

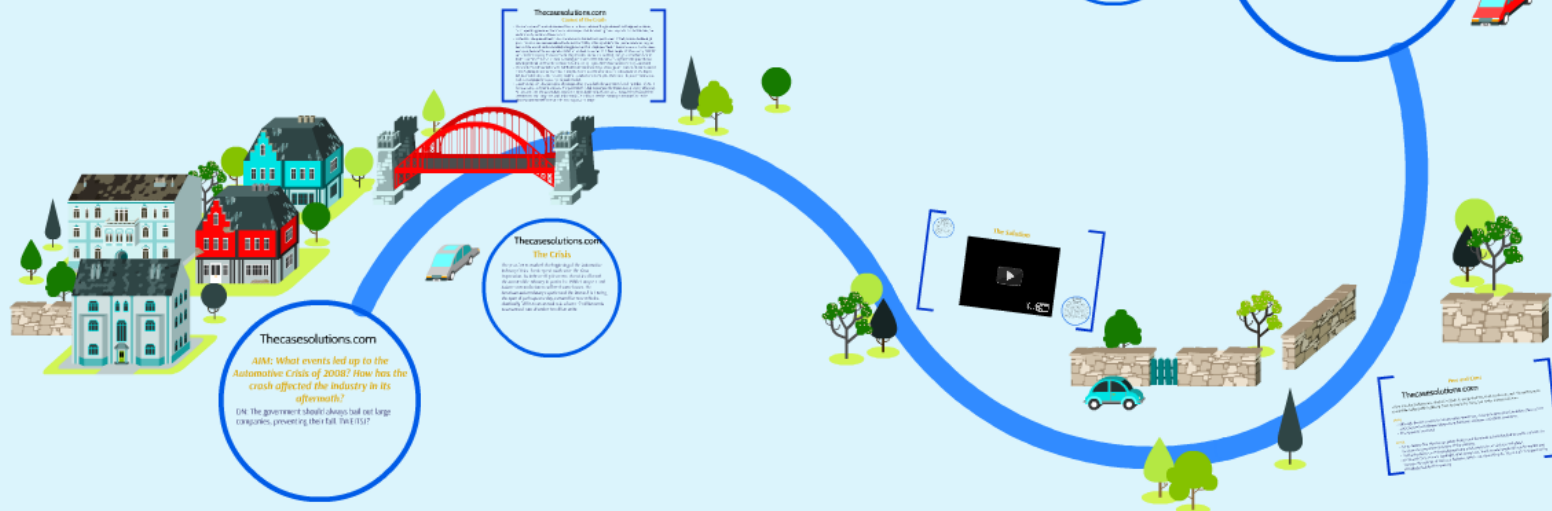
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The Automobile Industry and the Economic Downturn



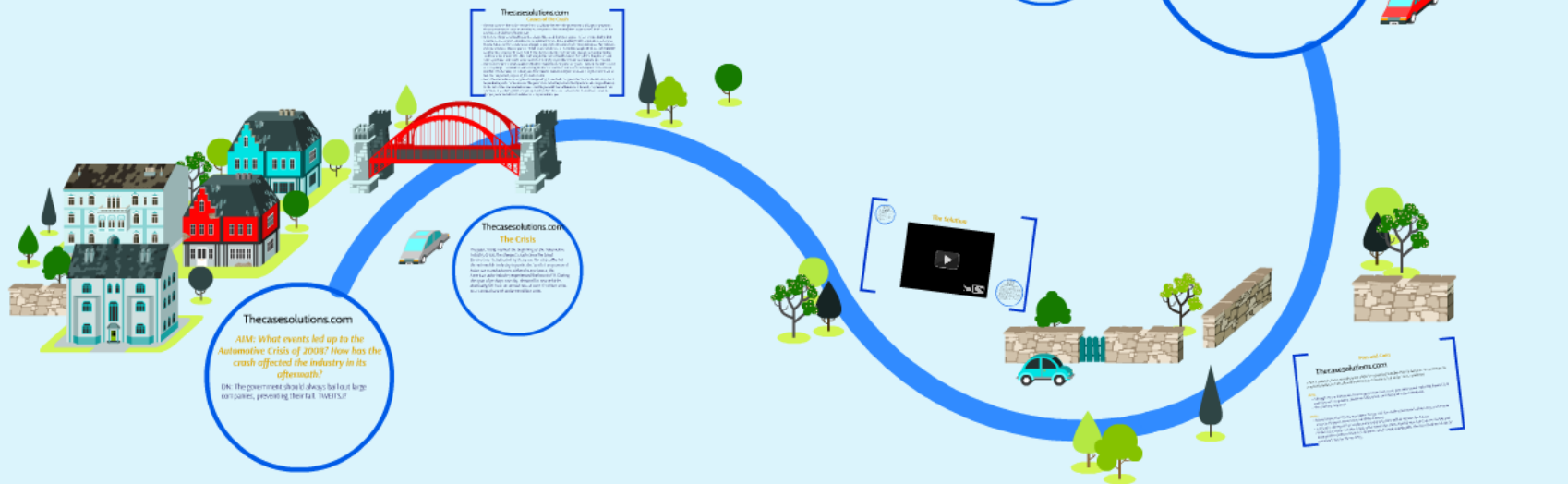
Debate Question: Would you bail out the automotive industry?
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The Automobile Industry and the Economic Downturn





