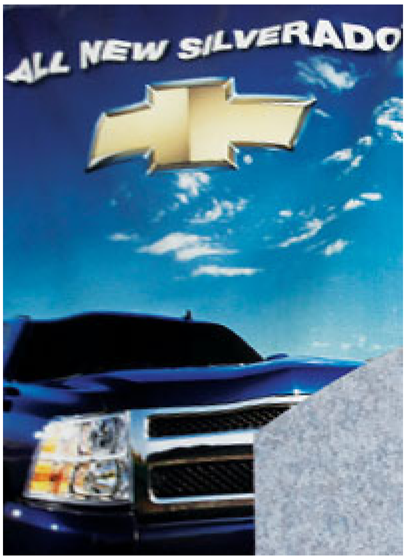
Driving Us to Destruction



"Ardent capitalists," says Gross, should not "be so angry and fearful." Unions "will have to start thinking like owners," and they now will "really need GM and Chrysler to do well."

Item: *An Oxford Analytica piece, entitled "U.S. Automakers Tackle Fuel Efficiency" and posted on Forbes.com on June 16, reported: "General Motors, Chrysler and Ford … recently acquiesced to a long-resisted strengthening of Federal Corporate Average Fuel Economy (CAFE) standards. The efficiency laws will increase pressure on the automotive sector — already in crisis due to the economic downturn — to shift toward smaller, lighter cars. In the longer term, they may support a shift toward electrification with hybrid and plug-in hybrid cars, but broader policy action will be required."*

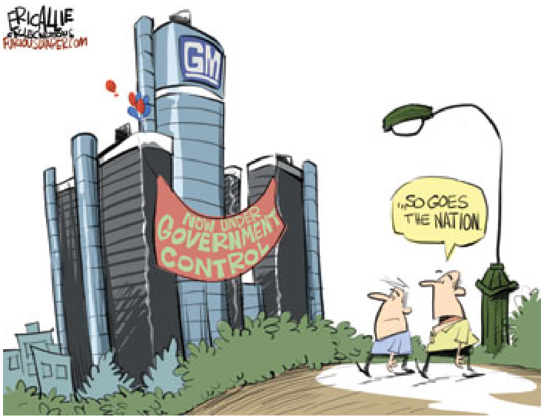
Item: *The* Washington Post *for June 19 reported: "The Senate approved a $1 billion program yesterday to give vouchers to consumers who trade in their gas-guzzling clunkers for more fuel-efficient models — a move that dealers hope will revive slumping auto sales. Congressional leaders attached the legislation to a $106 billion spending bill to fund troops in Iraq and Afghanistan."*

The Post *continued: "Dealers, unions, trade groups and automakers have been lobbying for months for the legislation in hopes that it would stop the streak of dismal U.S. auto sales…. President Obama has repeatedly encouraged Congress to pass a so-called cash-for-clunkers bill."*

Correction: Remember when GM was supposed to be "too big to fail"? Well, despite billions in federal bailout funding, it did just that. So now the feds have grabbed the wheel. Tightly.

The administration has effectively nationalized two of the largest auto companies while throwing out the window long-established bankruptcy principles to reward its labor-union cronies; demanded that firms ramp up production of the smaller, more dangerous cars that enchant environmentalists; and initiated an astonishing program to bribe consumers, with their own tax dollars, into destroying older functioning autos in the hope that they will buy new Obamacars.

Of course, it wasn't really the size of the shaky U.S. auto companies that demanded a rescue. General Motors had fewer than 300,000 employees; Wal-Mart has about 1.2 million. Does anybody really think that a troubled Wal-Mart and its non-UAW employees would get the same favored treatment?



Toyota and Honda, without UAW baggage, have been able to operate profitably in the United States. Indeed, GM already built a smaller, more fuel-efficient car; the Opel is produced in Europe, but not, as the *Boston Herald* has noted, with UAW workers. Under the terms of the "restructuring agreement the Opel division will be sold," and the "new owners of that division as a condition of the sale will have to agree not to sell in the U.S." This is what happens when a 31-year-old White House economic staffer (one Brian Deese) is in charge of "dismantling General Motors and rewriting the rules of American capitalism," says an enthused *New York Times*.

