

Auto Beat

Ten Things The Taxpayer Should Know About The U.S. Auto Industry Now That They Own It 12/19 17:48 -0500

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Ten Things The Taxpayer Should Know About The U.S. Auto Industry Now That They Own It

Posted by: David Kiley on December 19



As of the New Year, taxpayers will pretty much own General Motors, as well as Chrysler until that automaker is stripped or its assets flipped into GM. That's because the market value of the two companies is less than the total amount the government is lending them to stay afloat, and because taxpayers are getting stock warrants in the companies equal to 20% of the loans.

During the hearings for an auto bailout, there was plenty said about America's carmakers and the United Auto Workers. Some criticism was dead on, but much of it was either way off base or exaggerated. As is most often the case when rhetoric and politics rule the day, the truth really lies in nuance. Here's our Detroit team, David Kiley and David Welch, to sort out the fact from the hot air:

Detroit is not a lost cause

There was plenty of rhetoric on TV cable shows during the last several weeks saying that "nobody is buying Detroit's products now." This is not true at all. General Motors, Chrysler and Ford have around 45% of the U.S. auto market today. In a typical year, that's more than 8 million vehicles bought by Americans. Sixteen other companies make up the remaining market. The market share of GM, Chrysler and Ford is much lower in urban media centers like New York, Los Angeles and Washington DC than it is nationally. That may help account for why some TV anchors and pundits, most of whom live in those markets, characterize the Big Three as hopeless.

It's worth noting here that Ford is trying hard not to take the loans, and is hoping that it will emerge from 2009 as the company that did not need the tax-payer's help to stay afloat in the Recession. Good Luck.

Detroit has not been devoid of innovation on technology that boosts fuel economy

But it is the fault of the companies that they have that reputation. The Detroit-3 were slower to embrace gas-electric hybrid cars than Toyota and Honda. They did not believe the technology was a cost-effective way to address fuel economy. In truth, however, any company building electric cars or gas-electric hybrids today is going to run into patents held by

either Toyota or GM. That is due in part to GM's electric car development program—the EV1 electric car (made famous in the documentary film, "Who Killed The Electric Car?"). They now have hybrid technology. But the problem is that they are two generations behind Toyota, which has a decade head start on GM when it comes to dropping the cost of the new hardware.

GM actually pioneered hybrid technology for use in city buses. That technology has been leveraged for use in SUVs and trucks, such as the current Chevy Tahoe and Cadillac Escalade hybrids.

Today, when you compare the cars, trucks and SUVs Detroit sells against their direct competitors at Toyota and Nissan, the Detroit product is practically equal or in many cases surpasses the fuel economy of the Asian products. The Chevy Malibu, for example, achieves 22/32 mpg, while the Toyota Camry gets 21/31. The Malibu hybrid, though, gets about 33 mpg, according to drivers who answer surveys compiled by U.S. government, compared with 37 mpg for the Camry hybrid according to the same surveys. GM has put a hybrid powertrain into its big SUVs, while Toyota hasn't yet. The new Ford Fusion hybrid beats the government certified fuel economy of the Camry hybrid by 6 mpg.

Having said that, executives at GM and Chrysler (as well as

Nissan) said hybrids were a loser for years. All of the Big Three fought tougher fuel economy rules tooth and nail. And they plowed cash into new gas guzzlers while their passenger cars went years without a remake. It was a crime, for example, that GM sold the Chevy Cavalier and Pontiac Sunfire as long as they did into the new century. These cars, which competed against cars like Hyundai Elantra, Honda Civic and Toyota Corolla were rattly engineering fossils by the time GM stopped turning them out. So when consumers think efficiency, they think Toyota and Honda, not Ford or Chevy.

The Management In Detroit Is Not All Out To Lunch

GM CEO Rick Wagoner has caught alot of criticism. We won't argue for or against his ouster. It is true that he is a GM lifer, and has been at the helm for eight years. But at Ford, CEO Alan Mulally has been in the CEO chair for two years. He came from Boeing, and has accomplished more reform than his predecessors even attempted in the previous decade. At Chrysler, which likely won't survive as an independent company, CEO Bob Nardelli has been in the seat for 17 months during which time he has done nothing but cut, slash and fix. And as he came from Home Depot and GE, it's tough to call him a fixture of Detroit.

The UAW is taking too much of the blame and vitriol

The UAW has some responsibility for the state of the auto companies. But consider that after bonuses, Toyota workers

make \$30 an hour. That's \$1 more than UAW workers. Since Toyota mints money, it can't be hourly pay that is to blame.

It's the benefits. Most of the \$20 an hour cost difference is in retiree healthcare. UAW workers and retirees pay 5% to 10% of their medical costs. Nationwide, most workers pay closer to 30%. Plus, GM has 3 retirees for every worker. Those retiree costs are the reason Detroit hasn't been able to make real money on anything but suvs for a long time. But dealing with retirees is a national problem.

To address it, the Big Three agreed to give the UAW a huge slug of cash that the union can invest to set up a trust that manages retiree and employee healthcare. But before they could fund it, the economy took a dive and they all ran low on dough. The companies either need to cut benefits back to reduce the cost, or fund it with stock in the carmakers. The Treasury loan plan has them doing the latter. It could reduce their costs by billions of dollars a year.

Having said that, the UAW often makes concessions, but they come too late. In 2005 when GM and Ford were reeling after the fuel price spike that followed Hurricane Katrina, the UAW took months to decide to make healthcare concessions. By then it was too late. GM was en route to losing \$10.5 billion.

We sometimes get the feeling that the union doesn't care if the

automakers make any profit, so long as they generate enough cash to cover the enormous benefits they have won over the decades. That structure is coming to an end this year. These are companies that must make profit to reinvest in product, and to set aside for rainy days. They are no longer ATM machines for workers and retirees.

