

## How Detroit's Automakers Went From Kings Of The Road To Roadkill

The following is adapted from a speech delivered by Joseph B. White, senior editor in the Washington, D.C., bureau of The Wall Street Journal, at Hillsdale College on January 26, 2009, at a seminar on the topic, "Cars and Trucks, Markets and Governments," co-sponsored by the Center for Constructive Alternatives and the Ludwig von Mises Lecture Series.

"I'D LIKE to start by congratulating all of you. You are all now in the auto business, the Sport of Kings - or in our case, presidents and members of Congress. Without your support - and I assume that most of you are fortunate enough to pay taxes - General Motors and Chrysler would very likely be getting measured by the undertakers of the bankruptcy courts. But make no mistake. What has happened to GM is essentially bankruptcy by other means, and that is an extraordinary event in the political and economic history of our country.

GM is an institution that survived in its early years the kind of management turbulence we've come to associate with particularly chaotic Internet startups. But with Alfred P. Sloan in charge, GM settled down to become the very model of the modern corporation. It navigated through the Great Depression, and negotiated the transition from producing tanks and other military materiel during World War II to peacetime production of cars and trucks. It was global before global was cool, as its current chairman used to say. By the mid-1950s the company was the symbol of American industrial power - the largest industrial corporation in the world. It owned more than half the U.S. market. It set the trends in styling and technology, and even when it did not it was such a fast and effective follower that it could fairly easily hold its competitors in their places. And it held the distinction as the world's largest automaker until just a year or so ago.

How does a juggernaut like this

become the basket case that we see before us today? I will oversimplify matters and touch on five factors that contributed to the current crisis - a crisis that has been more than 30 years in the making.

First, Detroit underestimated the competition - in more ways than one.

Second, GM mismanaged its relationship with the United Auto Workers, and the UAW in its turn did nothing to encourage GM (or Ford or Chrysler) to defuse the demographic time bomb that has now blown up their collective future.

Third, GM, Ford, and Chrysler handled failure better than success. When they made money, they tended to squander it on ill-conceived diversification schemes. It was when they were in trouble that they often did their most innovative work - the first minivans at Chrysler, the first Ford Taurus, and more recently the Chevy Volt were ideas born out of crisis.

Fourth, GM (and Ford and Chrysler) relied too heavily on a few, gas-hungry truck and SUV lines for all their profits-plus the money they needed to cover losses on many of their car lines. They did this for a good reason: When gas was cheap, big gas-guzzling trucks were exactly what their customers wanted - until they were not.

Fifth, GM refused to accept that to survive it could not remain what it was in the 1950s and 1960s - with multiple brands and a dominant market share. Instead, it used short-term strategies such as zero percent financing to avoid reckoning with the consequences of globalization and its own mistakes.

\*Competition from Overseas\*

In hindsight, it's apparent that the gas shocks of the 1970s hit Detroit at a time when they were particularly vulnerable. They were a decadent empire - Rome in the reign of Nero. The pinnacles of the Detroit art were crudely engineered muscle cars. The mainstream products were large,

V8-powered, rear-wheel-drive sedans and station wagons. The Detroit marketing and engineering machinery didn't comprehend the appeal of cars like the Volkswagen Beetle or the Datsun 240Z.

But it took the spike in gas prices and the economic disruptions it caused - to really open the door for the Japanese automakers.

Remember, Toyota and Honda were relative pipsqueaks in those days. They did not have much more going for them in the American market prior to the first Arab oil embargo than Chinese automakers have today, or Korean automakers did 15 years ago. The oil shocks, however, convinced a huge and influential cohort of American consumers to give fuel-efficient Japanese cars a try. Equally important, the oil shocks persuaded some of the most aggressive of America's car dealers to try them.

The Detroit automakers believed the Japanese could be stopped by import quotas. They initially dismissed reports about the high quality of Japanese cars. They later assumed the Japanese could never replicate their low-cost manufacturing systems in America. Plus they believed initially that the low production cost of Japanese cars was the result of automation and unfair trading practices. (Undoubtedly, the cheap yen was a big help.) In any case, they figured that the Japanese would be stuck in a niche of small, economy cars and that the damage could be contained as customers grew out of their small car phase of life.

They were wrong on all counts.

There were Cassandras - plenty of them. At GM, an executive named Alex Mair gave detailed presentations on why Japanese cars were superior to GM's - lighter, more fuel efficient, and less costly to build. He set up a war room at GM's technical center with displays showing how Honda devised low-cost, high-quality engine parts, and how Japanese automakers designed factories that

were roughly half the size of a GM plant but produced the same number of vehicles.

Mair would hold up a connecting rod - the piece of metal in an engine that connects the piston to the crankshaft. The one made by GM was bulky and crudely shaped with big tabs on the ends. Workers assembling the engines would grind down those tabs so that the weight of the piston and rod assembly would be balanced. By contrast, the connecting rod made by Honda was smaller, thinner, and almost like a piece of sculpture. It didn't have ugly tabs on the end, because it was designed to be properly balanced right out of the forge. Mair's point was simple: If you pay careful attention to designing an elegant, lightweight connecting rod, then the engine will be lighter and quieter, the car around the engine can be more efficient, the brakes will have less mass to stop, and the engine will feel more responsive because it has less weight to move.

Another person who warned GM early on about the nature of the Japanese challenge was Jim Harbour. In the early 1980s, he took it into his head to try to tell GM's executives just how much more efficient Japanese factories really were, measured by hours of labor per car produced. The productivity gap was startling - the Japanese plants were about twice as efficient. GM's president at the time responded by barring Jim Harbour from company property.

By the late 1980s, GM's chairman, Roger Smith, had figured out that his company had something to learn from the Japanese. He just didn't know what it was. He poured billions into new, heavily automated U.S. factories - including an effort to build an experimental "lights out" factory that had almost no hourly workers. He entered a joint venture with Toyota to reopen an old GM factory in California, called New

United Motor Manufacturing, Inc., or NUMMI. The idea was that GM managers could go to NUMMI to see up close what the "secret" of Toyota's assembly system was. Smith also launched what he promoted as an entirely new car company, Saturn, which was meant to pioneer both a more cooperative relationship with UAW workers and a new way of selling cars.

None of these was a bad idea. But GM took too long to learn the lessons from these experiments - good or bad. The automation strategy fell on its face because the robots didn't work properly, and the cars they built struck many consumers as blandly styled and of poor quality. NUMMI did give GM managers valuable information about Toyota's manufacturing and management system, which a team of MIT researchers would later call "lean production." But too many of the GM managers who gained knowledge from NUMMI were unable to make an impact on GM's core North American business.

Why? I believe it was because the UAW and GM middle managers quite understandably focused on the fact that Toyota's production system required only about half the workers GM had at a typical factory at the time. That was an equation the union wouldn't accept. The UAW demanded that GM keep paying workers displaced by new technology or other shifts in production strategy, which led to the creation of what became known as the Jobs Bank. That program discouraged GM from closing factories and encouraged efforts to sustain high levels of production even when demand fell.

\*GM and the UAW\*

This brings me to the relationship between Detroit management and the UAW.

It is likely that if no Japanese or European manufacturers had built plants in the U.S. - in other words, if

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