CNSNews.com

A Nationalized GM May Drive Off More Customers, Economists and Consumers Say

Tuesday, June 02, 2009

By Edwin Mora

(CNSNews.com) – Experts say the virtual takeover of General Motors by the U.S. government will negatively affect consumers and may ultimately drive buyers to boycott purchasing GM vehicles.

The Obama administration has decided to infuse an additional $30 billion to the $20 billion already invested in an effort to revamp the troubled automaker.

"I am absolutely confident that if (it is) well-managed, a new GM will emerge that can . . . out-compete automakers around the world and that can once again be an integral part of America's economic future," Obama said Monday.

GM filed for bankruptcy Monday, as the administration announced a Treasury-financed plan to push the 100-year-old American company into government possession. Under the plan, the U.S. will own 60 percent of the company; Canada will own 12 percent; unions 17.5 percent -- and bondholders will receive 10 percent of the pie.

Between 60 to 90 days after GM's bankruptcy, the administration said it expects a rapid sale process that will permit a better and smaller company to surface.

However, economists and consumers are united in saying that a government-owned GM will mean bad news for consumers making them less likely to purchase a car made by the reorganized company.

“Public institutions or public enterprises tend to focus less on customer service, tend to focus less on innovation, and tend to focus less on continual improvements in their goods and services,” said Niels Veldhuis, senior economist at the Fraser Institute, a Canadian organization that promotes free markets.

“I would expect that, yes, you will see a drop off in terms of consumers buying the product, not for emotional reasons, but rather to reasons that are attributable to how public enterprises are ran and that is there is a lack of focus on the consumer,” he added.

Dan Ikenson, associate director of the Center for Trade Policy Studies at the libertarian Cato institute, said that, on the surface, given the fact that the U.S. government will have a stake in GM, consumers could have an incentive to buy from the company.

“There is going to be less availability of bigger cars, there is going to be much more emphasis on cars that Americans have traditionally not wanted to purchase,” Ikenson said.

The government, Ikenson said, is going to make it easier for consumers to purchase unwanted cars “by subsidizing them.”

But Ikenson also pointed out that, given the amount of money the government has invested; the new government-owned GM will hinder competition.

“My concern is that we are less likely to see robust competition in the auto sector because the government has such a stake in GM now,” Ikenson told CNSNews.com.

“It’s going to be more likely to invoke policies that sort of tilt the playing field in GM’s direction,” he added.

Ikenson predicts that competition will be affected because the government may impose policies that “hamstring” the competition by raising prices of non-GM automobiles.

However, Ikenson points out, “There will be fewer alternatives for consumers who just want to purchase GM products.”

James Gattuso, senior research fellow in regulatory policy at The Heritage Foundation’s Thomas A. Roe Institute for Economic Policy Studies, agreed that a federally owned GM is bad for consumers.

“It’s bad news for consumers in two senses, first as taxpayers by having $30 billion of risk as their money is invested in GM,” Gattuso told CNSNews.com.

“But more important directly as consumers, there is real concern that General Motors now will be run with a political agenda,” he added. “Consumers will lose if General Motors in effect becomes another Postal Service.”

Radio talk-show listeners, meanwhile, made it clear Monday that many of them will refuse to buy a car from Obama’s “New GM.”

“That’s like buying a Yugo,” wrote one listener of Baltimore-based WMAL-AM’s “Grandy and Andy Morning Show” on the program’s Web site.

Another listener said: “I think what will be coming out the door will not resemble, nor will it look like anything that anyone would want to actually have in their driveway.”

Clarence Ditlow, executive director of The Center for Auto Safety, a consumer advocacy organization, said the new GM will be “bad” for new owners -- and prospective ones.

“It’s a nightmare for present consumers and for future consumers it may just be a bad dream,” Ditlow told CNSNews.com. “But, in reality, for future consumers, there will be fewer dealers, service is going to be harder to get.”

Ditlow said the takeover is “one more reason for consumers to shift to foreign cars.”

“In both Chryslers and GM’s case, the government may very well make a viable corporation that can’t sell cars,” added Ditlow. “They are not going to perform anywhere near as well as what the government says they will.”

Just over a month ago, on April 30, Chrysler was also forced to file for bankruptcy, but a bankruptcy judge on Sunday approved the sale of the majority of Chrysler’s assets to a group led by Italy’s Fiat.