The Cerberus takeover of Chrysler—what it means for auto workers

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Chrysler CEO Tom LaSorda called for cuts in retiree health benefits one day after the announced sale of the North American unit of DaimlerChrysler to the private equity firm Cerberus Capital Management. The statement by LaSorda, who will continue to head Chrysler under Cerberus ownership, confirms that the sell-off of Chrysler is the preparation for a wholesale assault on North American auto workers.

The sale of the Michigan-based automaker to Cerberus has been widely presented by politicians, the media and the leadership of the United Auto Workers as a blessing for Chrysler workers. The change of ownership, it is said, will help shore up and stabilize the automaker's operations and ultimately benefit the workforce.

The reality is that Cerberus, a firm notorious for stripping companies of their assets in order to resell them at a profit, is preparing to brutally slash the jobs, wages and benefits of Chrysler workers. Since its founding in 1992, Cerberus has amassed enormous wealth from the contraction, not the expansion, of corporate entities ranging from retail chains to auto parts and supply companies. It has left a trail of battered companies either drastically downsized or dismantled.

Last year, for example, Cerberus bought 600 Albertson's supermarkets. Within months it had laid off 1,000 workers. In 2004, Cerberus purchased the Mervyn department store chain. The next year it closed 62 Mervyn stores, eliminating 4,800 jobs. It recently closed a bus plant in Canada and several textile mills in the US. It has also been involved in the downsizing of the car rental firms Alamo and National.

The sale of Chrysler to Cerberus "will shake the ground under people's feet in a huge way," Kevin Boyle, a professor at Ohio State University and a noted historian, told the *New York Times* in a May 14 article entitled "Cerberus Emerges from the Underworld."

The *Wall Street Journal* on May 15 quoted Peter Pestillo, the former CEO of auto parts maker Visteon and for a time the Ford executive in charge of UAW talks, as saying, "This deal by Cerberus sets things up for very significant changes in Detroit. It will shake up GM and Ford as well." Cerberus, Pestillo continued, doesn't "soldier on with bad contracts. They shine things up and sell."

Unlike mutual funds, private equity funds operate largely outside of government regulation, since their stock is not publicly traded. They pool huge amounts of private capital seeking the largest return in the shortest time. The modus operandi of firms like Cerberus is not to create profit through the development of new products and technologies, but to plunder the assets of existing companies.

An article in the May 14 edition of the German magazine *Der Spiegel*, entitled "Hellhound Snaps up Chrysler," had this to say: "Venture capital firms like Cerberus invest in or purchase other companies that are about to go bankrupt. After buying them, they either take control as the largest creditor, rationalize the business and re-sell it—or they carve it up into pieces. Originally, Cerberus primarily bought the debt of bankruptcy candidates from their creditors. Since then, the portfolio has expanded to all kinds of problem-ridden assets. Firms like Cerberus have earned the nickname of 'vulture funds.'"

One asset Cerberus undoubtedly has its eye on is Chrysler's profitable auto finance unit Chrysler Financial. Cerberus already owns a majority stake in General Motors Acceptance Corporation Financial Services (GMAC), which it bought from General Motors last year. It is likely that Cerberus will attempt to carve Chrysler Financial, with net assets of $5.5 billion, out of Chrysler and merge it with GMAC, creating a massive and potentially highly profitable entity.

Cerberus's owners have reaped enormous profits since the company's start-up in 1992. Company founder, Stephen Feinberg, formerly worked at corporate buyout firm Drexel Lambert, notorious in the 1980s for popularizing so-called "junk bonds." *Fortune* magazine in 1999 listed Feinberg as one of the richest Americans under the age of 40. At that time his net worth was $274 million.

According to an October 3, 2005 report in *BusinessWeek*, some of the top personnel at Cerberus earn up to $40 million a year. An article in *CNNMoney* from November of 2006 noted that private equity firms returned 22.5 percent on investments, as compared to an average of 6.6 percent for companies included in the Standard & Poor's 500 list.

Such extraordinary returns are not possible from more traditional business operations, and certainly not from the production and sale of automobiles. The functioning of firms such as Cerberus often involves complex and risky transactions that have absolutely nothing to do with the creation of real value.

A piece in the March 16, 2006 edition of *USA Today* states that the secret of private equity firms "is the use of debt—usually as much as seventy cents of every dollar they invest. Because they pile debt onto the companies they buy, private equity firms free up their own cash, allowing them to make additional investments and maximize their potential returns."

In some cases, private equity fund managers have been accused of taking out loans against the assets of companies they have purchased so as to award themselves fat payouts, regardless of what happens to the takeover target.

Underlying the rise of private equity is the ready availability of investment cash. Following the 2000 stock market collapse, private equity became a preference for investors seeking big returns.

Increasingly, private equity funds have obtained investment capital from public pension funds, which accounted for about one quarter of all new money raised by private equity firms last year. According to a report in the May 15 *New York Times*, among the investors in Cerberus are the Los Angeles Fire and Police Pension System and the Pennsylvania Public School Employees Retirement System.

Thus, workers' pension funds are being used to help underwrite the takeover and destruction of companies and the consequent elimination of the jobs and benefits of other workers.

Further, given the highly speculative nature of private equity ventures, the increasing turn by pension funds to private equity investment is exposing workers' retirement benefits to substantial risk. There is already talk in some circles of a "private equity debt bubble" (*Boston Globe*, May 1, 2007).

A look at the leading personnel of Cerberus underscores the socially reactionary character of this enterprise. Feinberg has assembled a management team comprised of individuals from politics and business whose names are associated with job-cutting and other anti-social polices carried out by the US and international ruling class over the past several decades.

* The chairman of Cerberus is John W. Snow, formerly Bush's treasury secretary. Snow led the drive for massive tax cuts for the rich. Prior to his tenure in the Bush cabinet, Snow headed CSX Corporation, the railroad conglomerate.

* Former Republican Vice President Dan Quayle is another notable at Cerberus. Since joining Cerberus in 2000, he has focused on international operations, using his political connections to assist in acquisitions in Japan and Germany.

* Former US Secretary of Defense Donald Rumsfeld was an investor, according to a report filed in 2001.

* David Thursfield, a senior member of Cerberus's automotive and industrial team, gained a reputation at Ford as a savage cost-cutter. His push to force parts suppliers to reduce prices produced so much tension within Ford management that he was forced to leave the company in May 2004, the same month he joined Cerberus.

* A new figure at Cerberus is Wolfgang Bernhard, a former executive at Chrysler and Mercedes Benz. According to a report in the May 14 *New York Times*, "At both companies he wielded a cost-cutting ax, ruffling the feathers of the labor unions and higher-ups."

* Another important team member, assisting Cerberus operations in Europe, is former German Defense Minister Rudolf Scharping, who is said to be an advisor. Scharping was dismissed from his government post in 2002 following several scandals.

For the UAW bureaucracy to praise the sale of Chrysler to Cerberus, claiming it is in the "best interests" of workers, says much about the reactionary interests the UAW serves.