



U.S. CARMAKERS RESTRUCTURE TO STAY ALIVE

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One hundred years after they were founded, General Motors and Ford are closing plants, laying off workers, and trying to update their images in hopes of rebounding from multi-billion dollar losses.

The two largest U.S. automakers, General Motors Corp. and Ford Motor Co., are losing money -- GM lost over \$10 billion last year -- and trying to compete with Asian automakers that have been producing more popular cars and trucks.

Both companies have seen their bonds downgraded to "junk bond" status -- credit rating agencies believe they are too risky to recommend investment.

To try to reverse the downward spiral, both companies are cutting their workforces, closing manufacturing plants in the United States and trying to revamp their images with new technologies and fresher designs.

Restructuring moves

In November 2005, GM announced it would close a dozen plants and lay off 30,000 employees -- one-tenth of its workforce -- in the next three years.

Ford made a similar announcement in January 2006: It plans to lay off another 30,000 workers -- a quarter of its workforce -- and close 14 plants in the next six years.

The influence could be the most severe in the Upper Midwest, especially cities like Detroit, where 10 percent of the economy can be attributed to the automobile industry.

Economists hope the slogan "What's good for Detroit is good for America" doesn't work in reverse, but the impact on the U.S. economy could be sharp: one job in the auto industry supports almost five other jobs, such as those in the steel and electronics industries, according to The Washington Post.

In addition to layoffs, GM recently sold its financing company, GMAC, for around \$14 billion.

Ford, meanwhile, sold the world's largest rental car company, Hertz Corp., in December for a profit of \$1.5 billion.

In an attempt to save money, both companies have reached agreements with the United Auto Workers, one of the largest labor unions in the United States, to decrease social benefits like pensions and health care.

Health benefits hurt

Part of the automakers' problems stem from generous health care and pension benefit programs created in the 1950s, when the car industry was much healthier.

GM and Ford now pay about \$1,300 in health care expenses for each car they make because they have to pay benefits -- mostly to retirees. Asian manufacturers spend considerably less, about \$450 for each car, because their workers are younger -- they have fewer retirees.

In addition, GM's policy of providing full pensions for 30 years of service tacks on another \$1,000 per car, putting the company behind the foreign competition that amount on each vehicle before GM even starts building it.

"It's like an Olympic swimmer trying to swim with a couple bowling balls hanging around his neck. He's just not going to get very far very fast," David Cole, an industry analyst and president of the Center for Automotive Research, told the NewsHour.

Turning around carmakers

According to David Cole, now is a "change or die" time for Ford. "Failure to change would be a real disaster," he told the Christian Science Monitor.

GM and Ford are hoping smaller cars and fuel-saving technologies like biofuels will help them take back the market.

In its "Live Green Go Yellow" advertising campaign, GM has touted E85, an 85 percent corn-based-ethanol gasoline that could help reduce emissions of greenhouse gases. GM hopes to accelerate the use of biofuels by producing 400,000 "FlexFuel" cars in 2006 that can run on E85.

Ford also is trying to increase its production of hybrid cars. The Detroit Free Press reported that Ford hopes to sell 250,000 hybrid cars per year by 2010.

And both companies are expanding production in China, where the new car market is about one-third the size of the U.S. market, but, according to The Washington Post, grew 36 percent last year.

"GM and Ford are around to stay, but what their ultimate market share is going to be is difficult to tell at this point," Don Rosenfield, a manufacturing expert from the University of Massachusetts, told the Christian Science Monitor.

There is some good news for U.S. carmakers. The Chrysler Group, the third manufacturer in Detroit's "Big Three," and Japan's Nissan were facing difficulties earlier this decade, but restructuring and job-cutting, plus the introduction of new car models saved those companies.

-- *Compiled by Adnaan Wasey for NewsHour Extra*

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