

# FREEMarket

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## WHAT HAPPENED TO AMERICAN CARS?

George Reisman

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The question that no one seems to be asking is: where would General Motors be without the government-backed unions that have come to dominate its management? The answer, of course, applies to Ford and Chrysler, as well as to General Motors. I've singled out General Motors because it's still the largest of the three and its problems are the most pronounced.

First, the company would be without so-called Monday-morning automobiles. That is, automobiles poorly made for no other reason than because they happened to be made on a day when too few workers showed up, or too few showed up sober, to do the jobs they were paid to do. Without the United Automobile Workers, General Motors would simply have fired such workers and replaced them with ones who would do the jobs they were paid to do. And so, without the UAW, GM would have produced more reliable, higher quality cars, had a better reputation for quality, and correspondingly greater sales volume to go with it.

Why didn't they do this? Because with the UAW, such action by GM would merely have provoked work stoppages and strikes, with no prospect that the UAW would be displaced or that anything would be better after the strikes. Federal Law, specifically, The National Labor Relations Act of 1935, long ago made it illegal for companies simply to get rid of unions.

Second, without the UAW, GM would have been free to produce in the most-efficient, lowest cost way and to introduce improvements in efficiency as rapidly as possible. Sometimes this would have meant simply having one or two workers on the spot do a variety of simple jobs that needed doing, without having to call in half a dozen different workers each belonging to a different union job classification and having to pay that much more to get the job done. At other times, it would have meant just going ahead and introducing an advance, such as the use of robots, without protracted negotiations with the UAW resulting in the need to create phony jobs for workers to do (and to be paid for doing) that were simply not necessary.

(Unbelievably, at its assembly plant in Oklahoma City, GM is actually obliged by its UAW contract to pay 2,300 workers full salary and benefits for doing absolutely nothing. As *The New York Times* describes it, "Each day, workers report for duty at the ➡



plant and pass their time reading, watching television, playing dominoes, or chatting. Since GM shut down production there last month, these workers have entered the Jobs Bank, industry's best form of job insurance. It pays idled workers a full salary and benefits even when there is no work for them to do.")

Third, without the UAW, GM would have an average unit cost per automobile close to that of nonunion Toyota. Toyota makes a profit of about \$2,000 per vehicle, while GM suffers a loss of about \$1,200 per vehicle, a difference of \$3,200 per unit. And the far greater part of that difference is the result of nothing but GM's being forced to deal with the UAW. (Over a year ago, the *Cincinnati Enquirer* reported that "the United Auto Workers contract costs GM \$2,500 for each car sold.")

Fourth, without the UAW, the cost of employing a GM factory worker, including wages and fringes, would not be in excess of \$72 per hour, which is where it is today, according to the *Post-Crescent* newspaper of Appleton, Wisconsin.

Fifth, as a result of UAW coercion and extortion, GM has lost billions upon billions of dollars. For 2005 alone, it reported a loss in excess of \$10 billion. Its bonds are now rated as "junk," that is, below investment grade. Without the UAW, GM would not have lost these billions.

Sixth, without the UAW, GM would not now be in the process of attempting to pay a ransom to its UAW workers of up to \$140,000 per man, just to get them to quit and take their hands out of its pockets. (It believes that \$140,000 is less than what they will steal if they remain.)

Seventh, without the UAW, GM would not now have healthcare obligations that account for more than \$1,600 of the cost of every vehicle it produces.

Eighth, without the UAW, GM would not now have pension obligations which, if entered on its balance sheet in accordance with the rule now being proposed by the Financial Accounting Standards Board, will leave it with a net worth of minus \$16 billion.

What the UAW has done, on the foundation of coercive, interventionist labor legislation, is bring a once-great company to its knees. It has done this by a process of forcing one obligation after another upon the company, while at the same time, through its work rules, featherbedding practices, hostility to labor-saving advances, and outlandish pay scales, doing practically everything in its power to make it impossible for the company to meet those obligations.

Ninth, without the UAW tens of thousands of workers—its own members—would not now be faced with the loss of pension and healthcare benefits that it is impossible for GM or any of the other auto companies to provide, and never was possible for them to provide. The UAW, the whole labor-union movement, and the left—"liberal" intellectual establishment, which is their father and mother, are responsible for foisting on the public and on the average working man and woman a fantasyland of imaginary Demons (big business and the rich) and of saintly Good Fairies (politicians, government officials, and union leaders). In this fantasyland, the Good Fairies supposedly have the power to

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wring unlimited free benefits from the Demons.

