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The Great Auto Restructuring Shows Signs of Success

The entitlement mentality is gone, and the tough-love approach could be a model for the country.

By PAUL INGRASSIA

Detroit

Everybody knows about the Great Depression and, more recently, the Great Recession. The 2011 North American International Auto Show, which opens to the general public today, comes on the heels of something better: the Great Restructuring.

A radical, sweeping and painful overhaul saved Detroit's auto makers after their near-collapse two years ago. The city's 2009 car show seemed like a funeral, with a few lonely- looking cars scattered on tattered carpets. It symbolized a time when workers, managers, shareholders, bondholders and dealers were losing their jobs, pensions and investments, and taxpayers were paying the price.

But at this year's show a plethora of hybrid and electric cars sits on multi-level displays, suggesting that the "propulsion revolution" away from internal-combustion engines is moving from novelty to reality. Companies do fret over "range anxiety," their term for consumers worrying about whether electric cars might run out of juice on the road. But this is better than worrying about corporate survival.

The good times are beginning to roll again, far faster than anybody expected, at General Motors, Ford and even at the weakest of the Detroit Three, Chrysler. There might be a lesson here. If the Great Restructuring has the potential to resolve the seemingly intractable problems of Detroit, perhaps bold structural overhauls can produce similar results on some broader issues facing America. Sure, that's a lot to hope for—but consider what tough love has done in the Motor City.

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In 2005, General Motors lost an astounding $10.6 billion—this in a year when Americans bought nearly 17 million cars and trucks, nearly an all-time record. Last year, industry-wide sales totaled 11.6 million vehicles, historically depressed by any standard, but GM posted net income of $4.8 billion through Sept. 30. The company hasn't reported full-year results for 2010, but earnings will easily top $5 billion.

At Ford, the only Detroit company that didn't go

Getty Images

GM's North America President Mark Reuss introduces the 2012 Chevrolet Sonic at this year's Detroit Auto Show.

bankrupt, the financial turnaround has been even more dramatic. Ford lost $12.6 billion in 2006 but earned $6.4 billion in the first nine months of last year. It just announced it will hire 7,000 more employees. Chrysler, meanwhile, is operating at break-even, and its cash flow is positive.

No one expects U.S. vehicle sales to climb back near 17 million any time soon, not with unemployment stuck well above 9%. But the Detroit companies, along with their foreign-based competitors, will post substantial earnings gains if this year's sales climb to between 12.5 million and 13 million vehicles. The chances for hitting that sales level look good. The average vehicle on American roads today is 10.2 years old, says R.L. Polk Co., which collects such data. This compares to an average age of 9.4 years five years ago and 8.8 years a decade ago. The point: Cars and trucks are getting older and will have to be replaced.

GM now makes 28 vehicles per year for each employee, calculates Goldman Sachs auto analyst Parick Archambault. That's more than double the company's productivity during the 1990s, he notes, and fully four times as high as in the 1950s, Detroit's glory years. GM's hourly labor costs now amount to just 6% of its revenue in North America. That's down from nearly 30% a few years ago, when the company was paying tens of thousands of workers to sit idle, and paying the full freight for employee health care.

GM's gains, and similar ones at Ford and Chrysler, have occurred because of the Great Restructuring, much of which came at the insistence of President Barack Obama's automotive task force. The infamous Jobs Bank that paid idled workers is gone, and with it lots of semi-idle factories that should have been shuttered years earlier.

Gone as well are brands long dead in all but name: Pontiac, Mercury, Saturn and Hummer, all of which have been shuttered; Saab, Jaguar and Range Rover have been sold, with the latter two being revived under new ownership. All were money-losers for years, even decades. They were kept around to avoid making severance payments to dealers or to avoid wounding corporate pride.

The car companies' unlimited health-care obligations to retired workers have been replaced by a trust, funded by company contributions that are capped at a fixed amount. Active workers now pay about 5% of their health-care costs, up from nothing a few years ago.

Of course, 5% is only about one-fifth of what the average American employee contributes out of wages to his own health-care plan. That's one sign Detroit's turnaround remains fragile, threatened by the companies' traditional tendency to confuse comeback with victory. But even in labor relations there's a whiff of fresh air.

When GM's new CEO, Dan Akerson, suggested this week that workers' wages should be tied to corporate performance, the new president of the UAW, Bob King, quickly said he's willing to discuss the idea.

That cooperative spirit will be critical in an industry on the cusp of a technology revolution. The Detroit show's major product news was Toyota's announcement that it will make the Prius hybrid a family of vehicles, starting with a new station wagon this summer.

It isn't clear whether traditional hybrids, plug-in hybrids, all-electric cars or something else will be the winning new technology. But change is in the air and on the road. Meanwhile, Detroit's Great Restructuring offers some potential lessons for broader areas of American public policy.

The United States is facing trillion-dollar federal deficits that are patently unsustainable, and the broad debate in Washington is whether tax increases or spending cuts are the proper solution. But neither approach, nor a combination of the two, will work without restructuring the vast federal entitlement programs that are the national equivalent of Detroit's Jobs Bank.

Social Security can't and shouldn't be abolished like the Jobs Bank was. But it can and should be restructured—to encourage later retirements, for example—as part of a broad entitlements reform.

States are burdened with underfunded pension plans for public employees that have destroyed their fiscal probity. It's nutty to raise taxes to plug state budget deficits, as Illinois just did, without restructuring public-employee pensions that allow workers to retire in their fifties, in some cases, with 80% of their pre-retirement incomes. Restructuring public-pension plans into 401(k) programs will spur fierce union resistance, just as key elements of the Great Restructuring did in Detroit. There's no painless way out of this problem. But further delay will only increase the pain, as Detroit's disaster of 2009 proved.

We should learn from success. Tough-love restructuring can produce renewal. With political will, resolve can produce results. Visit this year's Detroit auto show to see the evidence.

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