The dealers are a big problem

It's not the dealers themselves. It's state franchise laws that won't let the carmakers shut dealers down without buyouts or costly lawsuits. That means you can't kill off a weak brand like Saturn or Saab without huge costs of getting rid of their dealers. Some of Detroit's weak brands lose money every year, but getting rid of the dealers is so expensive that they haven't done it.

An effective, competitive GM, for example, would include Chevrolet, Cadillac, Buick and GMC. That's it. Period. And we're dubious that it needs GMC.

Detroit created many of their own problems through short-sighted management, but they had plenty of help from Congress

Among the terrible decisions made by GM was buying Hummer, thus making itself the standard bearer for ugly Americans who don't care about the environment. GM also waited a long time before it got serious about vehicle design.

Before hiring current product chief Bob Lutz in 2001, the company turned out boring cookie cutter designs by committee. And there were no design experts on that committee. Pontiac Aztek, Chevy Cavalier, Buick Century, Chevy Malibu (not the current one), Saturn LS—these are all cars that were vanilla, short on creature comforts or design aesthetics. And many of GM vehicles lagged far behind Japanese quality.

At Chrysler, the quality of the company's vehicles and the state of the company's lineup suffers from the fact that Daimler-Benz was trying to limit their investments in Chrysler the last two years it owned the company. Budgets were slashed, and designs suffered. But we aren't really talking about Chrysler surviving 2009 anyway.

At Ford, the company was a prisoner of a very insular management until CEO Alan Mulally arrived in 2006 to turn the company around. Before Mulally, the company wasted billions a year in a very inefficient global structure. Ford and Lincoln product lineups suffered the last decade in large part because the company was too focused on pumping up brands like Jaguar, Land Rover, and Volvo, as well as relying too heavily on the SUV market.

But it is important to realize that auto companies in Japan and Europe have two big advantages. Japan and Europe have

national healthcare. Companies pay taxes that support the systems. But the total costs to the companies are much lower than in the U.S. And because they have national healthcare, the total costs of healthcare per capita in those countries is much lower than in the U.S. Second, they have policies that keep gas prices high—above \$5.00 per gallon, and sometimes as much as \$10.00 last summer. That has created a very stable market in Europe and Japan for small, fuel efficient cars, and a very small, limited market for SUV and pickups. The Detroit Three are guilty of thinking that cheap gas would last far longer than it did. But Congress and The White House, including the Clinton White House, failed to pass energy or healthcare policy that would have created a level playing field for these companies.

Detroit product is not quite as inferior to Japanese and German quality as many people think

It's true that for the past 20 years Detroit has been playing catch-up to Japan in quality. And it is also true that there is still a gap. But it's worth looking at the size of that gap to see how meaningful it is.

J.D. Power and Associates measures quality as reported by car buyers in the first three months of ownership. In this measure, Lexus (owned by Toyota) is a runaway leader. But look at how close Ford and Chevrolet are to Toyota and Honda. Ford owners report 112 problems per 100 cars, while Honda scores

112, Mercury (part of Ford) scores 109, Toyota scores 104, while Cadillac and Chevy score 113. Those are pretty close numbers to the point where it is statistically irrelevant.

Power also measures a vehicle's dependability over three years of ownership. Here, the gap is wider than in initial quality, but closing. Again, Lexus is a runaway leader at 120 problems reported per 100 cars. Toyota scores 159 and Honda scores 177. Ford scores 204 and Chevy scores 239.

No question that the Japanese have set the standard for fewest things gone wrong. That has been key to loyalty rates for Honda and Toyota and why people buy one Honda Accord after another. But today's Ford Fusion, to name one vehicle, is so much better built and designed than, say, Ford Tauruses of the 1990s, that vehicle dependability scores between Ford and GM and the Japanese will continue to narrow to almost insignificant levels in the next few years.

There is a good chance that help to the auto companies is not throwing good money after bad

There is a lot of criticism that the White House measure doesn't go far enough to force the automakers to make the dramatic changes needed to bring the automakers into financial viability. It is true that the White House loan agreement does not force specific concessions on the United Auto Workers, except for a provision that they must take

stock in the automakers in place of billions of dollars in future cash payments to their healthcare trust fund. It spells out targets for wage and work rule concessions that should be met. The loan parameters set forth today don't carry the rule of law as the Congressional bill, which did not get passed this month, would have. The other criticism is that it leaves a lot of discretion and judgment to President Obama to determine the scope of the auto industry restructuring, how much the union has to give up and how long it has to bring wages and work rules in line with foreign automakers. The UAW raises huge sums of money for Democrats and has long been key to Democratic Get-Out-The-Vote programs. And the concern is that Democrats owe the union too much to wield a serious hammer.

Already the UAW is calling on Obama to lighten the conditions of the loans that are expected to be met by the UAW. The UAW is tone deaf when it comes to its own image. By calling for Obama to lighten the parameters of the loan program the day it was announced, the union affirmed all the perception around the country that it is an obtuse body intent on sinking the industry it depends on.

Members of the Obama transition team say privately that the new President will be tougher on the union than they may expect. Expect the union to be required to match wages and work rules, they say, though wage parity could be extended

beyond the December 31, 2009, schedule set forth by the Bush White House. As we are in a recession, the Obama Administration may let that schedule slide by a year. All the other provisions of the White House loan agreement today spell out that if the bond holders and union are not making concessions that will lead these companies to sure viability, they will be led by the hand to Chapter 11 Bankruptcy by the government in the Spring. That is a powerful motivation to stay within the spirit of the agreement.

