

- Ford took increased dividends from its German division of \$250 million in the second quarter of this year. At the same time, Ford got its German subsidiary to make a \$250 million loan to Ford U.S.A. headquarters. This gave Ford \$500 million in increased cash reserves at the expense of the viability of its German operations. Ford also took a \$180 million one-time tax credit in 1979 from its United Kingdom plants, putting this tax credit where it pays lower tax rates. This also enhanced cash flows into Ford headquarters.

- Ford and GM are both using odd transfer pricing systems between the parent and its subsidiaries to get more cash into the head office.

- Ford and GM are also alleged to be using similar financial gimmicks with regard to their non-consolidated subsidiaries, whose assets and liabilities do not show up on Ford’s balance sheet, for example, but whose cash transfers can show up on the Ford U.S.A. balance sheet.

Despite these operations, Ford and GM will both have to go to the financial markets for large borrowings next year, including some of the borrowings they had to postpone this year. Ford in particular will be handicapped by the fact that its bond rating, which was AAA on all six categories of its bonded debt three years ago, was reduced to single A this year, and one category has sunk to the “junk bond” BBB rating.

Ford will experience at least a \$2 billion loss on North American car sales operations this year, and GM a lesser amount.

Under such circumstances, if a policy of tight credit continues, the auto industry will triage its operations simply to break even. Chrysler has already cut its total capacity in the United States to 1.5 million cars as part of its loan guarantee agreement. Ford is now talking about a 2.5 million breakeven level, and GM a 5 million breakeven level. This adds up to only 9 million, and it could go lower.

Yet the high level of capital outlays must continue until 1985. The double bind will mean that the Big Three have no spare cash to make the investments in new technology—such as robotics—that would actually modernize the U.S. auto industry and render it competitive.

Figure 8
Age of machine tools in use, 1976-78

| | Under 10 years | 10-19 years | 20 years and over |
|------------------------|----------------|-------------|-------------------|
| Manufacturing industry | | | |
| in general | 30.5% | 35.2% | 34.2% |
| Auto | 23.8 | 31.4 | 44.8 |
| Electrical machinery | 33.0 | 41.7 | 25.3 |

Source: 1979/1980 *Economic Handbook of the Machine Tool Industry*.

The competition issue

Conventional wisdom has it that Japanese carmakers and the design and marketing executives of the American companies are to blame for the decline of the U.S. industry. This line of argument was most instructively contained in a June 6, 1980 report by the U.S. House of Representatives Ways and Means Subcommittee on Trade.

The findings of the subcommittee’s staff were that Detroit had become fat and complacent raking in profits year after year in the 1970s, and did not pay enough attention to market conditions. The American buying public wanted smaller cars, but U.S. management wouldn’t listen. So the Japanese and Germans filled the gap with their exports.

The grain of truth in this argument is usually lost even on those who make it. The American auto industry’s disadvantage vis-à-vis the Japanese auto industry arises from one basic cause—the lack of advanced U.S. technology, a technology which the current real economic causes of the collapse in the U.S. auto industry make it impossible to install on the scale required. For example, at a portion of Japan’s Nissan Zama plant, 96 percent of the bodyshop welding is done by computer-controlled machines. Nothing comparable exists in the United States. And auto industry equipment is obsolete even by standards obtaining throughout U.S. industry.

As Figure 8 shows, the auto industry has fewer machines under 10 years of age than the manufacturing industry average. And when compared to other U.S. industries, the technological obsolescence of the auto industry is brought into high relief: while one out of every four machine tools in the electrical industry is 20 years of age or older, the average in auto is *nearly one out of two*.