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**The deregulation of employment and finance:
the Big Three in crisis**

Michel Freyssenet

Bruno Jetin

English translation of the article published in French:

Michel Freyssenet, Bruno Jetin (2011). « Dérégulations salariale et financière: la crise des Big Three ». *Revue de la Régulation*, n° 9, 1er semestre.

Some have said that the demise of America's three leading automakers (General Motors, Ford and Chrysler; referred to hereafter as the "Big Three") can be explained by a financial crisis that has revealed the inadequacy of the companies' cost-cutting and profit adaptation efforts. The parties responsible for this disaster are generally considered to be arrogant executives and inflexible unions focused solely on members' interests. If this were true, however, it is hard to see how the Big Three were able to make profits between 1983 and 2000 (asides from a temporary downturn in 1991-1992) nor how, in the new millennium, they made money in 2003-2005. The standard explanation also does not explain Ford and General Motors's good performance in Latin America and China since 2004 (Jetin, 2009), nor why GM, which basically had no presence in the Chinese market in 2000, has since become the leader there. The real questions are how GM achieved this remarkable success in a - and how to explain that a company widely acclaimed as a universal model for more than 30 years now - Toyota - has spilled so much red ink over the past two years, largely due to losses in the American market (Freyssenet 2009).

Research by the GERPISA network¹ on the history of the automobile industry since its origins has helped to identify two essential conditions for corporate profitability (Boyer, Freyssenet,

¹ GERPISA (Permanent Group for the Study and Research of the Automobile Industry and its Employees, EHESS, Paris) is an international network of social science researchers with an interest in the automotive sector

2000 and 2006): one that is macroeconomic and societal in nature; and another that is microeconomic and social. To be profitable, a company's profit strategy must be compatible with the growth mode in the country comprising its main market. Moreover, it must implement this strategy via means that are both coherent with one another and accepted de facto by the main stakeholders (employees, banks and shareholders).

Thus, a company's profitability does not only depend on the quality of its executives' management (or their clairvoyance) but also on changes in the growth mode characterizing the country or region constituting its main market(s). It is also clear that executives today have much less of an influence on national growth modes than they used to, not only because so many different actors are affected by these modes but also due to the fact that each growth mode harbours certain contradictions that are difficult for any one company to escape.

This would appear to be the main problem that the Big Three have had to face in the United States. There are two explanations for General Motors, Ford and Chrysler's good performance in the past: booming light truck sales; and American carmakers' conversion to the "new economy". Light trucks are part of a specifically American administrative category comprised of vehicles ranging from authentic small trucks used for utilitarian purposes and above all, since the 1980s, minivans, 4x4s and SUVs. As for the "new economy", this drove the sustained growth observed in the United States during the 1990s, a time of long-term stagnation in Japan and slow growth in Europe. One way to characterise the new economy is by technological and financial innovation and a new international division of labour. Banks, investment funds, large companies and start-ups working out of so-called core countries were all trying to become the financial and innovative fulcrums of a new, globalized world.

These two developments also relate directly to two major transformations in the US mode of growth: the deregulation of employment; and the deregulation of finance. Yet these are trends marked by crises: for the former, the never-ending saga of most households' lower living standards; and for the latter, recurring speculative bubbles that are destructive to investment finance and consumer credit. As such, they suffer from a manifest lack of long-term viability.

1. Employment deregulation and structural changes in automobile demand

As everyone knows, the monetary and oil shocks of the 1970s disrupted global growth and destabilized those countries whose economies had been internally-oriented, i.e., where growth was driven by domestic consumption and where variations in purchasing power were tied to productivity gains. These countries had to pay extra due to the higher cost of oil and imported materials. The dilemma they faced was their need to increase exports to offset import costs. In turn, this forced them to dismantle their customs protection systems, despite the fact that goods' prices were set in their home markets and not internationally. Car-producing countries in this situation included the United States, France and Italy. Conversely, countries like Germany, Sweden and above all Japan, where growth was export-driven and national income distributed on the basis of external competitiveness, could subject the first group to greater competitive pressure.

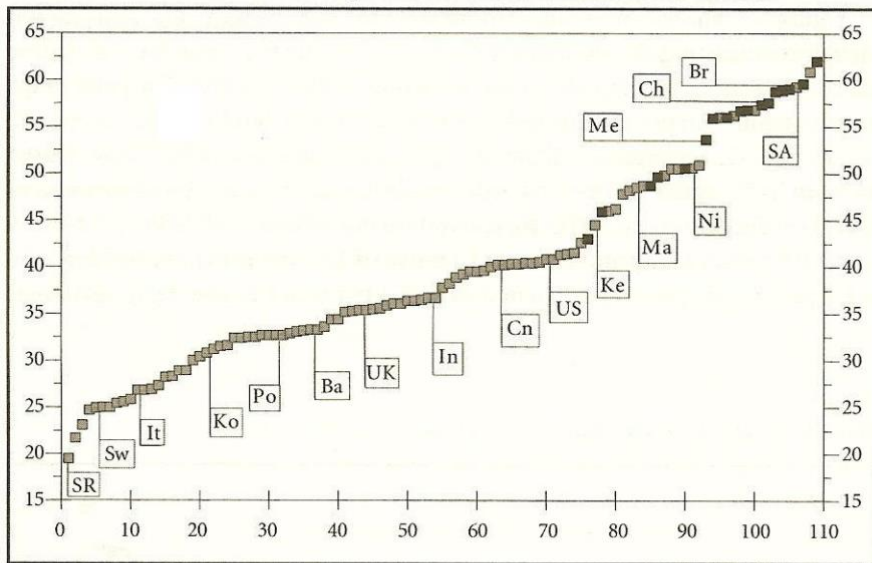
Internally-oriented countries sought solutions in different areas. In the United States, for instance, the Reagan administration believed in the deregulation of the labour market and financial sector, and that consumption should be stimulated through lower taxes and an industry supported by state contracts awarded within a "Star Wars" framework. There was also a conscious attempt to lower oil prices. This ultimately succeeded in 1986 with what became known as the counter-oil shock. For precautionary reasons, the Reagan administration also gifted US carmakers certain protections, forcing foreign manufacturers (mainly from Japan) to manufacture in the US if they wanted to raise market share further. Relatively high tariffs were also levied on light truck imports. US carmakers hoped that such measures would deprive their Japanese rivals of any competitive advantage, attributed by many to Japan's lower wages and under-valued national currency.

The national income distribution mode also changed radically. Previously this had been "nationally coordinated", meaning that distribution was determined via the agreements that certain leading companies would sign. The country had also been "moderately hierarchical", meaning that income distribution was established for different categories of the population, with some small variance between each group. This approach had been the impetus behind the exceptional growth witnessed between 1945 and 1974. The change involving making distribution more "competitive", rooted in "individual merit", category-specific power and financial opportunity. The end result was growing income equality between households,

manifested in numerous indicators and studies conducted on this topic (Gottschalk and Moffitt 2009; Massey 2007; Piketty and Saez 2003). Since 1981, the Gini coefficient, assessing the degree of disparity marking a particular income distribution, has risen non-stop in the United States, largely exceeding the levels of disparity witnessed in other wealthy countries (Freeman 2007) and equalling those found in more in-egalitarian developing countries like Kenya or Malaysia (Palma 2007) (Figure 1).

Figure 1: Income inequality in the USA, in other advanced countries and in developing countries

Most recent data on Gini indices of personal income distribution in 109 countries



Notes: Countries are ranked according to their degree of inequality (1 to 109); Latin American countries are shown in black (this will also be the case in similar graphs below). Throughout this chapter, Gini indices are reported on a scale from 1 to 100.

Br = Brazil; Ch = Chile; Me = Mexico; SA = South Africa; Ni = Nigeria; Ma = Malaysia; Ke = Kenya; US = United States; Cn = China; In = India; UK = United Kingdom; Ba = Bangladesh; Po = Poland; Ko = Republic of Korea; It = Italy; Sw = Sweden; and SR = Slovak Republic.

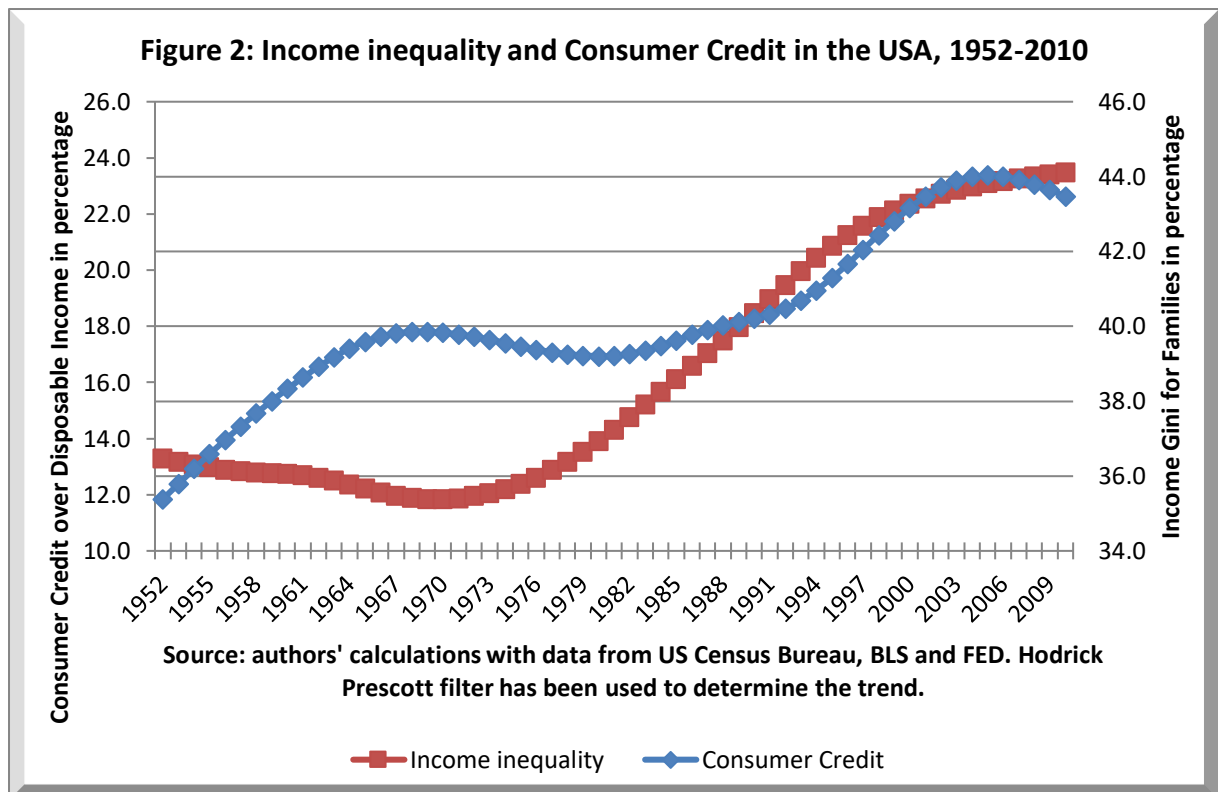
Source: G. Palma, 2007 with data from the "World Development Indicators, World Bank, 2004

A study entitled *The State of Working America 2008/2009* (Lawrence, Bernstein and Shierholtz 2008) showed that since 1984, productivity has risen much more quickly than wage income, with median hourly wages diverging markedly from average hourly pay. Note that these three orders of magnitude used to parallel one another. The last time before 2007 that the US income was as concentrated (23%) in the hands of the country's 1% wealthiest earners was 1928 - a year that is both significant and highly symbolic.

In addition to growing income inequality, there is also the sense of greater insecurity that many households feel because of their precarious employment prospects, uncertain pension

rights and generally diminished social safety net. “Defined benefit” retirement schemes, for instance, have been progressively replaced by “defined contribution” systems, forcing active workers to continue beyond their normal retirement age and/or to try to make the most of their savings, often through risky financial investment. Similarly, the percentage of wage earners protected by union agreements has fallen steadily, hitting the extremely low level of 15% in 2000 versus 26% in 1980 (Hirsch, Barry T. and Macpherson David A. 2003). This is comparable to Japan but far below European levels that often reach or even exceed 75% (OECD 2004). In 2009, collective bargaining agreements covered 13.6% of the US working population, for a unionisation rate of 12.3%. This decline in union membership and coverage has contributed to the falling proportion of total value added allocated to labour as an input factor (Fichtenbaum 2009). It is one of the main drivers behind the rise in social inequality (Weeks 2007; Rosenfeld 2006; Katz and Owen 2000).

The sharp rise in income inequality did not lead to consumption inequality in the same proportion (Krueger, Perr, Pistaferri and Violante 2010) since American households tried to offset slower income growth by working more hours (Burtless 1997) and taking on much more debt. Figure 2 shows the clear connection between rising income inequality and debt although the relation is not linear and change over time.



Over the period 1952-1970, income inequality decreased while consumer credit increased because the majority of American households benefited from the rise of real income and reduced inequalities and seize this opportunity to get indebted to buy mass consumption goods, such as automobiles and housing equipment. But since the eighties the relation changed. The rise of income inequality was followed by a rise in consumer credit to offset the slower progress of real income. Consumption may not have fallen over these years as much as might be feared, but the consumption structure shifted markedly. In particular, there was an inordinate increase in the size of the objects being consumed.

In the property market, for instance, whereas the size of individual houses had fallen during the 1960s-1970s, it rose again in the 1980s, even as income inequality was starting to skyrocket (Dwyer 2009). The average house size increased much more quickly than the median did, with demand for big houses being particularly strong among the rich. This meshed perfectly with the sharp rise in the income of the 20% wealthiest households, contrasting with stagnation in the income for middle and lower earners at this time. Even so, Dwyer discovered that thanks to the revolution in the mortgage credit market - sparked by the 1986 tax reforms - all household categories were trying to buy bigger houses, with the wealthiest 20% being the most successful in this respect. Less affluent households were only able to buy bigger houses because they took on extra debt, leading in time to the 2008 crisis when American households could no longer reimburse their mortgages.

The automobile sector witnessed comparable developments in terms of both volumes and demand structure. Despite fluctuations that more or less meshed with the different growth cycles, total sales tended to grow from peak to peak, reaching around 15 million units in 1978 and nearly 16 million in 1986 and 1988 before hitting a historical high of 17.8 million in 2000. In addition, households would also purchase used vehicles as second or third cars. In terms of the demand structure, the market was characterized by the growing market share of light trucks to the detriment of simple passenger cars, to the point that by 2000, sales of the former category finally exceeded sales of the latter (Figure 3). Passenger car sales fell from 11.5 million units in 1986 to 7.5 million in 2006, whereas light truck sales rose from 4.3 to 9.8 million over this period. As happened in the property sector, people wanted bigger and bigger items. Figure 4 shows that large light trucks, and among them large and expensive SUV, increased their market share dramatically during the growth cycles of the nineties. Even

during the “jobless growth cycle” of the years 2001-2007, at a time when households’ median income was stagnating, the share of large light-trucks stayed at about 50% of overall light-trucks sales, an evolution that was made only possible with the rise of rich households’ income and the growing indebtedness of the middle class. This evolution was also supported by the U.S. Congress and government which modified fiscal and environmental legislation and encouraged financial innovation.

Where light trucks had once mainly involved pick-up trucks - vehicles that were not particularly expensive or luxurious and were traditionally used by rural populations and small entrepreneurs – now they also included minivans, 4x4s and sports utility vehicles (SUVs). For regulatory reasons, it was crucial that a vehicle be categorized as a light truck since it was then subject to lower taxes and antipollution or safety standards than those applied to passenger cars. American Motors, the fourth largest carmaker in the US at the time, received the go-ahead from the Environment Protection Agency (EPA) in 1973 to assimilate its Jeeps with light trucks (Bradsher 2002). Before this, Jeep sales had been very marginal in the US market. Moreover, American Motors, which was facing a number of other problems at the time, would not have had the means to design or build catalytic converters. Indeed, the company may have been granted a waiver because regulators felt it needed time to return to health, and because the measures were likely to be temporary and did not seem very serious.

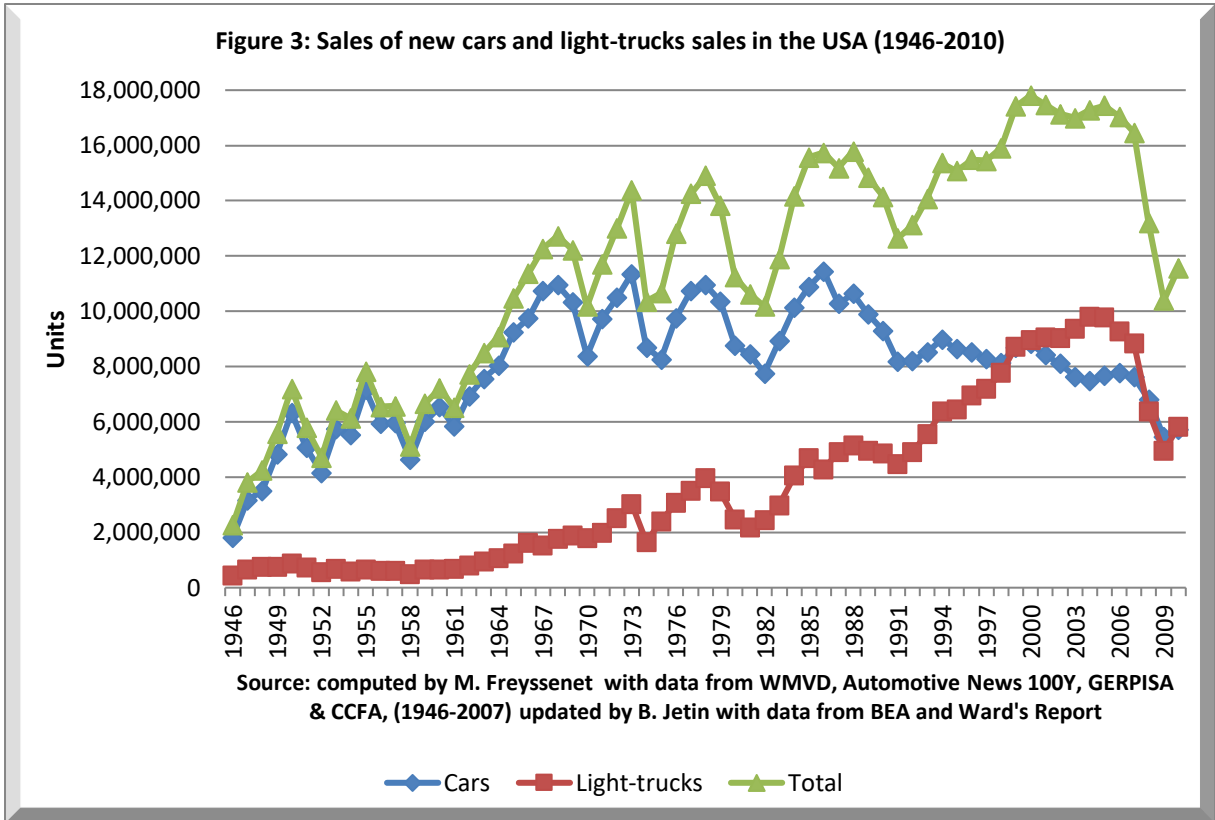


Figure 3: Trends in US automobile sales, by vehicle category, 1945- 2008

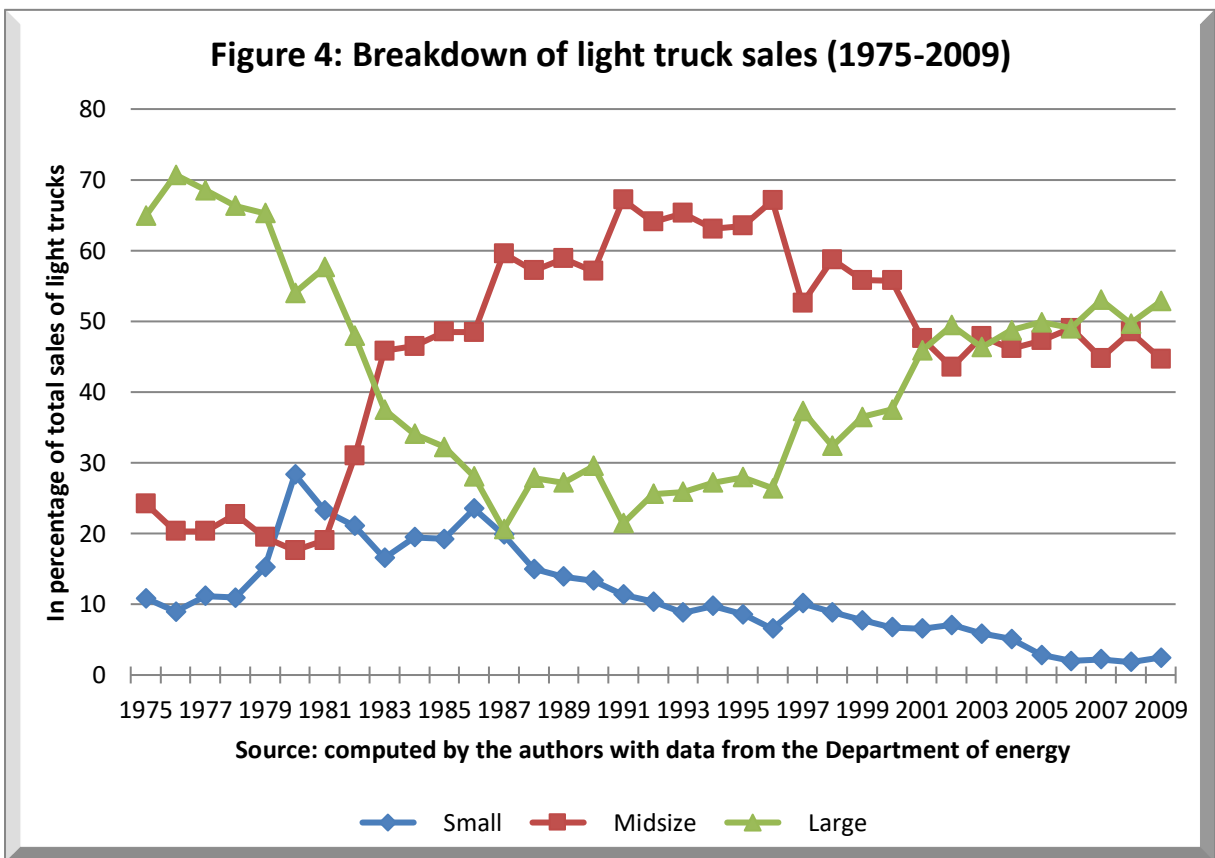


Figure 4: Breakdown of light trucks sales in the US market (1975-2009)

Yet this move would revolutionize the light trucks segment by introducing into this category vehicles that might be used for an increasingly wide variety of purposes. This breach would be fully exploited following four developments that took place in the 1980s: Chrysler's invention of the new "minivan" vehicle concept; deepening economic and social inequality; the counter-oil shock; and changes in regulations. The first development led to the discovery that an increasing proportion of households were attracted to non-conventional vehicles that could notably be used for leisure activities to give urban households an illusion of being able to leave the city behind and rediscover nature (Glover 2000). Chrysler followed up by making its Jeeps² increasingly comfortable and adapted to city and freeway driving, giving birth in turn to SUVs. Households who had benefited from employment deregulation turned these new vehicles into a symbol of their good fortune (Bhat, Sen and Eluru 2009; Choo and Moktharian 2004). In the US social and cultural context, where greater social inequality led to rising criminality, SUVs - big vehicles whose drivers enjoyed a bird's eye view of traditional cars - gave people a sense of personal safety and created a social space allowing them to isolate themselves from an outside world perceived as hostile (Lauer 2005)³.

The counter-oil shock took away the financial pain of light trucks' lesser fuel-efficiency. Moreover, pollution regulations were practically unchanged between 1985 and 2005. The net effect was to free carmakers to market increasingly bulky light trucks.

This explains why Ford and General Motors – instead of leaving Chrysler alone on what first appeared to be nothing more than a new market "niche" – invested a segment that would soon grow to account for more than half of the market. This was done for several reasons. The customers they attracted fit a "nouveaux riches" profile - or people who hoped to be seen as such – a category whose number grew steadily as social inequality rose. The gap between the average and median value of the vehicles owned by American households doubled between 1983 and 2007, rising from \$3,100 to \$6,500 (in constant dollars). More and more, the market for new cars reflected the growing income disparity characterizing American society.

² The Jeep brand had been bought from Renault, which took over American Motors in 1979.

³ The authors analyzes two of the SUV characteristics that carmakers would emphasize: safety; and room inside. Yet, there is proof that SUVs are more prone to accidents than passenger cars and, and that they tend to have higher mortality rates. Furthermore, many cars also have roomy interiors and, indeed, bigger trunks.

The Big Three responded to these buyers' highly symbolic expectations by accentuating their light trucks' status-based character. The models they launched were increasingly big, powerful, well-equipped, ostentatious and expensive. All of these characteristics came together in a way that benefited carmakers. Indeed, passenger cars were also affected by this phenomenon, although to a lesser extent than light trucks (Knittel 200). The race for bigger size and more power even ended up, quite absurdly, in the creation of a "large SUV" segment featuring models like the Ford Excursion and above all the GM Hummer, derived from a military vehicle. Ostentation became extreme (Schulz 2006) as did price levels, with many such vehicles costing up to \$50,000, or more than most luxury cars.

Light vehicles' ease-of-design made them particularly profitable. In the 1980s-1990s, they were manufactured using then current utility vehicle chassis and not required to satisfy higher security, consumption or anti-pollution standards than cars were. Above all, they were assimilated with industrial vehicles and therefore exempt from many taxes. In other words, the US government is directly at fault in the general flight to gigantism, seeing as households were allowed to deduct from their income tax the full purchasing price of a light truck if it weighed more than 6,000 pounds. Customs tariffs of 25% also protected the sector from foreign competition. In short, the intervention of the American state was decisive in the development of light trucks.

Proportionally less expensive to produce but sold at a higher price to ensure their social cachet (and because they were also in high demand); protected by customs tariffs - light trucks were very profitable for American carmakers (Figure 4).

Bénéfice net sur chiffre d'affaires de General Motors, Ford et Chrysler, 1946-

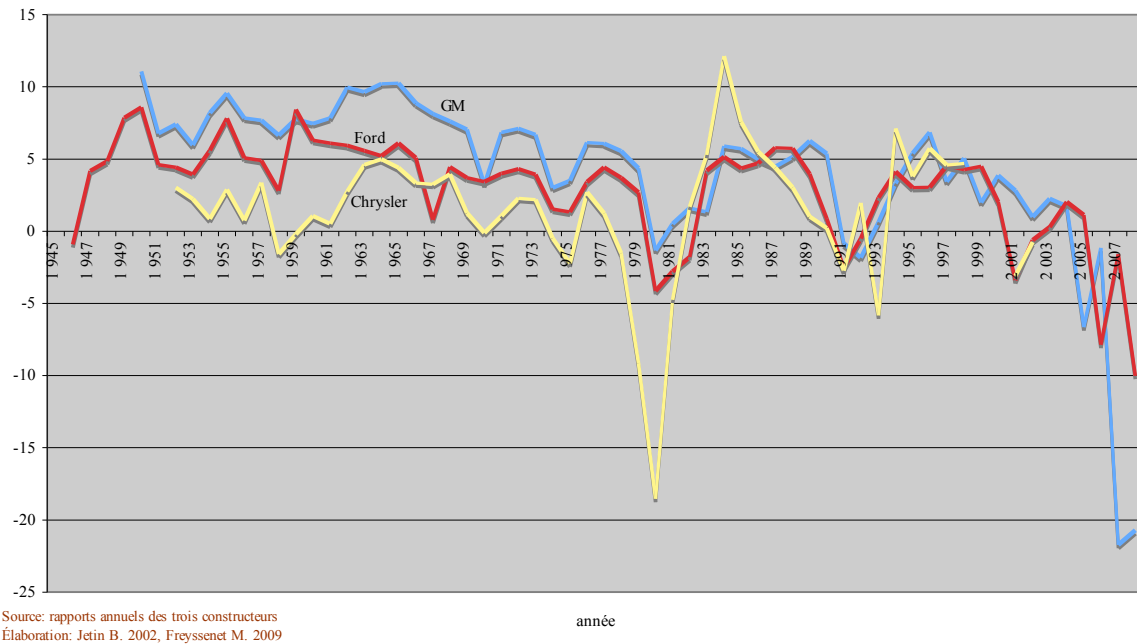


Figure 4: Net profits /total sales for General Motors, Ford and Chrysler, 1946-2008

Bolstered by this success, the Big Three tended to let Japanese manufacturers dominate the market for passenger cars, characterized by lower returns and greater competition. In actual fact, they knew that their Japanese rivals were out-performing them, even when subjected to American production conditions. The Big Three's share of the passenger car market fell from 74.1% in 1984 to 36.1% in 2008, whereas their share of the light truck market stayed above 75% through 2002 (Figure 5). In terms of both sales and production in the United State, the Big Three seemed increasingly specialized in light trucks. In 2007, 58.3% of General Motors sales and 64.3% of its production involved light trucks. For Ford and Chrysler, the numbers were, respectively, 66,9% and 76,6%, and 68.3% and 75.7%.

Nevertheless, light trucks started to be a little less profitable for the Big Three once Japanese manufacturers were in a position to produce their own versions in the United States, thus to penetrate a market where they had been unable to develop before 1997. The bursting of the dot.com bubble in 2000 and the ensuing fall in demand meant that competition became a lot more severe. The Big Three had to offer major discounts to resist pressure from the Japanese carmakers, and this cut into potential margins. To sustain demand, they came up with a

number of credit or leasing facilities, but by so doing they were increasingly exposed to customer insolvency. Despite these efforts, however, total sales started to decline after 2001. This could be contrasted with the rise in sales by foreign carmakers, particularly Toyota and Honda (Figure 6).

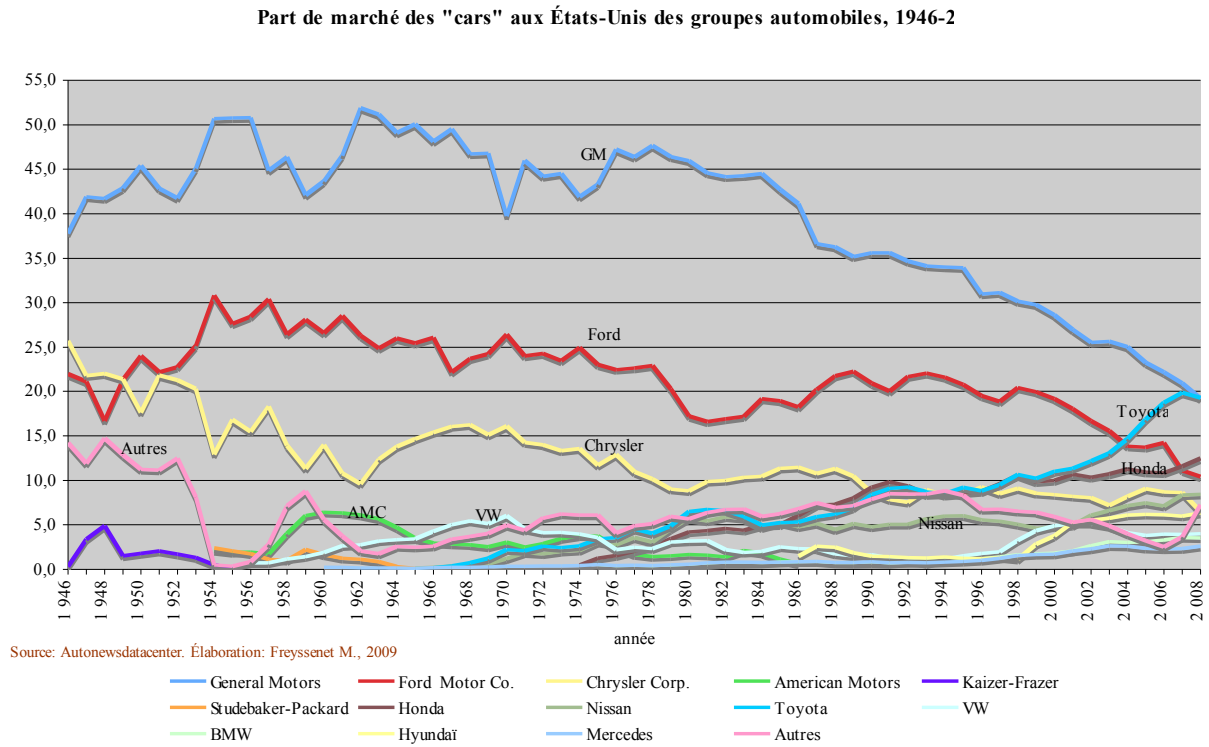


Figure 5: Trends in passenger car market share, by manufacturer, 1945-2008

Part de marché des "light trucks" aux États-Unis des groupes automobiles, 1946-

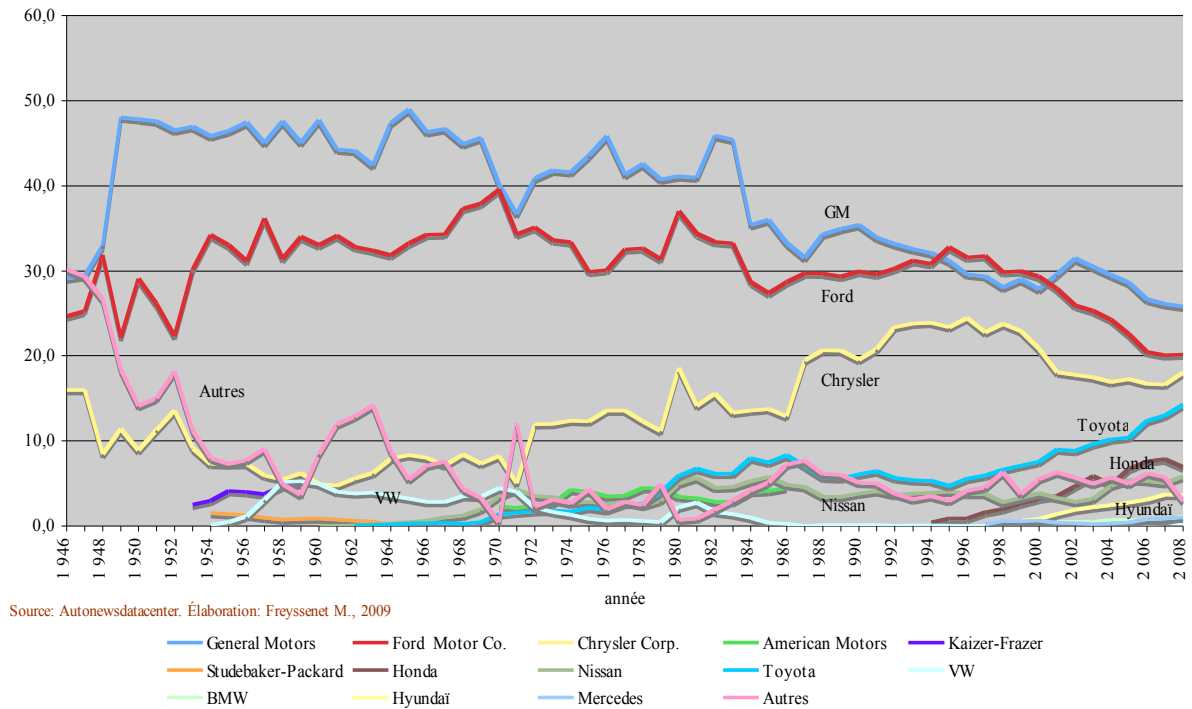


Figure 6: Trends in light truck market share, by manufacturer, 1945-2008

By specializing in light trucks on the American market, the Big Three were assuming medium-term risks. Vehicles of this sort consume much more fuel than passenger cars⁴ and also pollute much more. Past experience had shown that higher oil prices would translate immediately into lower sales for more fuel-inefficient models. Yet executives at US automobile firms, like many of their fellow countrymen and women, ended up convincing themselves that the discovery of new oil fields and improved drilling techniques meant that the era of high oil prices was over, or at least postponed. Of course, the problem with this calculation was that it ignored the sharply rising fuel needs of several large emerging countries, starting with China, India, Russia and Brazil. In real terms, oil prices started upwards in 2005 before peaking in 2008.

⁴ Carmakers are always happy to trumpet new models' improved fuel performance. In 2005, for example, GM Canada announced gas mileage of ca. 20 (US) mpg for its light trucks and ca. 27 mpg for its passenger cars, an improvement of 32%. It also announced that its vehicles' CO₂ emissions were down by 38%. In reality, however, fuel consumption by the fleet of vehicles that was actually out on the road, such as it was identified in the American Automobile Association's annual survey, was very different. For the same annual mileage (15,000 miles), 2005 SUVs' real fuel mileage was 52% lower than cars'. Similarly, for all vehicle categories combined - and everything else remaining equal (dollar exchange rate, oil price, number of miles traveled annually) - the surveys found that there had been no improvement in fuel mileage since 1990..

What followed was a turnaround in earlier market trends, with passenger car sales rising and light truck sales falling. Since then, the global recession has tempered oil prices. However, facing economic hardship and with deep concerns about the future, numerous households have postponed their vehicle purchases, with others now preferring passenger cars to any other variety – to the point that by 2008 (and even though it also experienced lower volumes), cars once again accounted for the majority of all automobile sales, hitting 53.2%, up seven points in one year. The Big Three were the worst affected of all carmakers, with their 2008 light truck sales falling twice as quickly as car sales did.

The enthusiasm of the “nouveaux riche” for light trucks, a leading profit source for the Big Three during the 1990s, is one of two reasons for their diminishing profitability since 2001 and ultimate collapse. The second, to wit, their conversion to the “new economy”, is the result of financial deregulation.

2. Financial deregulation and structural changes in the supply of automobiles

Financial deregulation had been a step-by-step process since the 1970s but the real upheaval in international economic relations began when people were free to transfer and invest capital as they saw fit. This led to a slew of speculative bubbles and crises (1987, 1990, 1993, 1997, 2000, etc.) alternatively based on the property market, different raw material markets, the information and communications technologies (ICT) sector, etc. - upheavals affecting in turn Europe, Japan, Southeast Asia, Mexico, Brazil, and Russia. Japan, for instance, was hit in both 1991 and 1998, plunging into an economic quagmire that persists today. Europe has been less affected, despite having to bear the high cost of German reunification. The United States, on the other hand, experienced an exceptional decade in the 1990s, symbolized by the fantastic success of ICT companies and Wall Street’s financial innovations and profits. What became known as the “new economy” was an attempt to theorize this process to enable its subsequent amplification and generalization (Brender, Pisani, 2004).

During the 1990s, the United States (followed by Great Britain) imagined that it might become the financial and innovation centre of a rapidly globalizing world. The idea was that growth could be stimulated by capital inflows attracted by banks’ financial innovations and by the control of production activities that should disseminate globally as low-cost opportunities

arose and were made both financially and technically dependent, notably through the hardening and generalization of intellectual property rights.

“Traditional” companies were asked to outsource their production, acquire supplies from low-cost countries and focus solely on design-innovation, funding, marketing and services. This was in line with the example of California start-ups that, within a few short years, had become extremely profitable global giants. Traditional companies’ funds - whether working capital, capital reserves or pension funds - were also supposed to be managed “dynamically” to take advantage of variations in stock prices or currency rates across the world and play an active role in financing the economy. As for fund providers and borrowers, they were supposed to take increasingly large risks, protected by debt segmentation and dissemination techniques like securitization and by new kinds of insurance policies. Powerful investment funds, built on pooled savings that were now free to go anywhere, could force companies to increase profitability and accept the new rules. This conversion would be facilitated and accelerated by incentivizing corporate executives through profit-sharing schemes that would considerably increase their remuneration via the distribution of stock options and other advantages.

The new international division of labor that notably benefited the United States and Great Britain was supposed to be carried out vigorously and implemented rapidly so that as much of the general population as possible might benefit, calming tensions and stimulating domestic consumption. As for the social categories that would be disadvantaged by this new trajectory, their standard of living was supposed to be maintained thanks to the falling price of routine products increasingly imported from low-cost countries that would, in turn, benefit from foreign investment, industrialization and the emergence of a middle-class enabling their own economic take-off and driving broader global growth - something that earlier import substitution policies and large public sectors had been unable to achieve.

American carmakers did try to globalize during the 1990s, expanding their product offers towards the top-of the-range and outsourcing broad swathes of industrial activities while developing in-house service activities. Each did this differently, with General Motors and Ford pursuing a certain trajectory and Chrysler another. GM built new factories in Argentina and Poland, signed an alliance with Fiat, acquired Saab and Daewoo and prepared to move into China. Ford acquired Mazda and built a new division called Premier Automotive that combined its top-of the-range Lincoln brand with the European specialist firms that it had

acquired (Aston Martin, Land Rover, Jaguar and Volvo). In 1996, General Motors started to sell off its supplier activities, a separation culminating by 1999 in its divestment of all stakes in Delphi, its main subsidiary (Frigant, 2009). Employee numbers fell spectacularly and were down 200,000 in two years. Yet General Motors maintained certain responsibilities towards former employees, notably in terms of pension rights and health insurance. Ford did the same a little later, definitively selling off its supplier subsidiary Visteon in 2000. This decision had less of an effect on Ford's staff numbers than it had had at General Motors: because Visteon was three times smaller in North America than Delphi; because some Visteon staff members continued to work for Ford, which rented them from his ex-subsiary; and because Ford continued to recruit. Note that this was also the case at General Motors, which was trying to build up its commercial and after-sales services and financial activities (Figure 8).

The two carmakers bolstered these activities and created new ones involving new automobile credit packages, leasing arrangements, insurance, rentals, maintenance contracts, repairs, network and subcontractor financing, real estate loans, financial investments, the securitization of receivables, etc. Ford, for instance, acquired the car rental company Hertz, thereby taking another 10,000 employees on board.

Chrysler's conversion to the "new economy" was somewhat different. It did not have a supply subsidiary and already featured a very low integration rate. By merging with Daimler in 1998 (in a so-called "merger among equals"), it believed or tried to get others to believe that the new group would be able to maintain a presence everywhere, offering all kinds of vehicles and ancillary services, and finally enjoying substantial and steady financial resources (Belzowski 2009).

Through 2000 and while the dot.com bubble was inflating, the "new economy" as applied to the automobile sector seemed to be fulfilling its promise. Carmakers' share prices rose sharply, as did executive remuneration. Financial and service activities amplified the profits from automobile activities. The staff reductions associated with an aging personnel did, however, mechanically create a situation in which active workers were being asked to pay for

a very large number of retirees⁵. There were fears that total labor costs would explode, one indication rising average annual cost per worker⁶. But even at this level, the “new economy” was expected to come up with a solution. A so-called “dynamic” management of retirement funds – one where members’ funds might be invested in increasingly risky but more lucrative financial products - was supposed to decrease the pain of the company’s higher labor costs.

This house of cards scarcely had time to be erected before it came crashing down when the dot.com bubble burst in 2000. The losses or mediocre profits recorded by carmaker pension funds’ financial investments were no longer able to compensate for their total wage bill. Overall employee-related spending skyrocketed, with the total average hourly cost per GM worker in the United States rising, in constant 2008 dollars, from \$65 in 2000 to \$75 in 2002 and \$90 in 2003. Pension and healthcare charges at General Motors accounted for two-thirds of the company’s total liabilities in 2002, versus nearly 50% at Ford. The production cost differential with Japanese competitors operating plants in the United States - a comparison that had not been particularly disadvantageous to GM or Ford until that point - rose sharply. Whereas the average hourly wage for a Ford worker in 2002 was \$29 versus \$26 in the Japanese transplants (a difference of only \$3), the gap rose to \$8 if direct social costs were included, and to \$22 if the costs of pensioners and their families were added to the equation (Mercer 2003).

The American automobile market, which hit a historical peak of 17.8 million vehicles in 2000, fell slightly over the next three years to the 17 million mark, before rising back to 17.4 in 2005. The fact that demand had not collapsed, contrary to earlier crises, can be attributed to the unbridled proliferation of credit and leasing facilities. American carmakers’ financial subsidiaries used subprime finance or leasing arrangements based on the commitment to repurchase vehicles at a fixed price. This translated into an (artificial) inflation in annual profits, with the panorama of new facilities even creating a situation in which light truck sales rose again, peaking at 9.8 million in 2005 (Figure 3).

⁵ Whereas GM’s total wage bill translated in 1995 into a surcharge of 0.85 pensioners for every active employee, the figure rose to 2.80 by 2002 and to 3.44 by 2007. As for Ford and Chrysler, the equivalent 2002 ratios were, respectively, 1.2 and 1.0 (Mercer 2003).

⁶ Whereas any decline in GM’s worldwide staffing levels had previously led to a diminution or stagnation in average annual costs per employee, the opposite could be observed from 1995 onwards.

There is no doubt, however, that the conditions of competition had changed. The light trucks market was no longer the exclusive preserve of the Big Three. Japanese carmakers' market share had risen constantly since 1996, to the point that Chrysler and Ford's sales in this segment were already starting to fall after 2000, with General Motors joining them from 2004 onwards. There was a war to attract or keep customers by offering discounts and other advantages. In turn, this had a devastating effect on companies' profit margins (Senter, McManus, 2009).

The Big Three, which had just lived a dream decade, started losing money in 2001. Over the next three years, they only kept their head above water due to their finance subsidiaries' (largely theoretical) profits. From 2005-6 onwards, however, they nosedived.

3. The trap closes

The American "new economy" - and, in its wake, some or all of the economies of the other developing countries - enabled certain so-called emerging economies, notably China and India, to experience an unprecedented economic boom. Having become the "worlds' workshop", their need for oil and materials were such that prices for these goods skyrocketed after having stagnated at low levels for nearly two decades. In 2007, real oil prices returned to levels that they had last reached after the second oil shock. The resulting price rise for consumption goods or capital items contributed to the fall in household purchasing power and subsequently to a lower demand for automobiles. Alongside of this, the phenomenon of climate change caused by greenhouse gas emissions (notably from automobiles) was confirmed and accepted by governments and populations worldwide. The end result was that truck owners would be increasingly accused of superfluously adding to pollution simply because they were show offs.