Detroit Needs To Earn R-E-S-P-E-C-T

Toyota commands at least \$3,000 more per car in price than domestic brands do. That's because consumers don't respect the U.S. brands as much and American companies have long overproduced so they need to discount their cars. They also have higher marketing costs because they have more brands to support. GM in particular needs to kill off several of its brands so the company can plow its ad bucks behind a select few and start rebuilding brand image. As they close factories and the market bounces back, they can get better pricing and boost revenue.

But if we don't see deliberate moves by GM to sell or shutter Hummer, Saturn, and Saab in 2009, it will be a sign that they are not as serious about reforming their ways as they lead us to believe.

The Auto Industry Would Not Be Better Off If Steve Jobs or Google Were Running GM and Ford

Running an auto company is a complicated thing. The people behind the Tesla electric car in California are finding that out. They are not really close to scaling up their car. And they have turned to Detroit executives to help them figure out their business.

Building millions of cars a year that have to satisfy federal and state fuel economy and safety regulations is not the same as making a couple of hundred \$90,000 cars that can go 50 miles per gallon or 300 miles on an electric charge.

It's tempting to think that Google or Apple would be a better manager of GM's auto business than GM. But we aren't going to find out. Let's deal in reality, and not theory and ideology. Perhaps now that the taxpayer has some skin in the game, we, as a country, will look seriously at what we need to do as voters and consumers to make the U.S. auto industry truly competitive with the rest of the world.

These government loans are a clumsy step toward having an industrial policy in the U.S., but they are a first step.

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Reader Comments Robert December 19, 2008 07:31 PM

I wonder if some journalists are truly mentally retarded.

The author above mentions that Americans buy 8 billion cars per year.

If we assume 190 million Americans who are of driving age, then we have Americans buying over 40 cars each per year.

Use a little common sense people.

From Kiley: Hey Bob....perhaps you could use your noggin and figure out it was a typo, which we fixed.

dmorgan December 19, 2008 07:45 PM

In addition to a national healthcare advantage, the Japanese benefit from an artificially low yen compared to the dollar, thus producing a type of "windfall" profit. Although building Japanese assembly plants in the U.S. mitigates the strategy somewhat, a stronger yen/weaker dollar would also help level the playing field.

david moore December 19, 2008 08:05 PM

Is there any truth to the rumor that the Defense Dept. is soon to announce a 3 year, \$193 billion dollar contract with the big three U.S. auto makers, to convert or replace, all non-combat vehicles, to natural or propane gas vehicles.

Terry December 19, 2008 10:03 PM

We seriously need to get on with the business of becoming energy independent. While we are doing the happy dance around the pumps with the lower prices OPEC is planning yet more production cuts and will not quit until they achieve their desired price per barrel. The record high prices this past year have done serious damage to our economy and society. It would cost the equivalent of 60 cents per gallon to charge and drive an electric car. If all gasoline cars, trucks, and SUV's instead had plug-in electric drivetrains, the amount of electricity needed to replace gasoline is about equal to the estimated wind energy potential of the state of North Dakota. WE must move forward with energy independence. We have the knowledge, we have the technology, what America lacks is a plan. Jeff Wilson has a new book out that is beyond awesome. The Manhattan Project of 2009 Energy Independence NOW. He walks you through every aspect of oil, what it is used for besides gas, our depletion of it. The

worlds increased need ie 3rd world countries becoming more modernized and consuming more. He explains EVERY alternative energy source and what role they can play to replace oil. His research is backed up with hard data and even includes a time frame and proposed legislative agendas to wean America off oil.

<http://www.themanhattanprojectof2009.com>

He also has a VERY interesting article posted on the Better Place Blog called How Much Electricity Would It Take To Replace Gasoline you can read it @

<http://planet.betterplace.com/profiles/blogs/how-much-electricity>

KASTHURI N RAVILLA December 19, 2008 11:23 PM

Let us congratulate President Bush. He had done something good for America, at least at the fag end and as a parting gift to the people whom he wronged so far. He not only saved millions of American jobs, despite stupid and irrational opposition from so many quarters. America will breathe again.

Paul (Vw) December 19, 2008 11:50 PM

>>> The UAW raises huge sums of money for Democrats and

has long been key to Democratic Get-Out-The-Vote programs. And the concern is that Democrats owe the union too much to wield a serious hammer.

That's one reason I wanted the UAW to commit to concessions *before* any taxpayer money was allowed. Decades from now this could be considered a colossal mistake. Only history will tell.

Merry Christmas Detroit. Instead of sending me a "thank you taxpayer/new owner" note, you can just send me my dividend check.

Andy December 20, 2008 12:09 AM

This article is pretty much dead on; I am solidly in the Mulally fan club, and the best descriptors of GM are slow and bureaucratic since Sloan retired in 1956 (except for a few brief shining moments).

In my opinion, the main errors in the article are blaming Clinton for the health care policy problem (the Clinton attempt to fix it is what led to the Republican/Gingrich takeover), and Nardelli never should have been considered for a leadership role unless slashing and burning and "squeezing

money out of rocks" was what the owners wanted; he is to the business world what Ghengis Khan was to diplomacy and statesmanship.

Robert Wilson December 20, 2008 12:40 AM

That was a very good article. In the first couple paragraphs, though, you guys refer to Americans buying 8 billion cars a year - should be 8 million I believe.

Well balanced reporting, thanks.

Bob Wilson

From Kiley: Thanks. Sorry for the typo.

owlafaye December 20, 2008 12:57 AM

Remember: Chrysler turned around on ONE platform...the K car. Their trucks and vans were rehashed former models. I am not interested in automatic wipers that adjust their speed by rain pressure on the windshield. Back up TV and Radar are pure foolishness. Chrysler could easily reduce models offered and focus on simple, well-appointed, safe and ECONOMICAL vehicles. Reduce the cutesy extras and drastically reduce weight. A new, very small engine line is indicated. One solid V-8 (318? small Hemi?) for trucks and

forget the horsepower and towing contests. This is the time for someone to focus on affordable, lightweight, economical, simple, practical transportation...Chrysler is the most likely candidate.