Justice and consumer demand now take the back seat. Consider how GM and Chrysler were grabbed and their bondholders bullied. As Congressman Ron Paul (R-Texas) has explained: "Political pressure, rather than the rule of law, is deciding how to divide up the remains of GM. The bondholders had billions in retirement savings invested in the company, and though they were entitled to nearly three times as much as the United Auto Workers, the bondholders were left with just a 10 percent stake compared to the union's 17.5 percent stake. For their 60 percent stake, taxpayers have a future of constant bailouts to look forward to."

With Chrysler, it was more of the same. President Obama, commented the *Washington Examiner*,

> made the proverbial offer Chrysler's secured creditors couldn't refuse. The way Obama strong-armed creditors who rightfully expected to be treated justly under the law was right out of Juan Peron's playbook. Like the Argentinian strong man, Obama muscled the owners and creditors out of a productive private company and gave it to union leaders, who will then fill his campaign coffers in gratitude for his generosity.

If enough consumers want fuel-efficient cars and the government stays out of the way, auto companies would tend to meet that demand. However, in today's Washington, things are different: politicians and bureaucrats make the demands, whether unreasonable or not, and industry is supposed to supply, whether profitable or not.

The Nanny State usually tries to protect us from our decisions. Yet, when it comes to car size, safety gets trumped by the green lobby, as has been well documented by Sam Kazman of the Competitive Enterprise Institute. Even in single-car crashes, according to the Insurance Institute for Highway Safety, passengers in minicars suffer three times as many deaths as those in large cars.

That, as Kazman writes, is not what advocates of fuel-economy standards want to hear. "Greater weight may increase crashworthiness, but it also decreases miles per gallon, so there's an inevitable trade-off between safety and efficiency. A 2002 National Research Council study found that the federal Corporate Average Fuel Economy (CAFE) standards contributed to about 2,000 deaths per year through their restrictions on car size and weight."

Washington decided that's not enough. Driving, says Kazman, "is going to get even more lethal over the next decade: CAFE standards will be raised to a 35 mpg combined average for cars and light trucks."

All of this government meddling is rationalized by people who chant the refrain "greed got 'em." They insist that corporate executives were only concerned with padding their own wallets. But the free market didn't fail the domestic auto industry; it was largely circumvented and corrupted. Dr. Mark Henderson, an economist at Grove City College's Center for Vision & Values, has pointed out that "earlier government interventions doomed those companies [GM and Chrysler]. Labor laws and fuel-economy mandates weakened them for years. The current deep recession that polished them off was due to the boom/bust cycle generated by the central bank and exacerbated by government meddling in the housing market, incompetent regulation, and Uncle Sam's too-close relationship with Big Finance."

When market decisions are made by politicians, you get such New Deal brainstorms as the slaughter of millions of baby pigs before they reach full size in order to raise the price of pork. The *New* New Deal version of this inanity is the move to spur new car sales by destroying old ones, with Uncle Sam trading you a $4,500 voucher for your so-called clunker. (Some folks, including those in the car-parts business, have noticed this will also hit them in the wallet. Moreover, when there are fewer used cars for sale, the prices of both new and used cars will rise. Thanks, Uncle Sam.)

While Washington buys votes, you get pressed to purchase environmentally correct autos. The cars turned in for destruction, noted the *Wall Street Journal*,

> would have to get less than 18 miles per gallon, be drivable, and insured to the owner for at least a year.
>
> That last provision is presumably intended to deter political arbitrageurs from raiding used-car lots for trade-in wrecks. But as economic policy, this is still dotty. It encourages Americans to needlessly destroy still useful cars and then misallocates scarce resources from other, perhaps more productive, uses in order to subsidize replacements. By the same logic, we could revive the housing market by paying everyone to burn down their houses to collect the insurance money and build new ones.

Don't give these Washington wizards any new ideas. They're already driving us to more than enough ruin with their current schemes.