Detroit Should be Allowed to Fail

Since 1970 General Motors, Chrysler and Ford have been on a decline, losing market share to foreign manufacturers. In 1970 the three domestic manufacturers had 86% of the market. In 2007 that percentage was down to 51.5% and falling. Today Japan alone controls 27.9 percent of the lucrative U.S. auto market.

For Chrysler, Ford, and GM, this shrinking market share plus the recent rise in fuel costs has been the straw that broke the camel's back. If they sell fewer cars, their employee health care and pension costs-now billions of dollars annually-have to come from fewer vehicles increasing the per-vehicle cost.

GM sells their small high mileage cars at a loss in the U.S., but must continue selling them to maintain the government Corporate Average Fuel Economy (CAFE) standards or face stiff penalties. GM does manufactures small fuel efficient cars at a profit in Europe but these cannot be counted in the CAFÉ pool if imported to the U.S.

Detroit was just about able to keep their heads above water, up until the rise in fuel cost, by selling large vehicles and trucks at a profit. Unfortunately the low reliability, poor styling and non state of the art vehicles of the 90's have had a negative impact on their image and thus sales.

To counteract this, GM is promoting their new plug in hybrid as an indication of their commitment to the future and state of the art technology, providing the American people with advanced high energy efficient transportation for the 21st century. Unfortunately, even at $40,000, GM can not manufacture the cars in the United Sates at a profit under the present labor contracts. Ford and Chrysler are following with their own hybrids.

The recent drop in fuel prices might give Detroit some temporary relief but in the long run they are destined to fail without a complete restructuring of the companies.

Bad management decisions compounded by a labor union struggling to preserve its high wages and benefits have resulted in vehicles that the American people are not willing to buy unless heavily discounted. No matter how much money the Federal Government dumps into Detroit, unless the companies are allowed to restructure to reduce their legacy and labor costs to bring them inline with the competition, they are destined to fail.

Under the present political restructuring ground rules, both the CAFÉ standards and the 1935 Wagner Act will still hamper any attempt to profitability. Only a bankruptcy judge will have the flexibility to change labor and other contracts that have led the companies to their present predicament.

A political restructuring, where Congress dictates what cars Detroit builds, will result in the total nationalization of the domestic car industry and its ultimate failure at an enormous cost to the people.