Mike December 20, 2008 02:16 AM

Damn the President and the congress that ok the bailout package. Damn them all.

raja tadvai December 20, 2008 04:31 AM

good analysis and sorry to tax payers,Now choice for American carzars one option that is take them to hospital if it cures let them live,if it dies it dies.here if we think about market capitalization of GM now below \$3billions and Toyota \$100 billions that shows investors confidence and value of the japanese work,Japan govt supported a lot in many companies like fuji film,they will take revenge in all and they know long run value of hardwork and dedication and rewards,USA doing great no doubt but forgot the core things and major thing is research and development at high speed and much intrested on new products,even young analysts can imagine where americans can reach,even prev presidentt cautioned on too much research spending,a big concern but who cared.Now time to think rebuild the garage,looks not easy but hopes on exports a great option and make them these companies under

one roof,my view lobby in oil pulling price to decade low,shows kill the japanese hybrid cars,and i m sure lobby in healthcare not accept to nationalise the health care system,coming attraction is health care no doubt .

Vusal December 20, 2008 04:46 AM

The survival for Big three is JAPANESE EXPERIENCE. And only! They no how to act in this market.

joe lee December 20, 2008 05:23 AM

Give my money back, the total 17 billion dollars. I have enough of this nonsense. We just spent 350 billion dollars; now we are adding 17 billion dollars more. Enough is enough. Give my money back. I could use that money to pay off my bills.

Eric Chang December 20, 2008 05:50 AM

The government should put strict conditions on the auto makers and their stakeholders. Having UAW giving up some previously negotiated benefits in return for getting some shares of the company is a good idea.

If management and workers constantly spend time negotiating and strategizing against each other rather than focusing on

building better products that customers will buy, then of course the companies will be less competitive.

Antony December 20, 2008 05:57 AM

Interesting article and it makes a good case for how the big three could become profitable but the point about failure of Congress to pass fuel and healthcare policy to level the playing field is silly. It's not Congress' job to alter policy to make a level playing field for three private auto companies and if the big three failed to anticipate important changes and wasted time and money on failures they have no one to blame but themselves.

Lee B. December 20, 2008 06:15 AM

Very good story on truth as a gm retiree I don't see why we can't pay a little more for our healthcare in retirement. My wife and I pay \$22.00 a month out of a \$3,100 a month pension it might solve some healthcare problems for GM and the union if we pay a little more. The other thing is this if the employee's have to take cut should not the UAW President and all his people take a hit too?

Thanks

Dwight Nager December 20, 2008 07:33 AM

For the most part, this could have been written by GM's PR department.

The staunch finale that Steve Jobs & team's sleek design skills would have nothing to offer the auto industry is disturbing.

Lots of people have made functional computers; Apple made the only desired ones. Ipods. iPhones. Desirable items.

To conclude that Tesla shows that Apple could help US cars strikes me as say that because Compaq couldn't do desirable computers, Apple can't.

It's quite possible that Apple won't, or wouldn't. But can't? Meaning we shouldn't try to find out, and should accept this writers 'reality'?

Whose going to bring art to US car design? The author? Me? nahidontthinkso

munidas pereira December 20, 2008 07:38 AM

Why look at Europe or Japan for health care ?

Here in Canada we have universal healthcare which is funded to some extent by taxes on gasoline.

Canada spends less on health care than the US (as a percentage of GDP) and has better outcomes -longer life

expectancy, lower infantile mortality etc;
This is a competitive advantage for industry in Canada.
It must be admitted that there are longer wait times for some procedures (e.g. MRI) but for those who are not in the high income bracket it is a much better set up.
munidas pereira M.B.A McGill

anthony December 20, 2008 07:40 AM

I'm one of the customers who left ford and bought a honda crv in 2000. We bought nothing but ford/gm for our business fleet and home. There vehicles were good for 50,000 miles and then the problems would start. We replaced the piston on every ford escort wagon we bought and being still under lease it cost us 4grand per car. Since 2000 til today we have not 1 single problem with the honda crv except for routine brakes/oil. Make make's things worse is the suckers who buy the used north american cars and go thru expensive problems to fix car which then turns them off the brand and buy honda.

Sherry December 20, 2008 07:47 AM

We really need to get serious about becoming energy independent. This past year and the record gas prices played a huge part in our economic meltdown. The one single fact of historically high gas prices seriously damaged our economy and society. The average family went broke filling up the

family cars alone. Added to that were the sharp increase of groceries and every consumer product due to increased production and shipping costs passed on to us. Utility companies had record price hikes. And, while we do the happy dance at lower prices at the pumps OPEC is planning deep cuts in production to raise the price per barrel back up to between 75-100 per barrel. We spent 168 BILLION on the last economic stimulus pkg that did nothing to stimulate our economy. We are spending billions upon billions in bailouts. Why not spend some of these billions to get some alternative energy projects set up on a national basis? Create cheap clean energy, create badly needed new green collar jobs, and decrease our dependence on foreign oil! I can't think of a more win-win situation for our nation. It cost the equivalent of 60 cents a gallon to charge and drive an electric plug in car. The electric could be generated from wind or solar. If all gasoline cars, trucks, and SUVs instead had plug-in electric drivetrains, the amount of electricity needed to replace gasoline is about equal to the estimated wind energy potential of the state of North Dakota. Get with it! Utilize free sources such as wind and solar. Stop throwing away money on things that don't work. Invest in America and it's energy independence. Create cheap clean energy, create millions of badly needed green collar jobs. Put America back to work. It is a win-win situation. We have to become more proactive citizens, educate ourselves and demand our elected officials move this country forward into the era of energy

independence. Jeff Wilson has a profoundly interesting and informative new book The Manhattan Project of 2009 Energy Independence NOW outlines a plan for America to wean itself off. www.themanhattanprojectof2009.com. We need to move forward towards energy independence and away from our dependence on foreign oil. If you think electric vehicle use is a bit futuristic just check out the Better Place Web Site. www.betterplace.com There is lots of fascinating information there including news of their upcoming projects in 3 maj CA cities as well as Hawaii to set up infrastructures to accommodate electric car use. Also you can click on the get involved button and sign an online petition to bring such projects to your area. Interesting to say the least.

