

Who Is Responsible for the USA's Ailing Motor Corporations

It's fashionable lately to sling off at the bosses of North America's ailing auto industry, but the problems of the Big Three aren't necessarily caused by poor management. We reckon most of the blame is best sheeted home to previous US Governments and the American public.

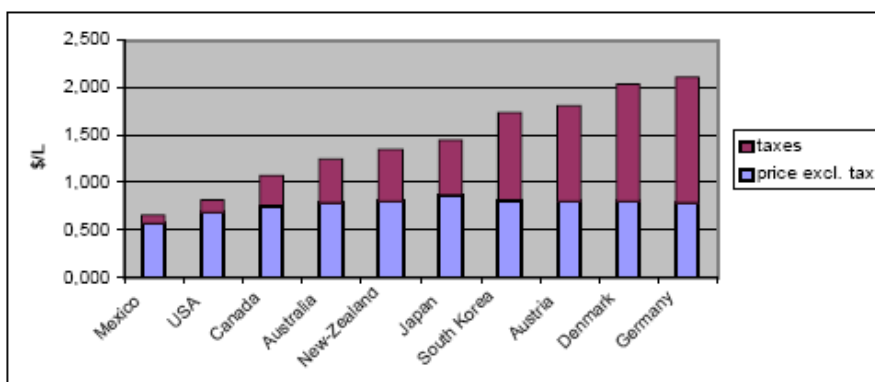


The US is the wealthiest nation on earth, with one of the world's worst Government-run health care and retirement systems. As a result, vehicle makers were forced to offer workers health and retirement schemes to attract them to Motown. That worked fine in prosperous times, but the debt burden caused by pension payments to sick and retired workers is now intolerable for at least two of the Big Three.

Another significant input is the relatively low price of petroleum-based fuels in North America, caused directly by low levels of fuel taxation. The accompanying graph shows 2008 global petrol pricing – the red sections are government taxes in different countries and the blue columns show that crude prices hardly vary around the world.

This cheap-fuel situation sent American engineering along the path of gas-guzzling cars and 4x4s that had very little global export potential. North American vehicles became progressively less exportable in the years after World War II. Bob Lutz, GM's vice chairman for global product development, is no dope.

Graph 1: Regular Unleaded Gas Prices (1st quarter 2008)



"The way you use less of something in the marketplace is raise the price," Lutz told journalists at the recent North American International Auto Show, in Detroit. "We have to recognize the fact that in the United States we have the cheapest fuel of any country in the world".

US interest in developing hybrid-electric and plug-in electric vehicles peaked earlier this year as petrol prices rose above \$4 a gallon in the US, but those prices have since fallen to below \$2 a gallon in the Detroit area. Sales of hybrids fell away more than 50 percent as a result.

In contrast, petrol in Europe generally costs between US\$6 and US\$9 a US gallon (four litres).

"No wonder Europeans, the Japanese and most other countries prefer small, fuel-efficient vehicles that get 40 miles per US gallon (6.2L/100km)," Bob Lutz said.

"At \$1.50 a gallon, the American public is not willing to pay for fuel-saving technology and at a certain point, those who make the rules are going to have to recognize that fact."

This is a clear request from one of the Big Three to the US Government to raise excise to global levels, thereby increasing demand for economical vehicles. Let's see how popular Obama remains if he tries that one!

The Big Three aren't inefficient, as the recent Harbour report showed, with claims that Chrysler matched Toyota US in productivity and that General Motors beat Nissan's US plants.

It's absurd to blame Ford for producing millions of F150s. Who made it the world's best-selling vehicle? The North American public, that's who. And the Yanks fuelled their V8 pickups with the world's cheapest fuel, given to them by whom? Successive US Governments.

It didn't have to be that way. As we know from testing turbo-diesel 4x4s, 'economical' doesn't necessarily mean 'tiny'.

Toyota Europe's chief executive, Tadashi Arashima, was quoted in the European press in early 2009 saying that the post-recession vehicle model mix will change and low CO₂ vehicles will be more important. However, he expects that next-generation vehicles will look much like today's, but with fundamental changes to the engine and driveline.