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Should we bail out the auto companies?

By Rob Rikoon |

2/2/2009

Auto executives have been losing their battle with foreign carmakers BMW, Toyota and Honda for decades but remain loath to admit their past errors. There is plenty of blame to go around among bad management, quality lapses, reluctance to embrace green technology and expensive unions. Since we have too much pride as a nation to let them go down the tubes, here's why some folks think they should be bailed out.

The most commonly cited reason is that too many jobs and communities rely on the auto industry to let it die. Military minded people say we need a U.S.-based automotive manufacturer for national security purposes, to build Jeeps and tanks, etc. Others say we need to insure that replacement parts and services are available for millions of vehicles presently in use.

Questions remain such as how will a bailout deal with the fact that under current management practices, they are likely, eventually, to go bankrupt anyway? Also, as we witness how Congress inefficiently deals with the banking industry, one wonders if the federal government is capable of supervising or running any large private enterprise?

In addition, will funneling untold billions of dollars to Detroit have much impact if U.S. autos continue to be made with sizable and increasing percentages of foreign manufactured components? Would a bailout package force the industry to exclusively buy American?

Given the brutal competition worldwide in the auto industry, my conceptual solution would be to combine the three U.S. automobile companies into one as there is no good reason why we need three domestic firms.

The markets recognize car companies' current stock as nearly worthless. Bond holders need incentives to lend the combined company money, which implies some kind of government guarantee. Running the surviving entity should be up to auto employees themselves, allowing the best workers to sweep away unproductive managers. The result would be drastically fewer style choices but that may be the price to pay for survival.

Another major factor in determining whether auto companies will survive revolves around reducing labor costs. There are two choices: either unions are removed by canceling their contracts or workers are given ownership stakes and reduced salaries to replace their debilitating high-cost benefit packages.

Using public money to assist this transition happen makes sense, but if bailout money goes to the executives who created the problems, it will be wasted. It remains to be seen if leadership in Washington has the courage to tackle this situation. Change is often talked about but infrequently

implemented.

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