# Road Blocks

Can Detroit's Big Three survive and thrive in a climate of rising regulations, runaway litigation, and high taxation? **BY GARY WITZENBURG**

With the economy at the center of this year's elections, we are again hearing from both sides regarding the value of the General Motors and Chrysler "bailouts" of 2009. Democrats rightly claim credit (although it began under George W. Bush) for saving the U.S. auto industry and thousands of jobs. Republicans correctly counter that the government did it all wrong (stiffing private investors, destroying hundreds of dealer businesses, and handing control of Chrysler over to Italy's Fiat) and for the wrong reason (to save the UAW).

"Let them fail. That's how capitalism works," conservatives crowed at the time — and they're still saying that today. But there was no private capital in late 2008 for business loans or bankruptcies, so federal support was the last resort. And the reason Ford Motor Co. had sufficient capital to weather the crisis was that it ran out of money two years earlier, when the automaker could still mortgage itself for working capital.

At the time, there was no end to the political rhetoric about creating new jobs, yet there was little to no knowledgeable discussion about how to save thousands of auto (and auto-industry-dependent) jobs. What few outside the business — including financial gurus and media pundits — seem to understand is that this industry is a huge, fragile, interdependent house of cards.

If GM had failed, so would have most of its 3,690 (at the time) suppliers, beginning with 2,000 businesses in the United States that collectively operated 4,550 facilities in 46 states. And since most of those suppliers produced key components for other OEMs, the loss of GM would have cut off virtually all U.S. auto production, including transplants.

Vehicle assembly, powertrain, and parts plants nationwide would have shut down. The result would have been ghost towns full of out-of-work residents, not to mention owners and employees of the small businesses dependent on automotive income. U.S. auto dealers of all brands — with no new cars, credit, or creditworthy customers — would have dropped like flies. Without auto advertising, media of all types would have suffered greatly or gone out of business. The predicted initial loss of three million jobs would have been just the beginning. Can you say *disaster?*

Whatever your political bent, every American should be extremely grateful we still have a viable U.S. auto industry — one designing, developing, building, and selling the best products it has ever created. And, for the moment, the U.S. auto industry is making good money.

The question is, can Detroit's revitalization endure in the face of relentless high unemployment and economic uncertainty? Based on its current and soon-to-come highly competitive products, the industry will survive — at least for a while. After that, it depends on several factors.

General Motors was on a product roll well before its bankruptcy. Pre-Bob Lutz, there was little wrong with quality as defined by things not going wrong. Its primary problems were vehicle exteriors that were so bland and interiors that were so cheap, its products required big cash incentives to sell. As a result, the company failed to meet sales targets.

Lutz's lasting legacy lies in wresting design decisions away from vehicle-line executives and returning them to the designers, and then winning the battle with bean-counters to invest more money in interiors, powertrains, and elsewhere to make GM's products segment leaders — or at least fully competitive. Witness the popularity and profitability of most mainstream GM products today: Cruze, Malibu, Equinox, Silverado. And there's more good stuff to come.

Ford, too, has offered mostly outstanding products — Focus, Fusion, Escape, F-150 — with strong profitability, almost since CEO Alan Mulally arrived in 1996 and took out (risky) multibillion-dollar loans and invested in product development. But unlike its Detroit rivals, Ford still has to service that debt and it has had a tougher labor situation. The company also has a long way to go to revive its Lincoln luxury brand after selling Volvo, Jaguar, and Land Rover, and scuttling the Mercury division.

The biggest question is Chrysler, which is still a full-line U.S. automaker employing many thousands of Americans, but is now under full control of Italy's Fiat and its all-controlling CEO, Sergio Marchionne. Its designers and engineers have done a masterful job of redesigning and/or upgrading most of its products, especially the Chrysler 300/Dodge Charger full-size sedans, Jeep Grand Cherokee/Dodge Durango SUVs, and Jeep Wrangler off-roader. But the new Fiat 500 subcompact is struggling — the OEM badly needs new compact and mid-size entries — and its plan to kill one of two still-successful minivans is questionable.

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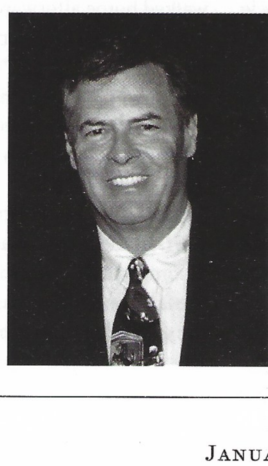
Longer term, so much depends on the next election. Will a new administration and Congress be business-friendly or, like the Obama White House, overtly hostile? Will the government continue to strangle businesses with high taxation, runaway litigation, and over-regulation? Will any full-line automaker be capable of meeting the corporate average fuel economy (CAFE) mandates, slated to increase by 4-plus percent annually through 2025, with products that are both affordable and profitable? Will the U.S. (and global) economies and private-sector employment recover from decades of irresponsible spending and crippling debt?

We'll hold our collective breath, and hope. **db**



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