123 December 20, 2008 07:58 AM

It seems like we could use an editor. This is 26 cars per person, per year, for every person in the US.

In a typical year, that's more than 8 billion cars bought by Amerians...

123 December 20, 2008 08:00 AM

Come on guys...

Already the UAW is calling on Obama to lighten the conditions of the loans that are expected to ****me**** met by the UAW.

LarryJ December 20, 2008 08:11 AM

Seems to me that the auto industry is about 30 years too late...Having spent 33 years of my life in different aspects of the auto industry,I have seen all the waste and BIG BUT ATTITUDE that nobody can build a better car.... 1966 comes to mind when Toyota rolled off the delivery truck to the dealers,and the consumer could get enough.Boxy...Yes...Quality...Yes.The problem is can we make money right now..not build up a customer base and then make the money.Why should somebody building an american car care about such things,whether they do a good job or bad, they still get the same pay.No accountability...so here we are begging for the taxpayer...me....to bail out the industry.

RJElliott December 20, 2008 08:40 AM

Thank You

Joe December 20, 2008 09:04 AM

"In a typical year, thatâ??s more than 8 billion cars bought by Amerians."

Shouldn't that line read 8 million instead of billion?

Len Kreger December 20, 2008 09:23 AM

An excellent article covering a lot of information. As noted "Truth is the First Casualty".

This should be required reading for our elected officials.

Axel Kassel December 20, 2008 09:36 AM

"General Motors, Chrysler and Ford have around 45% of the U.S. auto market today. In a typical year, thatâ??s more than 8 billion cars bought by Amerians."

Eight billion. My, that's a heap of cars. Or have you sacked all your copy editors?

rich December 20, 2008 09:44 AM

we bail out the government with our taxes every year, but we don't own it. if we did own it, it would never have bailed out the auto industry !

<http://www.youtube.com/watch?v=jrfG2r4bTOc&feature=chan>

goldieshouse.piczo.com

Herschel December 20, 2008 09:47 AM

If my company became insolvent, whoever picked up the pieces after Chapter 11 would have the right not to honor any of its contracts with me, retired or not. Our inability for the greatest economic system in the world to operate as we intended it is playing with fire. This is no different than trying to intervene in nature. Not allowing people or systems to fail and choosing to intervene instead is the ultimate form of arrogance, not benevolence. In this case, it's essentially socializing the guaranteed health care of Big 3 retirees. There are no good examples of sustained excellence in socialized medicine in the history of the world.

Dominic Shadbolt December 20, 2008 10:03 AM

Have you declared all your interests? I don't know but it sounds like you are a lobbyist for the industry. The view presented is pretty rosy, to say the least.

Dom
@dyot
dyot.biz

Dominic Shadbolt December 20, 2008 10:05 AM

What are the BW criteria for vetting comments then?

Dominic
@dyot
dyot.biz

Indrid Cold December 20, 2008 10:35 AM

Healthcare is, without a doubt, the greatest issue affecting the competitiveness of all US companies. I shudder to think of how many businesses are never even getting off the ground due to the burden of providing competitive healthcare benefits. Until we have a national healthcare system that levels the playing field for US businesses, the US business community will be forced into making strategic decisions that are filtered through the lens of healthcare costs. The result will surely be a continued decline in the state of corporate profitability for the foreseeable future.

Jim December 20, 2008 10:45 AM

The UAW deserves every bit of the criticism and blame it is receiving. Actual hourly wages might be close, but work rules make the Detroit 3 considerably less productive than their "foreign" competition, and even current benefit packages are out of line. Yet, already the UAW is announcing intentions of getting Mr. Obama to lessen the requirements they must meet. The answer is simple--the UAW must offer concessions with respect to wage and benefits that can be seen as a dollar for

dollar match to the concessions the bondholders are expected to be forced to accept, as well as accepting work rules that match those of the US plants of the 'foreign' competition.

ray December 20, 2008 11:13 AM

Excluding the legacy cost related to retiree, the labor cost gap between UAW and transplants is about \$10 per hour(\$55 vs \$45).

<http://www.nytimes.com/2008/12/10/business/economy/10leon>

However, because the difference in work rules and ethics, the gap could be much larger because they can always claim false overtime. Copied from a website: "I had a neighbor who was paid 12 hour a day 7 days a week working for Ford. Was he there that amount of time? NO! When I asked how he could do that he told me the company demanded he make so many parts a day and that was it. They would usually hit that mark in 8 hours, then go home. When I asked Why didn't they make you stay the full 12, he replied "If they did, we would all slow down and give them less in 12 hours" Thats why they are in this mess. The UAW has protected the drug users and problem employees for years. These people were making 100,000 dollars a year to build cars!! The UAW at one point in time was needed. Unfortunately, they got out of hand." My friend's mother was used to be an accountant. She had a UAW customer who make more than 100k a year. Ask what was he working on. He said he collected trash in an auto factory.

Indrid Cold December 20, 2008 11:26 AM

Healthcare is, without a doubt, the greatest issue affecting the competitiveness of all US companies. I shudder to think of how many businesses are never even getting off the ground due to the burden of providing competitive healthcare benefits. Until we have a national healthcare system that levels the playing field for US businesses, the US business community will be forced into making strategic decisions that are filtered through the lens of healthcare costs. The result will surely be a continued decline in the state of corporate profitability for the foreseeable future.

