Ask Lee Iacocca: Who caused the deindustrialization of U.S. auto?

by Leif Johnson

Lee Iacocca is "Mr. Auto" to the post-World War II American automobile industry. He joined Ford Motors in August 1946, and on Nov. 10, 1960, the day JFK won the presidency, Iacocca became the head of the Ford Motors Division, the largest branch of the second largest industrial corporation in the world. For the next 30 years, the career of Lido Iacocca reflected, influenced, or led the corporate thinking of America's auto giants and their bankers.

Iacocca's career spans the period of the fundamental shift in the American auto industry from American-style production companies to British-style trading houses, involved in lending, marketing, speculative investments, and even, as in Iacocca's case, financing junk bonds for corporate takeovers having nothing to do with Chrysler or the auto and related industries.

The parameters of this changeover from a producing company to a trading company are basically the following:

1) There is a fundamental reversal in corporate philosophy. For a producing company, the integrity, modernization, and technological improvement of the productive apparatus is the primary concern of management. Costs are analyzed on the basis of quality of product and company-wide increase in efficiency of production. Since capital equipment costs are high, corporate planning extends a considerable distance into future years and corporate profits are extensively deployed to match future efficiency, quality, and production goals.

For the trading company, the concern of management is largely the opposite: any variety of investment of corporate assets is acceptable as long as the profit is maximized. Quick returns are sought rather than long-term planning for production. A trading company will use its productive capital base for short term financial gain rather than for productive capital investment.

2) The result of this process is to diversify even into companies having nothing to do with the automotive industry, to ignore lagging efficiency relative to competitors, to fail to seek new markets in related fields when, for example, the car market is saturated, to ignore quality standards, to seek wage reductions and other self-destructive measures when sales drop, and to attempt to increase profits by selling fewer units at higher markup.

3) As the company moves from producing to trading, it does not matter where or by whom the product is made. The trading company must buy low and sell high. The automobile industry began to "outsource," buying cheaper parts made by more efficient companies or by cheap labor, leaving only final assembly to be done "at home." In some cases today, the only thing the "American" company assembles is the name plate affixed to a car produced by another company.

4) The shift out of production was accompanied by an otherwise inexplicable complacency about U.S. government policies that were ruinous to American production, particularly that of auto. Which automaker denounced Henry Kissinger's 1973 oil hoax, and the 1970s' false hysteria about the world running out of oil? Did they protest the oil industry tax law changes that decimated U.S. oil discovery and production? Where was Lee Iacocca's mouth when that usurer, Paul Volcker, was put in charge of the Federal Reserve Board in 1979 and drove the prime interest rate up to 21% and collapsed the auto market? And where was Lee Iacocca when the Nixon government slapped a $1.2 trillion environmental bill on factories and products, which was proven to do little to improve public health?

Where were the great automakers when Reaganomic deregulation sucked billions, if not trillions, into junk bond ventures, leveraged buyouts and other quick-buck schemes and out of productive investment in America's industries? Did they not imagine that the declining incomes of the majority of America's population would bring on an ever-deepening sales decline? Where was their voice when the International Monetary Fund pauperized nations worldwide, destroying natural markets for American autos, trucks, transportation equipment and farm machinery?

The Big Three's predicament

Despite occasional feeble complaints, the Big Three automakers and their bankers were squarely behind the transformation of America from a great producing nation to a "post-industrial society." Today the automakers stand halfway between being producing companies and being trading houses selling what others produce. Their problem is, as their loud denunciations of the Japanese bear out, under present conditions they cannot turn back.

No American auto company, or merged combination, could develop the capital either internally or by private borrowing, to restore a competitive position against the more productive plants of Korea, Germany, or Japan. According to Kevin Kearns, an economist with the Economic Strategy Institute, Japanese workers have twice as many machine tools, robots and computers behind them as do American workers, and Japanese manufacturers outspend U.S. firms five to two on new plant and equipment.

Kearns draws the obvious conclusion: "American workers and American management are being asked to do the impossible—use worn-out tools and equipment to keep up with competitors who are constantly building new plants and introducing new equipment." What an irony. Those competitors learned their trade from the great U.S. industrialists like Henry Ford—but Lee Iacocca took over the Ford Motor Company.