Tenth, without the UAW and its fantasyland mentality, autoworkers would have been motivated to save out of wages actually paid to them, and to provide for their future by means of by-and-large reasonable investments of those savings—investments with some measure of diversification. Instead, like small children, lured by the prospect of free candy from a stranger, they have been led to a very bad end. They thought they would receive endless free golden eggs from a goose they were doing everything possible to maim and finally kill, and now they're about to learn that the eggs just aren't there.

It's very sad to watch an innocent human being suffer. It's dreadful to contemplate anyone's life being ruined. It's dreadful to contemplate even an imbecile's falling off a cliff or down a well. But the union members, their union leaders, the politicians who catered to them, the journalists, the writers, and the professors who provided the intellectual and cultural environment in which this calamity could take place—none of them were imbeciles. They all could have and should have known better.

What is happening is cruel justice, imposed by a reality that willfully ignorant people thought they could choose to ignore as long as it suited them: the reality that prosperity comes from the making of goods, not the making of work; that it comes from the doing of work, not from the shirking of it; that it comes from machines and methods of production that save labor, not the combating of those machines and methods; that it comes from the earning and reinvestment of profits, not from seizure of those profits for the benefit of idlers, who do all they can to prevent the profits from being earned in the first place.

In sum, without the UAW, General Motors would not be faced with extinction. Instead, it would almost certainly be a vastly larger, far more prosperous company, producing more and better

motor vehicles than ever before, at far lower costs of production and prices than it does today, and providing employment to hundreds of thousands more workers than it does today.

Few things are more obvious than that the role of the UAW in relation to General Motors has been that of a swarm of bloodsucking leeches, a swarm that will not stop until its prey exists no more.

It is difficult to believe that people who have been neither lobotomized nor castrated would not rise up and demand that these leeches finally be pulled off!

Perhaps the American people do not rise up because they have never seen General Motors, or any other major American business, rise up and dare to assert the philosophical principle of private property rights and individual freedom and proceed to pull the leeches off in the name of that principle.

It is easy to say, and also largely true, that General Motors and American business in general have not behaved in this way for several generations because they no longer have any principles. Indeed, they would project contempt at the very thought of acting on any kind of moral or political principle.

One of the ugliest consequences of the loss of economic freedom and respect for property rights is that it makes such spinelessness and gutlessness on the part of businessmen—such amorality—a requirement of succeeding in business. Business today is conducted in the face of all pervasive government economic intervention. There is rampant arbitrary and often unintelligible legislation. There are dozens of regulatory agencies that combine the functions of judge, jury, and prosecutor in the enforcement of more than 75,000 pages of Federal regulations alone. The tax code is arbitrary and frequently unintelligible. Judicial protection of economic freedom has not existed since 1937, when the Supreme Court abandoned it, out of fear of being enlarged by Congress with new members sufficient to give a majority to the New Deal on all

issues. (Try to project the effect of a loss of judicial protection of the freedoms of press and speech on the nature of what would be published and spoken.)

Any business firm today that tried to make a principled stand on such a matter as throwing out a legally recognized labor union would have to do so in the knowledge that its action was a futile gesture that would serve only to cost it dearly. And a corporation that did this

would undoubtedly also be embroiled in endless lawsuits by many of its stockholders blaming it for the losses the government imposed on it.

But none of this should stop anyone else from speaking up and making known his outrage at what the UAW has done to General Motors. ■

*George Reisman's book, Capitalism, is available through Mises.org. He holds the copyright to this piece (G.reisman@capitalism.net).*

# THE RATIONALE OF THE MISES INSTITUTE

Llewellyn H. Rockwell, Jr.

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To write a short article on the Mises Institute is like writing something brief on the history of Europe or a two-minute introduction to the social sciences or a brief overview of the philosophy of the mind. It is impossible to cover every point, so, for the sake of our new Members, I would like to just sketch the rationale and overarching purpose. Our *raison d'être* consists of three main parts.

First, we aspire to be for Misesian scholars the kind of sanctuary that the Geneva-based institute was to Mises himself in 1934, when he took refuge from political turmoil in Vienna and wrote his masterwork *Human Action*.

Second, we aspire to be the public-minded source of sound economic ideas that Mises himself created in Vienna in 1927 to study and promote the Austrian theory of money and business cycles.

Third, we aspire to be the educational institution that Mises, in the later years of his life, dreamed would be created to educate students and the next generation of professors.

We stayed on track with these goals, thanks to the brilliant contribution of Murray Rothbard, who was there from the beginning until he died in 1995, and thanks also to the 250 faculty members that we have working with us.