Rich December 20, 2008 11:55 AM

This seems like an objective report. Thank you, David and David.

Bill December 20, 2008 12:50 PM

Very informative article. You point out a number of aspects to this problem that, frankly, I don't think many of us have appreciated. I have no doubt there is a future for American Automobile Companies, but I seriously question why tens, maybe hundreds of millions of Americans earning far less than Big 3 management and their employees should be taxed to pay for their failure.

Peter December 20, 2008 01:00 PM

I disagree on the point about UAW. The true hourly compensation of Detroit's current unionized work force is roughly \$55 an hour. It's a little more than twice as much as the typical American worker makes, benefits included (NYT). Comparing their pay to Toyota's is irrelevant because 1) Toyota can afford it, and 2) Toyota pays above market wages because of fear of unionization from UAW. There is nothing that says that they must be paid this much and in my city there are factory workers with comparable skills that make less than 1/2 of UAW's wages. I know that Detroit's two biggest problems are the loss of market share and the retiree costs but because of these two, it can't afford the third which are outsized wages.

MBrenneman December 20, 2008 01:01 PM

Finally very fair even handed look at the auto loan package, well written, balanced, how long until Chrysler is sold off in pieces? Will GM make the hard decisions to and get rid of some divisions, can Ford get through the next 12 months without federal help. Will anyone outside of the auto industry take the time to wake up read articles like this and smell the coffee. HOPEFULLY. We all have a stake in a strong, competitive North American Auto Industry. Get more insightful article like

this.

M Brenneman
Ontario Canada

John Arbis December 20, 2008 01:14 PM

This person (David Kiley) has his numbers and facts wrong. He needs to do more research before writing articles such this.

From Kiley: we admit that we had a typo in the article. But perhaps you would like to be more specific instead of just spit-balling.

mervin hanson December 20, 2008 01:32 PM

IF YOU ASK ME, AND IM SURE, AFTER YOU READ THIS ,[IF YOU READ THIS TO THE END YOU MIGHT THINK IN DEFFERENT TERMS] YOU SAY GM AND CHRYSLER NEED HELP, WHY DO WE THE AMERICAN PEOPLE HAVE TO HELP THEM BLODE SUCKERS OUT. WHEN THEY DID IT TO THEM SELVERS. WHY DOESNT THE MOTORCYCLE COMPANYS, OF THE WORLD STEP UP AND SHOW THESE IDIOTS THAT RUN, OR RAN THE AUTO INDUSTRY, HOW THAY CAN PUT A MOTORCYCLE ENGINE, ON A THREE WHEEL AUTO AND GET 40 TO 50 MILES A GALLON,AND EVERY THING WILL BE HUNKY

DUNKY OR SOMETHING LIKE THAT. AND PLEASE DONT HESITATE. TO GET INTOUCH WITH ME I HAVE A LOT OF THINGS OR IDEALS TO PUT THE PEOPLE BACK TO WORK IN THE USA, AND ANY OTHER COUNTRY. THANK YOU FOR READING MY INUENDOS ON THE BIG THREE MH

Jim Mapes December 20, 2008 01:59 PM

I'd hardly trust the voters to fix the problems either. "Tower fo Babel" would be a good title. Too many conflicting opinions, and absolute wrongheadedness that would produce non-workable feel good solutions instead of tangible, practical results.

There are a lot of regulatory hampers to large business operating efficiently. Sarbannes/Oxely (sp) produces waste and loss in its attempt to fix some stock schemes. I watch machines run to failure because pre-emptively fixing a small problem is a cost eaten by the company where a catastrophic failure can be charged back to the rate payers. Inventory taxes mean spare parts aren't on hand, and often take weeks to obtain making for longer than necessary down time for repairs.

Realistically we need a restructuring of our transportation methods away from burying of non-renewable resources that

are best left for lubricants, plastics & medicine. Global warming is a temporary transient threat & effect. Squandering the hydrocarbon base chemicals by bulk combustion is robbing future generations of needed resources. Electric vehicles are practical - given an infrastructure of fast charging stations by utilities it would be no different than going to a gas station. Then our motive power could be shifted almost entirely away from oil to nuclear, wind, solar & hydro.

FBEye December 20, 2008 02:27 PM

I believe there's only one thing people in the USA need to know about the U.S. Auto Companies. 1) They are doomed!

James December 20, 2008 02:35 PM

I disagree! I worked for "Big 3" as design Engineer contracting and for Honda. Honda told me "use whatever much needed for a good handle" similar situation at our "Big 3" I was specifically told use 2 that is the cheapest, price first. This went on for several years 10 that I know of. So I know some of those care and could care less about people who write junk and never actually know the car. I know what goes on behind the scenes building, and you J.D whatever does not! Big 3 make as cheaply as possible with no regards to quality. I know it I designed there. So I do not care if on is 5 point more than the other. Chapter 11 them fire management.

Bea Wharton December 20, 2008 04:31 PM

Thank you so very much. At least I now understand the mess!

Ravi Iyer December 20, 2008 05:01 PM

I agree..completely. Its not as easy at it appears and there has been plenty of water which has flown by the bridge already. Will take some serious time for the giants to get leaner. Getting rid of the brands is a daunting task. Alan and his team have definitely taken a formidable step towards getting rid of Jaguar and Land rover, probably Mercury is one more brand which should be on the cards, the way Ford has progressed and plans to vis-a-vis the other 2 is evident in its confidence to live through the monetary storm without loans. I shouldnt be talking too much about SUVs and trucks..but anyday the new generation of ford and GM SUVs rock, chrysler has to do a lot of homework with Dodge and jeep though. Talking about the Japanese, Nissan seems to have made some in roads with the Rogue and Xterra, Toyota with the Highlander and Tundra, the koreans still seem to be waiting for the right moment to get into the truck area.

