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december 3, 2008

Bailing Out the Big Three is Bittersweet



I will first admit that I am far from an economist, and the following is based partially on my opinion. I do possess a fair amount of knowledge in relation to economics and how business works. On the other hand, I have no vested interest in defending the automakers. Much of what I'm reading in newspaper articles and seeing on the news comes from a position sympathetic to the Big 3. For anyone who doesn't know, GM, Chrysler and Ford aren't doing so well. They're looking for \$25-billion to help their companies. Anyone not directly (or indirectly) involved with the companies tends to show resistance to "rewarding bad management", but it's important to consider the consequences of letting the Big 3 fall.

Nay, I Say

First, let's look at why so many would be opposed to having government money (taxpayer money) bail out the companies. I thought capitalism (love it or hate it) worked in such a way that the market determines what happens. Companies compete and the winner will be the one that gives the people what they want when they want it, adjusting to changes along the way. Consumers have been asking for [cars that used alternative fuel sources](#) for YEARS! Instead, these fledgling car companies chose to continue along the path of fossil fuel-based automobiles. Sure, there has been an increase in hybrids but there have also been many gas guzzlers created. If a company that made unhealthy and fatty foods continued to do so when the people wanted healthier options, their failure would be considered bad management and poor reaction to the market. Am I wrong?

As these companies ask for a bailout, how much money do you think rests in the hand of the executives of these companies? If the rationale behind paying them so much money is that they have difficult decisions to make and the wrong move means THEY are accountable, how do you explain bailing them out? Why on earth did they have such a huge paycheck if they brought the companies to ruin and are NOT actually taking responsibility for it? Oh wait,

"A copy of the legislation proposed to U.S. Congress, obtained by The Associated Press, suggests the bailout would deny bonuses to executives earning over US\$250,000".

Well, isn't THAT nice of them? My province keeps increasing electricity rates while many residents have to choose between food and heat, and these already-high-paid execs are "sacrificing" the exorbitant



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bonuses. It's no wonder the average person is disgusted by these large companies and our governments.

Yay, I Say

But what happens if the Big 3 fall? Well, it stands to become quite a mess. There is a plethora of information available online, like [this CTV.ca article](#) (where I got the above quote) that outlines the consequences to Canadian auto workers. 500,000 people directly or indirectly employed by the auto industry is kind of a big deal. If the comments on that article are any indication, people understand the gravity of the situation.

I was watching Bill Maher's show the other day and his guest Ashton Kutcher (you might have heard of him) made a great suggestion. Instead of taxpayers bailing out these companies perhaps the oil companies should do it. The Big 3 did, after all, pledge allegiance to the fossil fuel and there certainly have been HUGE profits made by the oil industry. I guess this begs the question: what would happen if oil companies asked for the same help upon experiencing a decline in oil production? I think, again, we would find it hard to stomach. This focus on cars, to the point where entire towns rely on them for work, is ridiculous and amounts to being terrible capitalists (all the while touting its excellence).

Check out my upcoming (or already posted?) entry on going Green in the Name of Greed to see why I think greed may be what saves our planet. That is, if the execs of these large companies open their eyes and realize the business opportunities presented by the desire to – and necessity of – going green. In fact, you may be surprised to know that [some environmentalists](#) see a bailout of these companies as beneficial to their cause. If we bail out the banks and the Big 3, however, where does it end? As Kutcher suggested to Bill Maher, perhaps we're all just being punk'd. Sure does feel like someone's playing a giant practical joke on us doesn't it?

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The only reason for a bailout of these companies is to resolve their short-term liquidity issues. If they aren't going to be profitable in the future, then the bailout is simply just a prolonging of the inevitable (at an extremely high price). Since the bailout assumes that there will be enough demand for automobiles in the future, then the people employed at these companies can find jobs at other automotive companies who will begin to move in and supply the void that one (or more) of the Detroit 3 has left. If the question of whether or not these people will be able to find a job again, then it raises the question of if these people are currently actually needed (or just kept around because it would be more expensive to lay them off). Supply and demand will catch up eventually with whatever the world dishes at it. Jobs will be lost now, but will also be found later.

Using the bailout as a work-around to keep workers temporarily employed until the economic conditions recover, as a type of social security thing, could be a valid argument to keep the Detroit 3 alive for just a little longer.

Posted by Josh on December 6, 2008 10:36 PM

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