



## The anti-technology bail-out

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With Detroit's auto-makers flat on their financial backs, GM, Ford and Chrysler are begging for at least \$25bn in public subsidies. They hold 250,000 auto workers - and, implicitly, the US economy - hostage. The ransom note reads: send us the money or unemployment will soar, consumer markets will tank and millions will lose.

Congress ought not submit. The problem is not just the "blank cheque" that President-elect Barack Obama warns against. He is right to be wary about shoring up money-losing production lines with public funds. But the implicit solution - that conditioning the money transfers - is dubious. That would require expert knowledge as to what the car producers should be doing. But the government has precious little knowledge as to how to regulate financial institutions, which it decided to do via the Federal Reserve in 1914, let alone produce cars, which it has never done.

And politicians are easily distracted. Running Detroit from Washington produces just the showboating seen in the brouhaha over whether the three chief executives should have driven to Congress to plead for their subsidies rather than flown in on corporate jets. What attraction does reasoned analysis of GM's \$73-per-hour labour cost (average 2006 rate, including benefits and overtime, according to GM website) hold when the symbolism of outrageous CEO perks is the low-hanging political fruit. Indeed, there is a rational explanation for this: this sideshow is the only thing the policymakers have the expertise to debate. Production line technologies, profit sharing plans, dealer networks and corporate governance? Far, far above pay grade.

The real problem entailed by the auto-maker subsidies will never be discussed because it can never be seen. The opportunity cost of shovelling capital to companies such as GM is that companies such as Boeing or United Technologies or Disney or start-ups unknown will be unable to use it to fund their projects. Propping up today's US car manufacturers means beating down tomorrow's economic star. In an era of technological leaps, those emergent stars tend to be leapers. The bail-out puts the public's chips on the former, pulling stakes from innovative rivals.

The UK ran this experiment in the 1960s, picking national champions that were to push the national economy to the cusp of global dominance. The government selected companies for protection and subsidy, including British Leyland in autos. BL sank so fast that it had to be acquired by the UK government in 1975 and over £1bn in public funds were pumped into that nationalised money pit by 1980. National champion? The unsubsidised Ford UK overtook BL in the British market. The Thatcher regime sold off BL, liquidating a failed experiment. Competitive car makers - private, unsubsidised and exporting - now dot the English countryside.

There is something to be said for failure. The Brits paid, but learned, moving to a far more efficient economy. The US now seems poised to drive up its own learning curve, making an even more expensive commitment to public policy education. The \$700bn bail-out voted by Congress to rescue failing banks has apparently funded great confusion: the state's responsibility for financial system liquidity, assumed a century ago, involves a public good. Where confidence in banks, which maintain reserves at only a fraction of their deposits, dissolves, runs occur. Institutions that were doing everything right (including maintaining the reserves prescribed by regulators) are put in mortal danger.

The situation with respect to the Big Three is entirely different. Relatively high-cost, low-profit methods have been used to produce cars. Competing (Japanese or Korean) car makers, locating plants in different places, operating under different labour contracts and producing different sorts of cars, are not on the brink. Bankruptcy of one or more of the US firms would not dissolve the domestic auto industry and would not produce a run on the products of other firms. It would restructure the ownership, management, structure and contracts of GM, Ford, or Chrysler. Executives, workers and suppliers would reluctantly co-operate. They would prosper to the degree that they ended up producing products that consumers want to buy.

Not a bad system. It surely beats the easier path - for the Big Three - putting other people's money at risk. That is the British Leyland model. Letting manufacturers compete, the expensive lesson learned from industrial policy, is the efficient way to discover and support the national champions that should emerge - whether they be in autos or software, Detroit or Sunnyvale.

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