Domestic Credit by Anthony K. Wikrent

Iacocca misses the point

Chrysler and the other big three automakers are in big trouble, but as usual, they have the reasons wrong.

With U.S. retail sales of cars and light trucks running at the lowest levels on record, U.S. automakers, led by Chrysler chairman Lee Iacocca, are gearing up a new campaign of blaming the collapse of the U.S. economy on Japan.

This is the same Lee Iacocca who once declined to run for President on the grounds that he had no idea what to do about the economy.

U.S. retail sales of cars and light trucks sank 14.4% to an annual rate of 5.9 million in early March. In February, the annual rate of motor vehicle retail sales had already fallen to 6.1 million, the lowest rate since 1981. Total U.S. car and light truck retail sales for February were 914,457, fully 13.2% below the 1,053,764 of last year. By comparison, there were 13.79 million units sold last year, 14.54 million in 1989, and 15.43 million in 1988.

The reason for the spectacular collapse of the auto market is that the real income of 90% of the U.S. population has declined with the introduction and consolidation of the free market, post-industrial, and radical environmental policies of the past three decades. The real median hourly pay for 93 million workers, for example, has declined from $8.52 in 1973 to $7.46 at the end of last year, a collapse of 12.4%.

Less income necessarily means a lower standard of living, translating into fewer new cars, fewer new homes, and so on. But to admit that would not help the life-expectancy of the Bush administration. So, instead, U.S. political and business leaders are loudly blaming the economic misery now snuffing out Americans' lives and dreams on "unfair" trading practices by, especially, Germany and Japan.

As the automakers tell it, the demon to be exorcised is an increasing Japanese share of the U.S. market. While there is some truth to what the automakers have to say on this point, it completely fails to direct attention to the real problem, which is that the overall U.S. market is now in a process of collapse, for reasons that have nothing to do with supposed consumer confidence.

In point of fact, the Japanese market share was 24% for all of 1990, though reaching a high of 31% in the last quarter of the year, and is now declining, to only 28% in February, as sales of some Japanese cars plummet faster than sales of U.S. cars. For example, in February, Honda's sales fell 21.3%; Nissan's fell 24.6%; and Toyota's fell 11.0%; compared to declines of 17.7%, 13.3%, and 8.6% on the part of General Motors, Ford, and Chrysler, respectively.

Iacocca began the campaign in late February, slyly claiming in a letter printed in the *New York Times* that he "bashes Washington, not Japan," but admitting that he was embracing the idea of increasing protection of the U.S. market from foreign competition.

Then, on March 6, Iacocca sent a letter to President Bush warning that if Japanese automakers are able to increase their market share to 40% this year, from 31% last year, "Chrysler is gone, and Ford could be mortally wounded from a competitive standpoint," he said.

It was the Treasury Department, not Commerce, that prepared a response to Iacocca's letter. According to the *Wall Street Journal,* Treasury said that the U.S. automakers have historically used restraints against imports to boost profits, rather than increase efficiency, and singled out as a major problem the union contracts signed last fall, which guarantee the incomes of laid-off workers.

All this activity led to a highly unusual meeting of the chairmen of the three U.S. automakers with President Bush. Reportedly, Iacocca, GM's Robert Stempel, and Ford's Harold Poling discussed the threat to their industry from continued high interest rates, legally mandated fuel efficiencies, and Japanese competition. In the days after the meeting, Bush's response was dribbled out to the media: The President is going to continue to rely on the workings of the "free market," and is not going to press the Japanese to lower the number of cars they bring into the United States.

This response to an issue that has been give a very high profile conveniently allows President Bush to plausibly reject suggestions that he is bashing the Japanese, at the very same time that his administration is applying brutally harsh pressure on the Japanese in a number of less-publicized trade issues, such as private telecommunications equipment, rice, and coal.

Iacocca's problem is that Chrysler is hurting more than most. For the first time since the 1980 bailout, Chrysler was forced to put up factories and equity stakes in some subsidiaries as collateral for maintaining its banking lines of credit. But the pain that Iacocca is feeling is due to the collapse of the mismanaged U.S. economy, not the Japanese biting at his heels.