Chrysler epitomizes the present predicament of American auto. Its $20 billion debt, held by Chrysler Capital, half of whose investments are not company related, has been downgraded by Moody's and by Standard and Poor's to "junk bond" status. It cannot borrow from the banks, and it cannot generate internal capital since it is losing significant sums (and Lee Iacocca, the management genius who led the company thus, is going to clean out his desk, pack away his name plate and retire this year).

Does America need an auto industry? Suppose the companies go all the way and become trading houses like Sears or Montgomery Ward, not only shipping jobs abroad but buying their products and parts from captive suppliers overseas, in Japan, Brazil, Korea, Mexico, Taiwan, or China. House Majority Leader Richard Gephardt (D-Mo.) and Sen. Donald Riegle (D-Mich.) introduced their "Trade Enhancement Act of 1992" to accomplish this. This bill would "rationalize" world auto production to reduce the "overproduction" of cars and trucks, shutting down the less productive factories. American factories would be a prime shutdown target, and General Motors, which just announced the attrition of 74,000 employees, appears headed in just that direction.

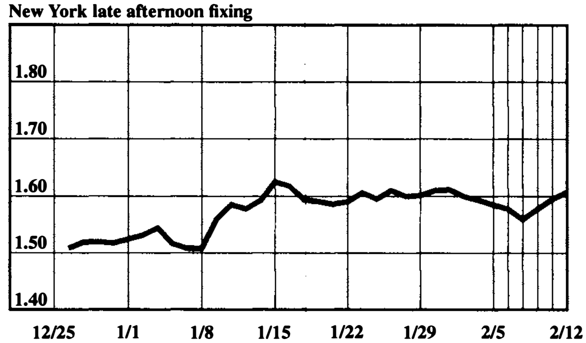
But if Americans want an auto industry—and other industries too—rather than a descent into Third World poverty, the federal government will have to issue billions of dollars in Treasury credits (not borrowed funds or tax money) to the industry on the proviso that they clean out their Iacoccas and find some Henry Fords. Think of the breakthroughs in new materials development alone from a new integrated U.S. auto/aerospace sector. Think of all the people in the newly liberated former Soviet territories, eastern Europe, and underdeveloped nations who desperately need high-quality American Motor vehicles, tractors, transportation equipment, earth-moving and forklift equipment.

The market is there; the Treasury could issue the low interest, long-term credit; but can we elect a Congress and a President to do the job?

Currency Rates

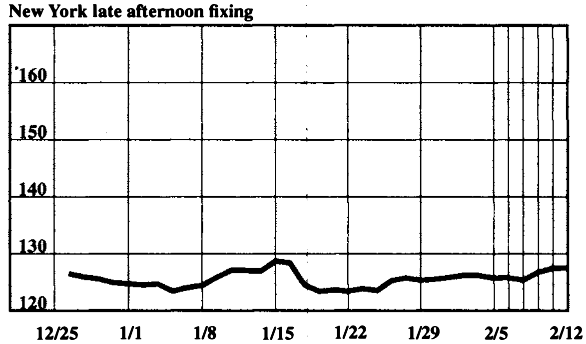
The dollar in deutschemarks

New York late afternoon fixing



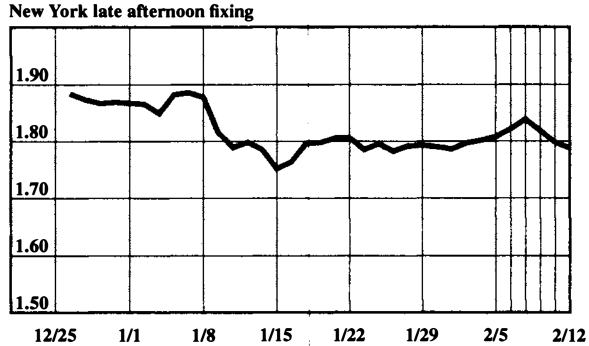
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing