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“What Killed GM?”

Dennis Kneale: We're rolling up our sleeves, putting on some goggles and investigating the real cause of GM's death. Was it General Motors itself or the regulators that have blood on their hands? Peter Flaherty is with the National Legal and Policy Center. Martin Weiss is CEO of Weiss Research. Peter seems like a lot of federal regulations, state laws got in the big car makers way and GM's especially, what do you think?

Peter Flaherty: Well sure, I mean we can't debate the point that the managements of these companies failed, because they clearly did. But, I would ask, why did they fail? I would say it is because government regulation. First we had the safety regulations, then we had the fuel economy standards, and the result not only was more costly cars that were harder to sell, but it also made all the companies make the same thing. They put a damper on innovation. And all these executives were making the same decisions.

Dennis Kneale: Right.

Peter Flaherty: And it hurt competition between them.

Dennis Kneale: Marty, what do you think?

Martin Weiss: I think that its absolute hog wash.

Martin Weiss: Sure, I mean regulation played some role but look General Motors has made a series of egregious blunder us errors. First, of all in 1988 they had a plan B which was to build electric cars. They scrapped it after building only fifteen hundred. In 2003 they offered zero percent financing across the board. By 2005 they had built up a hundred and fifty billion dollars in debt. So now, they are not only borrowing from future revenues, they are borrowing through the nose from creditors.

Peter Flaherty: But Martin, All that is true, of course...

Martin Weiss: So one after another and this showed just a culture of arrogant cocky complacency that prevented them from listening to alternative alternatives.

Dennis Kneale: Ok, Go ahead, Peter.

Peter Flaherty: But Martin, you forgot, you forgot their biggest shortcoming and that was the failure to take on the unions. No executive in Detroit would dare take on the unions or build a non-union plant in a southern state. Now, there is a reason for that.

Martin Weiss: But Dennis. Yeah, there may be.

Peter Flaherty: That's because of the government, because of the power of the United Auto Workers on our government. If one of them tried, they would have been run out of town. And now we have the ultimate manifestation of it where the UAW has an equity stake in the company and I predict the results are just going to be worse and worse.

Dennis Kneale: Gentlemen, let me steer this back.

Martin Weiss: If you want to attack...

Dennis Kneale: Martin wait a minute please. Let me steer this back to government regulation. Because while I agree with what you both have said, and certainly GM suffered from what one car executive told me was like this big company syndrome. Where they thought we are so big that we just can't fail and it turns out they were wrong about that. Government regulations did distort the entire structure of the industry. Because of the CAFE standards for miles per gallon what the American car makers had to do was make a whole bunch of teensy little cars that no one wanted to buy when gas was two bucks a gallon, lose money on them just so they could average they could lower the average of their miles per gallon and then make a lot of money on the big SUVs. Now if we had a structure that reflected the real market really GM, Ford, Chrysler they should have been making these big honking gas guzzlers because that's what was selling that's what they wanted to make. And the foreign brands could come in do non union labor on tiny cars at a cheap price and still make a profit. Everyone would have been happy, but Peter, we could not have a real market because of rules like that.

Martin Weiss: Well look, wait, wait.

Peter Flaherty: Well that is correct. Where did these regulations come from? They came not from the public, not from the consumers. They came from the activists like Ralph Nader and Joan Claybrooke. I think they are a poor substitute for the wisdom of crowds. Instead of these people deciding what we should drive and how much it should cost it, should have been millions of consumers making individual decisions in the marketplace. And you are right about these fleet standards, why do all these car companies have to do the same thing? Why couldn't we have specialization?

Dennis Kneale: Ok.

Peter Flaherty: A company that makes muscle cars, a company that makes little cars, a company that makes small cars, big cars. We don't get that. Just think if cell phone companies all had to make the same thing.

Martin Weiss: If you want, if you want to analyze every problem, every failure based on this filter of trying to find the regulatory demon in every corner, you are not going to learn the lesson of victory. You are going to fail to learn the lesson of history. And that lesson is going to result in more failures Ford, even Fiat.

Peter Flaherty: What's your lesson Marty? That socialism works? Because that is where we are headed. We will see how well it works.

Dennis Kneale: Nice debate gentlemen. I hope you both come back. And before we leave, let me give you one thought. You know the most important law of business is demand, supply and demand right? And let's remember something, GM sold over a hundred thousand or two hundred thousand cars last month. How many hybrids did it sell? Seventeen hundred. That's all the people that wanted to buy them.

Martin Weiss: What about Toyota's numbers?

Dennis Kneale: So what we are doing today with these tougher CAFE regulations. I got to tell you we are going down the wrong road. Thanks for being here folks.

Peter Flaherty: You bet. Thank you, Dennis.