

Too Many Cars?

By Paul Ingrassia

Ask any automotive big shot to name his industry's biggest problem, and chances are he will cite "overcapacity." The world's car makers can produce 22.5 million more vehicles each year than consumers will purchase, says the Auto-facts unit of PricewaterhouseCoopers, which is why car companies shell out millions of dollars in rebates that depress their profits and leave their stocks languishing in the eyes of investors.

So who are the culprits causing overcapacity? The very people doing the complaining, of course.

Case in point: General Motors last week agreed to buy control of the assets of Daewoo Motor, a failed South Korean car company. As a result, at least two and possibly three of Daewoo's Korean assembly plants will survive under the GM flag instead of being shuttered.

This is the same GM that is already propping up Fiat Auto. General Motors bought 20% of the troubled Italian car company two years ago. And GM gave Fiat SpA, the conglomerate that owns Fiat Auto and dozens of other companies, a put option allowing it to sell the rest of Fiat Auto to GM as soon as 2004.

General Motors isn't alone. Ford Motor owns a controlling interest in Mazda, which would be dead by now if not for the financial, managerial and operational support provided by the U.S. company. And DaimlerChrysler is riding to the rescue of another ailing Japanese auto maker, Mitsubishi, where it recently installed a Daimler executive at the helm. Ford and DaimlerChrysler, of course, are in the sick bay themselves, even as they are trying to nurse their Japanese affiliates back to health.

The rescue list could go on and on. Ford has bailed out (i.e. acquired) Land Rover, after

BMW gave up on the effort, as well as Sweden's Volvo. GM has saved Saab, something it couldn't do for its closer-to-home Oldsmobile division.

Oldsmobile and Chrysler's Plymouth, in fact, are the first major automotive brands in almost 40 years to actually be allowed to die—though both brands are getting long funerals. The last major death before those two was Studebaker, way back in 1963.

In between came the deaths of a host of minor brands: Triumph, Austin Healy, MG, DeLorean, AMC, Checker and Yugo—though a "son of Yugo" venture is being planned by the folks who brought you the original, Automotive News reports. The terms that GM struck in Korea means the Daewoo brand likely will die in the U.S. but will continue elsewhere in the world, including Europe.

GM does plan to close some of Daewoo's factories. And auto makers do downsize their operations in periodic purges such as the ones now underway at Ford and at Chrysler. Ford's effort, announced in January, involves closing five North American factories over the next five years. But somehow, the seemingly obvious step of letting sick car companies simply die gets overlooked.

So why do the same executives who decry overcapacity keep ailing car companies and their brand names afloat? National pride plays a role, as in Fiat's case. The business justification is shelf space: more brands mean more dealerships mean more sales. But more brands also mean more costs and complexity, factors that often go overlooked.

GM's Daewoo adventure is a bet on Asia. The U.S., Japan and Western Europe are mature car markets, where auto makers scratch and claw to gain tenths of a point in market share. Asia is deemed the market of the future, though there's the risk that the future will never arrive.

Which brings us back to overcapacity. The truth is that it really isn't a problem, except in the minds of the executives who both create it and complain about it. One man's overcapacity is another man's bargain, which is why low-priced leases and generous rebates abound in today's car market. And why the very people who create "overcapacity" will continue to complain about it.

Mr. Ingrassia, president of Dow Jones Newswires, is a former automotive reporter for The Wall Street Journal.

On OpinionJournal.com

From Peggy Noonan's column:

The primary reason Bill Clinton won't host a talk show is that Hillary won't let him. She won't let him because she is not a stupid woman. She doesn't want her husband in a job that would put him back on the media radar screen on a daily basis. She knows that if he had a TV show he'd wind up in the kind of trouble presidential spouses aren't supposed to get into. And she intends for him one day to be a president's spouse. . . . He will be so happy he will get into trouble. It will be bad and public trouble. And if he gets into bad and public trouble, Mrs. Clinton may have to handle it. She would have to consider distancing herself from him even more than she does. She might have to divorce him to keep the scandal goo on him and not get it all over her. And one can imagine she does not want to divorce him for many reasons.