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Editorial: Politicizing auto loan risks viability of Detroit Three

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A federal loan for the Detroit Three automakers remains the best way to help the industry survive. But as a new report by a Michigan economic analysis group makes clear, too many strings would do more harm than good.

The recent slump in sales in the North American market -- from 15 million vehicles a year to a rate of about 10.5 million cars and trucks in October -- has precipitated the automotive crisis, according to the Anderson Economic Group in East Lansing. The Senate and House hearings last week worsened the situation, the economic consulting organization said, with individual members of Congress complaining about executive use of planes, the lack of financial support for minority auto dealers and a purported lack of environmental friendliness, among other issues.

The auto executives certainly should have done a much better job making their case to the nation. Now, House and Senate leaders have asked General Motors Corp., Ford Motor Co. and Chrysler LLC to submit rescue plans by Dec. 2 with more hearings to follow.

If Congress doesn't approve a \$25 billion loan, one of the Big Three will be forced to file for bankruptcy, Anderson Economic Group founder Patrick Anderson said.

What the politicians want to see in those reports remains murky. Certainly, there should be taxpayer protections, including limitations on executive compensation. But the grab bag of other complaints voiced at last week's hearings could threaten the viability of the domestic automakers if they are injected into the automakers' plans.

"Any restructuring plan with a chance of success ... will require the elimination of many plants, brands and employees," the Anderson Economic Group said in a summary of its report. "Few of these will be considered politically acceptable to a Democratic-dominated Congress."

And if a federal loan comes with restrictions on the cuts and other restructuring the automakers can make, the assistance won't help tide over the automakers until the savings from their new labor contracts kick in during 2010. When asked Tuesday, Anderson said the automakers wouldn't be able to repay their loans if they had to do their reorganizing "under political goals."

Some of those goals were announced by President-elect Barack Obama at a Monday news conference, where he took another slap at the Detroit Three. While he said supporting the industry is critical, he repeated that the automakers have been "resistant to change."

Obama then added his vision for the automakers' plans: "... more importantly, are they describing for us an auto industry that is focused on retooling, understands that we're entering into a new energy economy that is going to be competitive globally? That's the kind of plan that the American people, I think, want to see."

House Speaker Nancy Pelosi, D-Calif., and other Democrats already have expressed their wish for more vehicles with greater fuel economy.

However, requiring the Detroit Three automakers to produce more fuel-efficient vehicles than they've already agreed to do may not pay off in the short run -- when it is critical that they reduce the amount of cash they are burning.

Sales of fuel-sipping vehicles soared when the price of gasoline skyrocketed to \$4 a gallon this summer, but the price has now plunged to about \$1.65 in Metro Detroit. If the automakers are forced to respond to the demands of politicians instead of consumers, their competitiveness is put at grave risk.

The stakes in the loan debate are high for Michigan and the nation. Anderson and the Center for Automotive Research's David Cole both see a bright future for restructured, slimmed-down Detroit automakers. But Congress would put that prospect in jeopardy if it tries to use the loan as a pretext to micromanage the Detroit Three.

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