

CURRENT EVENTS 12/15/08

THE AUTOMOBILE INDUSTRY FIASCO

The condition of the domestic automotive industry is one of the clearest and best arguments for freedom and capitalism to hit the news in a long time. If you listen to the main stream media you probably would not come to that conclusion.

Just few years ago, General Motors was the strongest, most powerful company in the world. Now it is bankrupt! How could that happen while companies like Toyota and Honda thrive?

Once upon a time, an individual went into business with the reasonable expectation of the right to hire and fire employees at the individual's discretion. Denying this right constitutes the use of force against the individual and moves society closer to a "totalitarian" government.

In the 1930s, labor laws were passed nullifying this right. Labor laws allowed employees to apply initiate the use of force against the employer. The employees were allowed to physically restrict traffic into the employer's property, refuse to work, and prevent others from working in the employer's facility. The employees (union) were given a government enforced monopoly on supplying labor to the employer. In effect, the union could "kidnap" the employer's production facility and hold it for "ransom".

The union leaders ("PEERS", since the government had granted them the right to initiate the use of force against fellow citizens) held the power to destroy the automobile companies. The union leaders ("PEERS") recognized that the politicians were the source of their power and programs which made the unions a powerful political force were initiated.

Economic conditions and a world war tempered the "PEERS" use of force for about ten years. After that, the near monopoly of the automotive industry allowed the companies to meet the "PEERS" demands and pass the cost on to the consumer. The labor cost of the "Big Three" quickly became two to three times the cost per hour of other workers with similar qualifications.

When the "Big Three" lost their near monopoly during the 1970's energy crisis, their artificially high labor cost and the confrontational relationship with their employees made bankruptcy inevitable.

The automotive industry has always been a cyclical industry and has used the profits earned during the good times to carry it through the bad times. Because of the high labor cost and competition which eliminated the ability to pass on unlimited cost to the consumer, the huge profits the "Big Three" usually earned in good times evaporated.

When energy cost surged out of control, both the demand for automobiles and the product mix changed very quickly, both sales and profit evaporated. A labor contract that severely limited the savings available from production cutbacks and minimal profits from the previous up cycle caused the "Big Three" to face bankruptcy.

The departure from the principles of capitalism in the 1930's made this disaster inevitable. The only question is, why did it take so long?

A case could be made for financial aid to the "Big Three" since the governmental policies are the root cause of the problem; however, financial aid without correcting the problem is just "throwing good money after bad". The solution to the problem is to eliminate the "PEERS" ability to "kidnap" and hold the production facilities for "ransom".

Given the political debt that the incoming President and Congress owe to the "PEERS" (union leaders) there is little chance that the source of the problem will be eliminated any time soon.

TO SOLVE THE PROBLEM, WE HAVE TO "THROW THE RASCALS OUT".