The downwards pressure on costs weighed upon suppliers and component makers, particularly Delphi and Visteon. In the end, these two companies, ex-subidiaries of GM and Ford, went de facto bankrupt, adding to the burdens on their former owners: Delphi came under Chapter 11 protection in 2005 and remains in that situation; and Visteon only survived that year because Ford threw it a lifejacket. Daimler, which contrary to its initial merger agreement with Chrysler had moved quickly to take complete control of the new combined group, was either unable or unwilling to move its American subsidiary beyond its light truck

specialization (which still accounted in 2007 for 68.3% of its sales and 75.7% of its production in the United States). Having said that, in early 2007, Daimler was able to sell 80% of its stake in Chrysler to the Cerberus investment fund, thereby cutting the considerable losses it had incurred from its American adventure (Köhler 2009).

All in all, the conditions were ripe for a perfect storm. Total light truck sales had resisted the downtrend until that point but fell from mid-2007 onwards (Figure 3), accompanied this time by Japanese carmakers' lower sales (Figure 4). People began defaulting on their automobile credit repayments or returning vehicles acquired through leasing arrangements. This set the stage for a full-blown financial crisis. Over-indebted, many households went bankrupt and a wave of foreclosures erupted. The assets being seized had lost all value, however, affecting in turn the value of the corresponding loans that had been disseminated worldwide through the magic of securitization. In June, banks stopped lending in a bid to delay or avoid their own bankruptcy. The final straw was the rise in unemployment and the generalization of fears about the future. The American automobile market fell to 13.2 million units in 2008 and possibly as low as 10 million in 2009. Light truck sales, which had exceeded passenger car sales in 1999, fell behind them in 2008. The Big Three's financial subsidiaries were not only no longer able to contain their losses and now contributed directly to them.

It is not as if the American carmakers did not try to do something - far from it. General Motors cut US staffing numbers by 42.2% from 213,000 in 2000 to 123,000 in 2008. Ford's automobile division fell from 142,000 employees in North America to 78,900 between the same dates, down 44.4%. The decline was slightly less at Chrysler, where 2007 staffing numbers fell from 125,500 to 80,000, down 36.5%. Few carmakers anywhere in the world had ever inflicted such mass redundancies on employees. There were constant negotiations with unions like UAW and CAW, agreements that had to be renegotiated as soon as they were signed. The topics discussed included measures to decrease overall labor costs or to transfer pension fund management responsibilities to the unions themselves. The carmakers also started reducing the number of models they manufactured, and even the number of brands they carried, either by eliminating some altogether (like GM did with Oldsmobile) or by reselling them, like Ford did with Aston Martin, Mazda, Land Rover and Jaguar. Carmakers also moved to increase the number of models being produced on each of their platforms.

None of these moves made much of a difference, however. On one hand, carmakers were caught up in what was a generalized crisis. On the other, the measures that they did take were neither the most urgent nor the most appropriate. Obsessed by competition from overseas rivals, their main focus was on cutting labor costs. Yet they should have also, and probably above all, questioned their ongoing preference for light trucks and/or their financial policies. The failure to do so would become the nail in their coffin. The Big Three's ability to rethink their business models was hampered by the fact that their Japanese rivals, by moving into the light trucks market and offering easy credit facilities, seemed to be imitating them. This explains why Toyota, Nissan (and to a lesser extent Honda) also lost money in American market. Unlike the Big Three, however, these losses did not endanger their very existence.

Conclusion

American carmakers were not unfortunate victims of some financial crisis that got in the way of their recovery. Quite the contrary, they were direct contributors to their own problems, first and foremost through their adherence to "new economy" precepts and efforts to implement its recipes. The question is whether they ever had an alternative. Even if they had preferred another trajectory or had correctly anticipated what would eventually happen, they might well have been obliged – as many foreign manufacturers were - to respond to the growing demand for light trucks. Everyone was exposed to the sudden turnaround in market conditions (and in the regulatory environment). This explains why everyone is paying the price today.

At the same time, it is just as true that the Big Three could have used their profits to reconquer the passenger car market and prepare the inevitable transition to clean driving. Ford, General Motors and DaimlerChrysler all tried to lower costs by sharing their American car platforms with their European or Asian subsidiaries. In all three cases, this failed. Indeed, such efforts ended up losing money for Opel-Vauxhall, Ford Europe and Chrysler.

A second question is whether the Big Three were in actual fact obliged to outsource as much as they did or to place so much faith in their financial activities. Ford family members, for instance, was able to retain power over their group because of the preferred shares they held, but nevertheless had to take shareholders' interests into account. Jacques Nasser, the group's ephemeral CEO, was a flamboyant expression of this new orientation, with his singular focus on "shareholder value". General Motors, with its highly dispersed shareholdings, came under

direct investor pressure. Non-American carmakers may not have all followed the Big Three down the road to externalization and financialization, but they too were guilty of offering credit and leasing facilities promoting sales to insufficiently solvent buyers.

General Motors and Ford tried to pursue a “profit strategy” that emphasized economies of scale for their vehicles’ invisible parts and “diversity” for their visible parts. Quite logically, they copied their more innovative counterpart, Chrysler, which had discovered the light truck market in the 1980s. However, broadening a product range within a “volume and diversity” strategic framework is only sustainable under two conditions: if “commonalisation” practices are expanded to the same extent; and if a lasting demand exists for new vehicle types (Boyer, Freyssenet 2000). The first condition was not met, given the excessively dissimilar architecture of cars and light trucks, such as they had been designed in the United States. The second condition is in the process of no longer being met. A “competitive” distribution of national income, such as it generalised in the United States, cannot guarantee the relative stability that market segments require. The “innovation and flexibility” strategy that Chrysler revived in the 1980s was more adapted to the new demand structure and helped the firm to rise from the ashes. However, as it had done before, Chrysler tried - once its situation had improved - to copy its two American rivals. It merged with Daimler, an unfortunate move, instead of seeking (as its strategy required) new and conceptually innovative vehicles corresponding to the expectations of the new population categories that are periodically engendered by a “competitive” distribution of national income (Boyer, Freyssenet, 2006).

However suitable their profit strategy had been, the carmakers would have found it difficult to survive in a national growth model that was as self-destructive as the one that the “new economy” wanted to embody. This model has revealed a complete lack of economic, ecological, social and geo-political sustainability. The issues at hand largely supersede the automobile industry and speak to the re-foundation of the entire American model of growth. Automakers can contribute to this by helping to reign in social inequality, subordinating financial activities to the imperatives of long-term development, establishing supplier relationships on another basis than the race to the social and ecological bottom and proposing vehicles that respect people and the environment.

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