GM’s Bankruptcy

Since the beginning of the decade, the company whose fortunes were once proclaimed to foreshadow those of the nation as a whole saw share values plummet from around $70 to 70 cents. As part of the June 1 bankruptcy, GM announced plans to shutter or idle 12 of its plants, laying off tens of thousands of workers in the process. Many of its marquee brands, including Pontiac and Saturn, would be sold off or discontinued, and shareholders wiped out.

The U.S. government, with a new cash infusion of $30 billion on top of $20 billion already showered on GM, will now have an ownership stake of 60 percent. Our fine neighbors to the north got into the act, too. Under the terms of GM’s bankruptcy, the Canadian government is contributing $9.5 billion in exchange for a 12.5 percent stake in the company.

Despite the foolishly optimistic vaporings of President Obama and other politicos thrilled at the prospect of Washington running an automobile company (“A new beginning … a rebirth … a new General Motors,” Senator Carl Levin of Michigan called it), the corporation that has now been nationalized will never be more than a pale shadow of the former icon of American industry. Nationalization, the president is now assuring us, will be only a temporary measure; but in politics, alas, “temporary” is usually reckoned in trans-generational terms. Most of the “temporary” emergency measures of the Great Depression are still with us in one form or another. “Temporary” military deployments overseas — in South Korea and in the former Yugoslavia, for example — are now part of the status quo.

Unfortunately for General Motors, liberal Washington insiders who have tried for decades to destroy the automobile industry by foisting cumbrous environmental and safety regulations on GM and its two major competitors are unlikely to see the seizure of the world’s second-largest auto manufacturer as anything other than a golden opportunity to remake the auto industry in their own image. New fuel efficiency and emissions standards already announced by the Obama administration to be phased in by 2016 will be foisted — along with sundry other environment and safety-related conceits — on GM’s federal government-managed product line. Because taxpayer dollars, not consumer choice, will henceforth drive decision making at GM, cost, efficiency, and other hallmarks of industry competitiveness will no longer be an issue.

GM’s Economic Travels

How has General Motors come to such a pass? While questionable executive judgment certainly played a role, the federal government — with its regulatory burdens and other economic distortions, as well as its support for coercive union demands — has also been a major contributor (as GM spokesmen have correctly pointed out from time to time). There was, for example, the 1990 capitulation to UAW in which GM agreed to pay workers even when plants were idle. This was just one of a myriad indignities GM has been forced to endure at the hands of a UAW empowered and emboldened by the National Labor Relations Act of 1935 that made it illegal for companies to get rid of unions. That GM has managed to survive for so long, all the while having to pay thousands of employees for not working, fund expensive employee healthcare packages mandated by the union that cost an estimated $1,600 dollars per car manufactured, and finance lavish pensions that drove the corporation billions of dollars into the red before the recession even got started, is little short of a miracle.

Besides unending union woes, there were also the endless federal impositions in the name of cleaner emissions and consumer safety, which added thousands of dollars to the cost of production for a single car.

And then there was the Federal Reserve-engineered economic boom, which encouraged demand for massive gas-guzzling SUVs like the Hummer (one brand to be jettisoned under the terms of GM's Chapter 11). During the flush times that paralleled years of loose-money policies emanating from the Fed, the stock and real estate markets boomed, allowing Americans to drive bigger and far more expensive cars than would have been the case under saner economic conditions. During the nineties and the early years of the present decade, Americans' appetite for the likes of the Hummer (whose H2 model weighs more than three tons and gets about 10 mpg) and other SUVs seemed insatiable. Who can fault GM for trying to satisfy consumers' demands?

When the bottom fell out of the market and fuel prices skyrocketed, smaller, more fuel-efficient vehicles became the order of the day, and GM was left with a huge overstock of unsold (and unsellable) vehicles.

