VIEWPOINT

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How to Save Detroit

By David Littmann

Summary

Domestic automobile producers should work with Washington to change corporate income taxes, shed onerous environmental regulations and pursue sound energy policy, rather than plead for taxpayer bailouts.

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What a sad spectacle! There on the witness stands in Congress sat the CEOs of GM, Ford and Chrysler, soliciting taxpayer money to avert their own bankruptcy. Their pleadings spoke of urgency for their firms and, if unheeded, catastrophe for the U.S. economy.

But are Detroit's automakers worthy of an expropriation of general taxpayer dollars to finance their operations? The arguments they presented were largely distractions from automotive reality. Some impartial observers viewed the CEOs' testimonies as once-proud firms, noted for innovation and enviable business spirit, now transformed into "political entrepreneurship."

For more than half a century, Detroit's automakers have taken their eyes off the ball. During the late 1940s and early 1950s, when unions began picking off automakers individually as "strike targets" in a "pattern-bargaining" strategy aimed at leapfrogging compensation packages, Detroit's executives and directors failed to effectively challenge the asymmetry of the 1935 Wagner Act and other perverse legislation that tilted power toward organized labor.

During the 1960s and 1970s, when Japan's resurgent economy spawned resourceful, dedicated automotive competitors, Detroit's automakers largely ignored the technology that would have endowed their own products and services with a reputation for "better-faster-cheaper (more affordable)."

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In the 1980s and 1990s, when the self-anointed "environmentalist" and "politically correct" movements were in their ascendancy, Detroit's automakers, despite a persistent bleed of market share to foreign automakers, claimed political virtue as "corporate citizens" by appointing many directors to their boards who offered community awareness but few engineering, financing or executive skills.

Even in the current decade, we have seen the unthinkable — union work stoppages aimed at hobbling one of Detroit's automakers in order to extract yet greater guarantees of benefits and unemployment pay from all three companies.

You reap what you sow. The consumer is the ultimate king. Consumers vote their hard-earned dollars in favor of producers and service providers, just as they cast preference votes for candidates to political office.

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Thus, rather than petitioning Washington to be a tax agent for Detroit's account, it behooves auto execs to make their strongest case for lower corporate income taxes, less onerous corporate average fuel economy and environmental regulations, and an all-out effort to bring U.S. oil, natural gas and nuclear power to the market. Promoting these economic policies would enhance the U.S. economy at large as well as Detroit's prospects. Let's examine each one.

First, Detroit auto execs are in a strong position to advocate lower corporate income tax rates. Far from being self-serving, reducing America's corporate income tax rates from second highest on Earth (39 percent) to levels competitive with the European Union (26 percent) or Ireland (12 percent) would confer a national multiplier effect on job creation, productivity and the supply of re-investible capital.

Failure to advocate fundamental long-term reforms of labor, tax, environmental, CAFE and energy policies still leaves the default option of Chapter 11 bankruptcy proceedings.

Second, advocating moratoria and phase-outs of counterproductive CAFE and environmental regulations would begin the process of liberating scarce financial and labor resources to meet customer demand for vehicle quality, styling, servicing and price.

Third, Detroit's automakers must urge Washington to allow more aggressive pursuit of conventional, domestic energy. Search, retrieval, refining, transport and storage operations are compatible with America's traditional technological and economic leadership. Realizing our vast domestic energy output potential would propel all U.S. industries. After all, low-cost energy inputs are key to our comparative trade advantages. As we now know, falling energy prices also expand consumer discretionary income, the lynchpin of profitable auto sales.

Failure to advocate fundamental long-term reforms of labor, tax, environmental, CAFE and energy policies still leaves the default option of Chapter 11 bankruptcy proceedings. In many respects, this would be an ironic outcome for many suppliers to Detroit's automakers. After years of resourceful cost cutting and state-of-the-art innovation, many U.S. suppliers are globally competitive. With their assistance, the automakers themselves might salvage promising parts of their operations, here and abroad, and better confront global and domestic realities.

Complacency afflicts everyone, regardless of wealth or geography, in every realm and human endeavor. When Detroit goes to Washington, its executives must understand that they are dealing with politicians whose lives are determined in a largely "zero-sum" political world (i.e., someone wins and someone loses).

The economic world is a much more positive reality. Workers and firms who are eternally vigilant for the shifting demands of the marketplace are rewarded with expanded income, benefits and job opportunities. More dollars are voted their way. In other words, when sound economic principles are followed, the economy flourishes and we're all winners.

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