Restructuring the auto industry may share some parallels with the ailing steel industry long ago. Resurrection!!

Leave aside the hybrid vehicles, the Detroit big 2 (Nardelli has a lot to catch up with!!)have definitely started giving the foreign makers a run for their money.

Lets talk about the collaboration bit. Ford-Mazda and GM-Subaru. The former seems to be working successfully, Mazda may soon be the best selling brand from Ford. Not only are Mazda designs radical and fresh,the brand is growing in the US spirit year after year. The best part being the influence of the Mazda 6 platform on the Ford Edge, Could you believe that a decade back?? Hope the new year heals the ailing Big 3 and some food for thought as far as the soothsayers who have been predicting a collapse for long now. Wait till the Pheonix rises from the ashes

Luis G Jaramillo December 20, 2008 06:38 PM

"automakers should seize on this opportunity to come up with plans to make their companies sustainable....Everyone involved with the auto industry has to be part of the process"

What would be the answer from the automakers,to the MBS-1,check list ?

MBS in fivestarmanager.com

Barbara Redmond December 20, 2008 07:02 PM

Why has Fox News stated that UAW workers make \$74-78 per hour and Toyota earns \$44.00. Many workers have funded their own pensions, so why do they blame the retirees? Have

they dipped into their retirement accounts like the gov't has Social Security? If so, will we have another Enron on our hands? I know our health insurance is a big factor, but that can't be all of the difference.

phantom December 20, 2008 08:13 PM

Parity with foreign carmakers is not the major issue. The difference in wages is insignificant. The pension benefits may be a bit more on target. Instead of tying pensions benefits to the times they were made. They overpaid a lot of CEOs bonuses & incentives. Now attempting to add this on to the new car sales price. Use Taxpayers \$\$ wisely!!
Wake UP We need to buy our own products

phantom December 20, 2008 08:14 PM

Parity with foreign carmakers is not the major issue. The difference in wages is insignificant. The pension benefits may be a bit more on target. Instead of tying pensions benefits to the times they were made. They overpaid a lot of CEOs bonuses & incentives. Now attempting to add this on to the new car sales price. Use Taxpayers \$\$ wisely!!

Wake UP We need to buy our own products

ad December 20, 2008 09:09 PM

Nice!

Rian December 21, 2008 02:54 AM

"but they had plenty of help from Congress"

Yes, but taxes are also higher in Japan and Europe, thus helping the Big 3's bottom line. Didn't mention that in there did you Kemosabe?

Dale December 21, 2008 07:57 AM

Ok, if they are now owned by the government, and we the people are the government. Wouldn't that make them government employees? Will the money ever truly be paid back? If they are now government employees, give them government benefits. Sorry union you are out of here! With the resources we now have available, guess the government now owns the mortgage and lending institutions too. Will the money ever truly be paid back? So do they get government benefits too? Is this a plan to get ahead, maybe? All bsing aside looks like maybe our 1st real steps towards Socialism.

Holly Garfield December 21, 2008 07:58 AM

One other point in the difference between the US and foreign driving. Most foreign countries are the geographic size of a US state. Even if foreign gas is twice as expensive as US gas these countries don't have nearly the distances to drive of US drivers. The UAW is part of the bloat causing problems, and does need to get down to parity before any significant US taxpayer dollars are involved. The dealer and brand bloat, along with the hybrid development lag, are other big drags to viability. Tesla does need to learn how to develop mass production, but Detroit needs to learn how to build a 200+ mile range all electric car. Tesla's price is about \$100K for a unique, hand built car. That is comparable to Maserati and well below Ferrari for comparable volumes. This indicates that mass production techniques should bring prices down to at least Lexus range in short order. The cost per mile should be MUCH lower along with maintenance costs. This can bring total per mile costs of a mass produced Tesla style car down to that of today's every day passenger car. Tesla shows that mass produced all electric cars CAN have a total per mile cost very comparable to the typical passenger car in short order. Add in home solar/wind power and people can have a virtually cost and pollution free fuelled car for most travel.

dale December 21, 2008 08:29 AM

Ok, if they are now owned by the government, and we the people are the government. Wouldn't that make them

government employees? Will the money ever truly be paid back? If they are now government employees, give them government benefits. Sorry union you are out of here! With the resources we now have available, guess the government now owns the mortgage and lending institutions too. Will the money ever truly be paid back? So do they get government benefits too? Is this a plan to get ahead, maybe? All joking aside, looks like these maybe some of our 1st real steps towards Socialism too me.

doug December 21, 2008 08:53 AM

Well Dave, Bravo ! This is one of your best. Comprehensive, uncomplicated, actually objective and without the usual political slant in which you like to mire yourself. Again, Bravo..(and please stay on this course)

dave December 21, 2008 09:42 AM

great year to buy a Ford.

Business Week (and many business magazines) are just socialist rags - of course they think national healthcare is a good thing.

From Kiley: The U.S.spends more per capita on healthcare than any other industrialized country and ranks comparatively

low jon measurements like infant mortality. No country in the world is trying to replicate the U.S. system in any way shape or form. I'd say that is a pretty fair indication that the U.S. system is busted.

I'd also add that in countries that have national healthcare, bankruptcy due to medical expenses doesn't exist.

manny December 21, 2008 11:27 AM

Big Three cars are not that bad. They have cars that give good gas mileage. They should make them more durable and last more than 100,000 miles with any major trouble - transmission, head gasket.

These are my experience with Big Three cars.
They start from 1 all over again.

David Kiley December 21, 2008 12:54 PM

We apologize for the typo to which many of our readers called our attention. Indeed, in a typical year the Big-Three sell about 8 million vehicles, not 8 billion.