General Motors' demise falls little over a century after its founding by William C. Durrant in September 1908, in Flint, Michigan. The man who later propelled GM to greatness, Alfred P. Sloan, was appointed president of GM in 1923. GM was Wall Street's most coveted stock during the Roaring Twenties, in large measure because of Sloan's vigorous, innovative leadership. He pioneered the notion of annual automotive styling changes — the year-by-year model system we all take for granted nowadays. He established a pricing structure whereby different models would appeal to different income levels and not compete against each other. As a result of such innovations, GM surpassed Ford by the early 1930s and became the largest single manufacturing enterprise the world had ever seen. Small wonder that the saying was popularized to the effect that "as GM goes, so goes the nation." For decades, the fortunes of GM mirrored those of the country at large. During the Second World War, when the entire nation was mobilized, GM's manufacturing assets were diverted to the production of military vehicles. During the optimistic '50s and '60s, GM offered family sedans like the Oldsmobile and the Buick for middle-class households everywhere; luxury cars like the Cadillac that became synonymous with success; and sports and muscle cars, like the Pontiac GTO and the ageless Corvette, for speed and power enthusiasts of all ages.

GM's fortunes began a slow decline in the '70s and '80s with the rise of federal environmental and safety regulations. Gone were the muscle cars, deemed by federal bureaucratic scolds not to be fuel-efficient or safe enough. So too with supersized sedans — so-called "boats" — as Americans, in the throes of the fuel and economic crises of the '70s, allowed themselves to be persuaded that large "gas-guzzlers" were somehow sinful. As regulatory overhead rose, automobile manufacturers, seeking to cut costs, gave up many of the ornamental features that made pre-'70s cars things of beauty. Tail fins, chrome, hood ornaments, running boards — all were abandoned in favor of boxy, more utilitarian designs that government-imposed increases in design and manufacture costs made necessary. In a very real sense, today's automobiles — bland and utilitarian to a fault in comparison with their glitzy ancestors of decades past — are a product of government intervention, the automotive equivalent of the uniform, orange-crate architecture typical of government housing projects.

The Road to Come

But much worse is to come, if the fruits of government-run automobile manufacturing abroad are any indication. The rare individual in the former Soviet Union who could procure a sputtering, bucket-of-bolts, government-made Lada found himself little better off than bicyclists and pedestrians. Several generations of Indians under the socialist regime inspired by Nehru and sustained by the Congress Party's decades of political dominance knew nothing better than the clunky Ambassador, the ultimate "lead sled" that offered little more to motorists in Delhi and Bombay than intermittent refuge from the superheated tropical air.

Those countries had no free-market auto industry to begin with, of course. General Motors, or what is left of it, still enjoys the advantages of a considerable brain trust and manufacturing capacity that should allow its autos to continue rolling off assembly lines, at least in the short run.

In the longer run, however, nationalization will destroy the enfeebled remnants of GM as surely as it did the many railroad corporations that FDR nationalized during the Great Depression. Slowly but surely, GM will be coerced into producing not what the market demands but what FedGov know-it-alls think the market should demand. Want a hybrid, an electric car, or an econobox that gets 70 miles to the gallon? Even if you don't, the feds are going to try to force you to own one.

In the meantime, the rest of the world will move on, and consumers will gravitate toward whichever foreign automakers are willing to produce cars that people actually want to drive. The Japanese, South Koreans, and Germans continue to produce excellent, reliable vehicles for mass consumers. In a particularly delicious twist of irony, India, of all places, is now discovering market capitalism and has begun producing cars that people can actually afford without a five-year installment plan. Indian automaker Tata has introduced the Nano, a subcompact costing $2,500, or less than one-tenth of the average cost of a new car in the United States. Despite the Nano's fuel efficiency — it reputedly gets 50 miles to the gallon — American opinion molders were quick to condemn the Nano and predict that, because of regulatory issues, such a vehicle could never be sold in the United States.

While it is too soon to write the epitaph for the United States auto industry as a whole — Ford, the lone survivor of the fabled Big Three, continues to limp along, for the moment — the rest of the world and the United States seem to be headed in opposite directions where the automotive sector is concerned. With even the likes of socialist Sweden declining to bail out its own beleaguered automaker Saab, the United States is looking increasingly anachronistic with its New Deal-esque attempts to regiment the auto industry back into prosperity.

But will the United States as a whole continue to track GM's fortunes? The stock markets, which had already discounted GM's failure, rose sharply on June 1 in response to mildly positive data from the manufacturing sector, but whether other shoes remain to fall has yet to be seen. Though we can hope that the bankruptcy of GM does not prefigure national insolvency, cold, hard figures, including the stratospheric national debt, trillion-dollar deficits, and the likelihood of severe inflationary price increases, suggest that GM's high-profile collapse may not be the last.

— Photo: AP Images