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AIM: What events led up to the Automotive Crisis of 2008? How has the crash affected the industry in its aftermath?

DN: The government should always bail out large companies, preventing their fall. TWEITSJ?

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The Crisis

The year, 2008, marked the beginning of the Automotive Industry Crisis, the steepest crash since the Great Depression. As indicated by its name, the crisis affected the automobile industry in particular. While European and Asian car manufacturers suffered some losses, the American auto-industry experienced the brunt of it. During the span of perhaps one day, demand for new vehicles drastically fell from an annual rate of over 17 million units to an annual rate of under 10 million units.

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Causes of the Crash

- The root cause of the crash stemmed from an alliance between the government and large corporations; this corporate-government relationship was responsible for creating three major causes: health care, the credit crunch, and low efficiency cars.
- In the U.S., the price of health care has always fluctuated from year to year. In fact, annual double-digit price increases are even considered to be common! Why is this a problem? Well, corporations as large as General Motors will understandably struggle to pay their employees' health insurance costs. For instance, each year, General Motors spends ~\$5 billion on health care for 1.2 million people. Of those, only 150,000 work for the company. Throw in Ford & Chrysler into the mix and suddenly, one gets a combined retiree health care fee of over \$90 billion. Factoring in the costs of health care adds \$1,500 to the price of each vehicle produced. With such immense costs, it is simply impossible to become economically successful.
- The crash of credit markets made it difficult to receive loans for purchasing cars. The lack of credit caused a 14.8% plunge in automobile sales during the first 10 months of 2008 and a subsequent 31.9% drop in October. What's more, the industry could not receive loans to mitigate the losses. The government was at fault for not properly regulating the stock market.
- Low efficiency vehicles were generally unappealing. It was both the government's and the industry's fault for producing such inefficient cars. The government failed to promote the importance of energy efficiency. At the same time, the automakers were unwilling to build more efficient cars. Instead, they focused their attention on producing SUVs and pickup trucks, which have low fuel economy. Consumers turned to cheaper, more fuel-efficient vehicles from Japan and Europe.

The Solution (simplified)

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- President Bush and Congress agreed to a temporary bailout of \$23.4 billion, as opposed to the Big 3 Automaker's original plea of \$50 billion.
- \$13.4 billion to General Motors, \$6 billion for GMAC, and \$4 for Ford
- In return, the companies promised to develop their energy-efficient vehicles and consolidate operations.
- The UAW union agreed to delay contributions to to a health trust fund for retirees and reduce payments to laid off workers.
- The three CEOs agreed to sell their corporate jets and work for \$1 a year.

The Effects/ Aftermath

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- The original bail of \$13.4 billion was not enough for GM. They had to borrow about \$6 billion more to stay afloat. In June 2009, GM hit rock bottom and went bankrupt, to which the government gave them an extra \$30 million while buying 60% of the company. GM shut down 11 factories, over 2,000 dealerships, and over 20,000 jobs.
- In April 2009, Chrysler filed for bankruptcy and became partly owned by the Italian automaker Fiat. In 2013, Fiat's CEO made Chrysler public on the New York Stock Exchange, which allowed him to purchase the whole company and become a more competitive global automaker.
- In the midst of this crisis, thousands of workers became disoriented as the threat of mass layoffs, speedup, plant closures, and bankruptcy loomed ever closer. Auto unions lobbied in an attempt to save their companies, as well as their jobs.

Pros and Cons

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When President Obama was elected in 2008, he supported President Bush's decision. He continued to extend the bailout which allowed them to stay in business, but under many conditions.

PROS

- Although the car companies became government-run, many jobs were saved, including those of GM and Chrysler's employees, stereo manufacturers, and steel and rubber producers.
- The economy improved.

CONS

- Many believe that Obama was power hungry and the whole automotive bail was only a scheme to increase the government's control of the economy.
- GM had to decrease their employment and production, with or without the bailout.
- If GM and Chrysler went bankrupt, other companies (Ford, Honda) would pick up the market and increase the number of their U.S. factories, which would provide jobs. The loss of GM would not be completely bad for the economy.



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