

THE DYING AUTO INDUSTRY: SHOULD WE SAVE IT?



Image By Popmayhem

While we've all been distracted by the election, the American auto companies (and, to a lesser extent, the auto industry more generally) has been brought to the edge of collapse. I'm going to do a few posts on why that happened (CW oversimplifies the issue dramatically), what to do about it, and—in this post—whether we should save it.

Why to Save It: To Salvage Our Non-Financial Economy

Different people have different reasons to argue for saving the Big Two and a Half. Some people talk about nationalism, some people talk about the sheer number of jobs tied to the auto industry. But the most compelling reason, IMO to save the US-owned auto industry, is to reverse the trend toward an increasingly financial-based economy.

Kevin Phillips, among others, has written a lot about how unstable economies become as they become more and more dependent on the house of cards of financial-driven economics. We have seen about the risks of such a shift in the last few months and years. Our economy has been largely built on consumer spending driven by credit card debt and the housing industry—and by the "profits" of real estate-related debt (and, in the auto industry, more debt-driven spending as I'll explain later). But that growth was largely illusory and largely reliant on the goodwill of other nations to the dollar economy.

Our economy increasingly relied on finance (at the expense of agriculture and manufacturing and other productive industries) for several reasons: it's what we did well, the developing

world was increasingly competitive in other sectors, and our own government made conscious policy decisions that favored finance. You could say that even while manufacturing was disappearing because NAFTA and other policies our government adopted made us increasingly uncompetitive, our government refused to let finance fail.

And look where that got us.

The biggest reason I can offer for salvaging the US auto industry is because, given the lessons of the financial meltdown, we need to return our economy to one that better balanced making stuff with financing stuff. Sure, we should have bailed out textiles before it all went overseas. We should have slowed the loss of electronics. But because we didn't save those industries doesn't mean we shouldn't now—particularly given the lesson of the financial collapse—work to save what manufacturing we have left.

We need to save the auto industry because cars are one of the few things we make anymore—and we need to focus our economic recovery on the things we make rather than on the bubbles we finance.

One more point. This is a security issue as much as an economic issue. Granted, most of our defense related manufacturing is now done by other companies (and that's a sector that's booming). But in the same way that we should not become dependent on food production of other countries, we should not be dependent on other countries sharing the technologies developed within transportation industries.

But Are the American Auto Companies Really American?

The question is in whether the American auto companies are really American—and whether it isn't enough to have viable manufacturing done by some company, regardless of whether that company is significantly American or not (that is, is it enough that the European and Japanese car companies have opened plants in the non-

union south?).

First consider the reality about nation-based auto manufacturing. Both the US and the non-US sell a mix of US-assembled and foreign assembled cars in the US. With very few exceptions, though, foreign manufacturers' US-assembled cars are not union-made. This has a difference in wages, but it has a bigger difference in legacy costs, which I'll address in a later post. But one of the things you're getting when you're sustaining a US-owned auto industry is the history of unions fighting for decent healthcare and retirement benefits (and, if the US-owned auto companies failed, you'd have the government picking up some of those costs at the expense of taxpayers and some people going without the benefits they used to have).

I've been talking about US-assembled cars, because even if a car is put together by a UAW member, doesn't mean that the brakes and wiring and lighting of those cars are union or US built. While developing nations have not yet taken a big role in vehicle design, they have gradually taken on much of the manufacture of parts. For more complex parts, companies often do the design and testing of a part in the US, but have the parts built in a Mexican or Asian factory. Also, we lost a lot of the high-skill tool and die manufacturing jobs when Bush fiddled with steel tariffs in his first term. In other words, while there are still a bunch of white collar jobs involved in parts production in the US, more and more of the blue collar jobs producing parts are going overseas.

And it's also not like we're building many cars in Detroit or Lordstown or Paducah and shipping those cars overseas. The US car companies are competitive overseas—in many key markets, they are maintaining or growing their market share, though rising gas prices and other inflation is slowing the growth of auto sales in these markets. For several years, GM and Ford had enough success in China and India and other developing nations to offset some of their

losses here in the US. But cars sold in other larger markets (like India or China or the ASEAN markets or Brazil or Mexico or Argentina) are usually built in those markets or nearby cheap-labor countries with similar market needs. In spite of its doom and gloom, GM even opened a new plant in St. Petersburg today! From what I know (which is somewhat limited), the US manufacturers have ceded more control over vehicle development to those areas (though often short-sighted Americans are still too involved), so the number of jobs tied to overseas production—which has always been primarily white collar—is decreasing. But a lot of the design and branding of US vehicles is still done in either the US or western Europe.

So understand: while retaining US auto companies are important for sustaining a union-built manufacturing tradition in this country, so long as the US auto companies are competing against companies that have much lower legacy costs, and so long as US car companies lose market share here in the US, those union jobs will continue to disappear over time. The US auto companies are paradoxically healthier overseas (though they need to build more efficient cars to stay that way), but that supports primarily white collar workers here in the US, to the extent it does.

Should We Be Subsidizing Cars—or Human Transportation?

There's one more question we should answer before we bail out the auto industry, though. Should we have the government invest in sustaining car manufacture in this country, or innovative and energy efficient human transportation?

Thus far, the US car companies have pitched their bailouts in two forms, primarily. The \$25 billion in loans Congress has already provided is targeted to retooling plants to build more efficient cars.

■ The loan program was approved as part of

a 2007 energy bill requiring vehicles to have an average fuel economy of 35 miles a gallon by 2020 – a 40% increase over the previous standard.

Auto makers and parts suppliers will use the loans to retool aging auto plants to make hybrids and other fuel-efficient vehicles.

The loans are expected to principally benefit Detroit's Big Three auto makers – General Motors Corp., Ford Motor Co. and Chrysler LLC – who are struggling and stand to save hundreds of millions of dollars by borrowing at below-market interest rates.

This money—which right now will take up to 18 months to get in the hands of the auto makers (which will be way too late)—will almost certainly be tweaked during the lame duck session. But it is still, ostensibly at least, supposed to help auto makers become more competitive by helping them build more efficient cars.

Similarly, Obama has talked about larger sums to help the US auto industry develop battery technology and other efficiencies (he will face real opposition in targeting this just to US manufacturers, though). These two forms of bailout are about making the US manufacturers more competitive and making sure the US remains competitive in technologies that will have a long-term impact on both nation-wide competitiveness and Obama's hoped energy-based growth.

Since the financial meltdown, the US manufacturers (particularly GM) are looking for a way to get money to bridge them through the period when tight credit dooms their business, as well as to have their finance arms (Ford Credit and GMAC—the latter of which has been partly spun off) to tap into easy credit made available to banks. In other words, they're

looking for the same support from the government to keep their credit-driven businesses flowing. Thus far, they've been unsuccessful making the argument they should be treated by banks, but one proximate cause of the imminent collapse of GM, at least, is the same credit crunch that is hurting the banks in this country.

Now, the efficiency-based support makes some sense—after all, investing in leading technology in the auto industry closely parallels investments in alternative energy. But I wonder whether we're thinking of transportation in the right light. Americans dramatically decreased their driving miles when the price of gas skyrocketed this summer. The question is how? Did they commute more? Take public transportation? Cycle or walk places? While I think there is some argument for salvaging the US auto industry (and many people disagree), I think we need to pay just as much attention to the production of alternative paradigms for human transportation.

Disclosure: I spent five years doing consulting to one of the US auto companies, working primarily in Asia and dealers in the US. mr. emptywheel works for a non-US owned auto supplier. And I don't drive an American car, having fallen in love with the Honda Fit while studying its competitors built in Europe.