

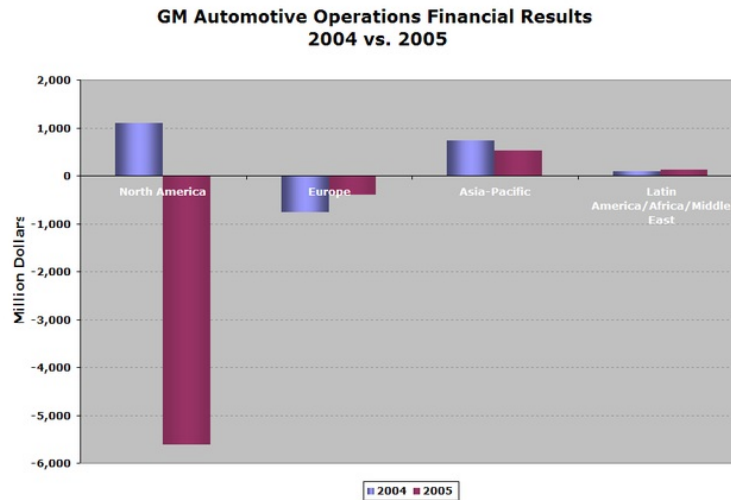


## Bush to GM and Ford: Build a Better Car

Posted by [Glenn](#) on January 27, 2006 - 3:03am in [The Oil Drum: Local](#)

Topic: [Economics/Finance](#)

Tags: [auto industry](#), [chrysler](#), [delphi](#), [ford](#), [general motors](#), [oil](#), [peak oil](#) [[list all tags](#)]



The US auto industry has not been particularly good at building car models that are well suited for fuel efficiency. The cheap oil boom they experienced in the 1990s combined with the easing of truck fuel economy standards created Minivan and SUV lines that are distinctly ill-suited for rising oil prices. As a result, a peak oil related economic transition is already underway the auto-industry. President Bush added [today](#) that they should not look to the Federal government for assistance.

In an interview with The Wall Street Journal published today, President Bush said that G.M. and Ford executives have not asked him for federal aid and that he would not look favorably upon such a request. Mr. Bush said he would instead encourage the automakers to **build "a product that's relevant.** I would hope I wouldn't be asked to make that decision," he told The Journal.

We'll see about that when the moment comes that Ford or GM has to file some sort of bankruptcy, which could be as early as this year.

The rise of gas prices from \$1.25 to \$2.50 / gallon has hit hard at big automaker's profits, forcing them to downsize their payrolls.

Since 2000, G.M., Ford and the Chrysler Corporation have cut or announced they would eliminate up to 140,000 jobs, or a third of their payrolls. Earlier this week, Ford announced that it would cut 30,000 jobs and close 14 plants over the next six years.

But you can only cut so deep into the workforce before you cease effective operations at

If just one of the major automakers files for bankruptcy, it could throw the whole auto-industry into a race to the bottom similar to what we've seen in the Airline industry. If the company continues to operate during its re-organization period - as the courts let the company break its contracts with creditors, workers and retirees - automobile prices could plummet as they will only have to cover the marginal cost of production, not the fixed asset costs.

What could avoid this scenario is a buy-out by another major automaker, perhaps one that can build a better and more fuel efficient car, like Toyota or Honda.



This work is licensed under a [Creative Commons Attribution-Share Alike 3.0 United States License](http://creativecommons.org/licenses/by-sa/3.0/).