Typos occasionally happen in blogs. We regret when they sneak through. We fix them when we see them, and have them called to our attention.

P Brooks December 21, 2008 02:12 PM

"These government loans are a clumsy step toward having an industrial policy in the U.S., but they are a first step."

Great; just what we need.

I think Wagoner, and everybody who reports directly to him, should go. The Board should go. Immediately.

I also believe there are at minimum a couple dozen extremely bright, highly knowledgeable, highly motivated people currently working for General Motors who know, right now, how to turn the company around.

I also have no expectation they will get the chance.

Eric December 21, 2008 02:36 PM

I for one forgive the typo. You all are human, like we readers. I still love you!

From Kiley: Thanks Dad.

MKS December 21, 2008 06:46 PM

After everything is said and done, at the end of the day, it's really about the car and the customer - it's that simple. Detroit-3 have to come out of this catch-up game with

Japanese and need to come up with (on an urgent basis) a blockbuster vehicle, that customer really "go head over heels" to buy, for example, Toyota's Prius, Honda's odyssey - these are examples of models for which customers were ready to stand in line for months. - conceptually, it's that simple. Everything else, management restructuring, go-to-market (dealership) rationalization, better bargain with UAW - are all "supporting" requirements. Even after these are all fixed, without a blockbuster model, Detroit-3 ain't gonna go nowhere.

Big Three Worker December 21, 2008 08:15 PM

I work for one of the big three and can tell you there is plenty of blame to go around. I will focus on the UAW issue. If you don't think there is a problem with the UAW, you are brain dead. The work rules are an abomination. It is absolutely stunning to listen to the mentality of many union workers -(not all). Many workers steal from their company on a daily basis. It is a rarity to see people work an entire shift as required. I personally watched as an entire workforce walked off their jobs and went on strike in 2008 because of so-called local demand issues. This was repeated at other plants as well. How much money do you think the corporation lost in that debacle? This is money that the corporation needs now. That's OK, the American taxpayer will pick up the tab. Additionally, the workers had to be paid off to leave - That's brilliant

business thinking. Many of the people have no sense of dignity or loyalty to a company that provides their wage. It is unadulterated greed. The problem of fiscal losses will not go away until the UAW starts to set policies for their people like a 21 century business should. Management is another issue I will leave for another column.

From Kiley: Work rules are an issue that should be addressed. This is in any union, not just the UAW. Also, absenteeism has been an issue, with daily absenteeism at UAW plants running consistently higher at their plants than at Toyota and Honda plants.

To Robert December 21, 2008 08:34 PM

Dear Robert, Don't act like a fool. Before going through the trouble of calculating no of cars per American, you should have used common sense yourself and figured out that it was a typo. You should have known that it was 8 million. I am amazed at the number of idiots posting comments in business week forums. Most of them behave like dumb monkeys...

Bill December 21, 2008 08:38 PM

Excellenct summary of the situation. Our domestic performance over the last two to three decades has solidified the negative reactions from the market. The continued

restructuring, quality gains and cost reductions will put us on equal footing but we need to polish our image to the consumers so that the other 51% of the car buying public will give GM, Ford and Chrysler a second look and hopefully realize good quality and high performance vehicles are not just an imports.

Tony Chervinsky December 21, 2008 08:41 PM

Dec.21/08, 2000 Hrs. E.T.,

Several years ago, I read in a newspaper that in one year, the Japan car industry, had 4.5 million recalls of cars and trucks, the next year 6 million recalls. If this is true, their cars/trucks are no better than, or worse, than North American cars and trucks. In Canada, I see in the papers, sold 150 cars/trucks to Korea, while we bought 150,000 of them. The tariffs are so high that they are too expensive for the Korean people to buy. Same goes for Japan, how many made in North America cars/trucks were sold in Japan ? A small percentage, I'm sure. For every car /truck that comes from these 2 countries, we should sell the same amount there. I will NEVER buy a car/van/truck made in these places. They are junk, made from all the scrap they have bought over the years. We have driven all the Chrysler products we have owned since 1960, for a total of more than a million miles with normal maintance. Some of them were, 1990 Dodge Spirit, {used} 195,000 kms. plus and still have. 1994 Chrysler Lebaron [used] A new

1999 Dodge Caravan 145,000 kms, We ordered last August, a new 2008 Dodge Grand Caravan. We bought our daughter in August, a 2009 Dodge Calibre. Why would we buy N.A. Cars/vans? Because they are N.A. made. Can someone tell us how much Japan subsidises their auto industry ? Heard it's in the billions. I believe Europe does the same, if so, why not here. Just read/heard that Toyato has lost sales too, True ? Tony C.

Mike Aberlich December 22, 2008 10:54 AM

Terrific, fair accounting of how we got to this point. As a 25-year veteran of the auto industry PR wars, it has always frustrated me that the domestic industry couldn't straighten out our image issues. Complicated issue. I like to think that we didn't invest in our future (like Toyota with Prius, etc) because we were so busy looking for our next meal. The industry has been rebuilding for the last 20 years. My former company -- Chrysler -- is now half the company it was when Daimler bought it in 1998. But ... that is no excuse either. Let's just say it was bad PR guys and get on with it.

Maybe the best result of all this navel-gazing is that the American consumer will finally realize that it is no shame to buy domestic.

From Kiley: Aberlich was one of the very good PR guys in

the business.

Connor December 22, 2008 11:04 AM

Excuse me, but the authors state that Toyota hasn't built a hybrid? The Highlander model has had a hybrid version for several years. How could you not know that?

From Kiley: We said Toyota hadn't built a hybrid SUV or pickup yet. The Highlander, and Lexus RX hybrids are crossovers, built on passenger car platforms. We were citing SUVs in the sense of vehicles that are body-on-frame truck based traditional SUVs.

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