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From the Los Angeles Times
Dust-Up

Will Government Motors do better than General Motors?

How likely is it that Washington will do a better job running GM than the executives who oversaw its decline? Daniel J. Ikenson and Howard Wial finish their debate.

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Today's topic: How can the federal government simultaneously regulate GM, protect the taxpayers' interests as the company's dominant shareholders and help the carmaker turn out products that people want to buy?

CEObama

Point: Daniel J. Ikenson

The Obama administration's pre-packaged bankruptcy plan for General Motors is a recipe for disaster. Even if President Obama were sincere in his claim that he doesn't want to run a car company, it will be impossible for him to eschew policies that distinctly benefit GM. With taxpayers on the hook for $50 billion (just for starters), the administration will do whatever it takes to demonstrate the wisdom of its intervention.

That will require, at a minimum, a positive return on the coerced investment. But to merely break even on taxpayers' 60% stake, GM will have to be worth $83 billion (60% of $83 billion is $50 billion). How and when will that ever happen? At its peak in 2000, GM's value (based on its market capitalization) stood at $60 billion. Thus, the minimum benchmark for "success" will require a 38% increase in GM's value from where it was in the heady days of 2000, when Americans were purchasing 16 million vehicles per year. U.S. demand projections for the next few years come in at around 10 million vehicles. Taxpayer ownership of GM is something we should all get used to, and the "investment" is only going to grow larger. Think Amtrak.

It should be obvious that the administration will rely on policy (tax policy, trade policy and regulations) to induce consumers to purchase GM products, to subsidize production and, indeed, to hamstring GM's competition. This will have perverse effects on Ford and other companies that find it difficult to compete against a free-spending Treasury. And all of this will happen even if the president is true to his claim that he doesn't want to run a car company. He can take a hands-off approach and tilt the playing field in GM's favor at the same time.

But the president does want to run this car company. It is central to his mission of converting the United States from a carbon-based economy to a renewables-based one. "CEObama" already fired his predecessor, promised the United Auto Workers that GM won't import small cars from its foreign plants and has vowed to turn GM into a model of green production. But the government has never been good at inducing carmakers to produce vehicles that people want to buy. If anything, government policy has encouraged auto producers to make vehicles that people don't want to buy. Fuel efficiency standards have induced producers to make costly, high-mileage vehicles over the years and sell them at no profit or at a loss because of limited demand. Accordingly, government policy is one of the reasons for GM's collapse.

The only thing that can save America from this shotgun marriage to GM is a bankruptcy judge willing to reject the administration's reorganization plan. It is possible that the judge will insist that GM raise equity from private bidders instead of taxpayers, but given this week's rubber-stamping of the administration's plan for Chrysler, don't count on it.

Daniel J. Ikenson is associate director of the Cato Institute's Center for Trade Policy Studies.

This isn't a case of extremes

Counterpoint: Howard Wial

Dan, your devotion to a blinkered view of the virtues of markets and the vices of government leads you to see only the extremes, leading to a false dichotomy.

Either businesses make decisions independently and are judged by the always-perfect invisible hand of the market, or else the government micromanages their every move in pursuit of a misguided notion of the public interest. If the government nevertheless decides to intervene, though, it miraculously abandons its devotion to the public interest and desperately uses every tool at its disposal to raise the market value of the companies it runs, just as a private investor would.

This kind of either-or thinking is what I reject. It's not either the market or government, either profit or other social goals. It's both/and. GM's managers, engineers, production workers and suppliers know a lot more about building cars than government officials ever could. But the government can and should work with them to help GM build better cars that consumers will buy.

The federal government should use its ownership stake in GM to require the automaker to get serious about its quality problems -- not just in a few plants or a few models, but across the board. It doesn't know in advance what those problems are or how to fix them. But it can and should require managers, engineers, production workers and suppliers to get together to identify and solve those problems, just as Toyota does. The result will be cars for which consumers will gladly pay more, just as they now do for Japanese cars.

Dan, you think that if GM's managers weren't able to make this happen on their own, then the company should have been allowed to fail. If there weren't important national interests at stake -- in innovation, national security and the health of American manufacturing -- then I would agree. The government should measure its success as an investor in GM by how well those interests are served, not by how much the price of GM stock rises. If it does that, then it won't, as you fear, try to tilt the playing field in favor of GM at the expense of Ford.

Helping GM solve its quality problems won't require federal micromanagement and shouldn't include political considerations. The federal government shouldn't tell GM what kinds of cars to make, which factories to close, or which dealerships to let go. You're right in pointing out that there's a risk that the government will do just those things that we both agree it shouldn't. But I don't think that's inevitable because I see a different and more positive government role than you do. While seeing that positive role doesn't guarantee that it will happen, not seeing it practically guarantees that it won't.

The approach that the government should take to GM should also be a model for helping hard-hit auto-dependent regions of the country adjust to what will be at least a temporarily smaller auto industry. All these regions have strengths -- including workforce skills and knowledge to create and make new products and services -- that can help them rebuild their economies. The federal government doesn't know what those strengths are or what to do with them. But it can work with state and local business, labor, government and civic leaders to help them figure out what to do.

Two great lessons of economics are that markets work and markets fail. When markets fail, arm's-length policies like taxes and regulation are often enough to solve the problem. For example, we need taxes or regulations to raise the price of gasoline to reflect its environmental impact. (That's what will make consumers want to buy more fuel-efficient cars.) But sometimes government needs to play a more active role. This is one of those times.

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