It's not that we have a large staff. Actually our on-site staff is very small—the most dedicated, talented, and hardest working group of people you have ever met. If you come to our Supporters Summit in October, you can meet them and find out just what makes the Institute tick.

Neither do we have a large budget. Careful stewardship of every resource is the watchword of our management.

We can't claim friends in high places, contacts with powerful people, access to movers and shakers, or supporters among the mighty and great. We get no White House briefings. Politicians and bureaucrats don't call us for advice. No spot on the *New York Times* editorial page is reserved for our work.

As our faculty and students can tell you, there are no great career advantages

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# News from the Institute

## A Summer Like Never Before:

Spring is a time for preparation at the Mises Institute. That's because our summer programs have become vast and expansive as never before, attracting the best students and offering economic education (and more) that beats programs in most universities.

We begin with a week-long seminar by Tom DiLorenzo (Loyola College, Maryland), who will present a full program on American economic history. It is followed by another week-long seminar with Roderick Long (Auburn University) on philosophy, and still another week-long seminar by Paul Cantor (University of Virginia) on culture and the arts, and then the famed Mises University, for which applications continue to arrive in record numbers.

All the while Joseph T. Salerno will teach a primer on the Austrian School of economics, along with a seminar on monetary economics. He is serving as the supervising faculty for our summer fellows.

Even given all this, it is not too early to think about the fall. We have a very special program in mind for the Mises Institute Supporters Summit this year. The relationship between economics and foreign policy will be explored in the conference entitled "Imperialism: Enemy of Freedom." ■

## New Mises Gear:

What if business could not calculate profit or loss? What if there were no market prices available to permit such calculations? What if there were no private property in the means of production to form the basis of market exchanges from which such prices emerge?

That is the world that socialism creates, and it yields nothing but chaos. Planners grope in the dark for guidance and end up killing not only efficiency but human initiative and freedom. Socialism can't calculate, and, because it cannot, it destroys civilization.

In tribute to this truth, so magnificently demonstrated by Ludwig von Mises in 1920—to the shock and horror of the socialists of the world—we offer the Mises Institute calculator: *Socialism Can't Calculate*.

We toyed with the idea of making the calculations turn out incorrect, but rejected this idea in the name of making something useful that also makes a hugely important point. It is \$6.

We are also super-pleased by the look of the new Mises Tie. It comes in the traditional four-in-hand style, as well as a bow tie model. Of course Murray Rothbard would have adored it. It is \$45. ■





*Continued from page 4*

that come with being associated with Austrian economics and Rothbardian libertarianism. To be attached to this body of ideas necessarily means making some sacrifice and taking some risks. It could mean a lower income. It could mean a lower rung on the career ladder. It certainly means giving up a chance to grab the brass ring of power.

So why are people drawn to the work of liberty as embodied in the Mises Institute? What makes the Institute so incredible are the vast range and quality of our activities, the intellectuals all over the world that contribute to our work, our Members who have dedicated themselves to the flourishing of human liberty in our times and in the future, and, above all else, the ideas that are the driving force behind all our activities.

Ludwig von Mises believed that the cause of freedom has one great hope: victory in the world of ideas. Note that he did not believe that we can win short-term political battles, that we would succeed through lobbying efforts, or that we could achieve final victory through slogans, songs, and propaganda. He believed that the answer can only come from research, teaching, and public persuasion.

Is this because there are no other options? No. It is because, in Mises's view, the real battle for the future takes place not by force of arms but in minds of men. No government, no matter how powerful, can be victorious over the ideas of liberty if those ideas burn brightly in the home, academy, house of worship, and culture at large.

A decade and a half ago, many of us witnessed what was widely believed to be an impossible event: totalitarian governments in Russia and its satellites melted like butter on a griddle. From all appearances, it seemed to be nearly an overnight event, but in retrospect we can see that the underlying decay of the communist system had been worsening through the decades. No one really believed in the

system any more. And when consent was withdrawn, the powerful and mighty toppled from the perches of power.

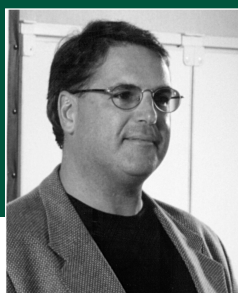
Mises had written back in 1920 that communism was a system that would end by implosion. The academic establishment rejected his analytics and his prediction. Now, however, his insights are considered prophetic.

Mises's theory was based on a larger conviction that no social system is stable unless it comes to terms with economic law and the impossibility of government planning. This is a broad critique that applies to far more than just totalitarian systems. It applies to attempts by the US government to manage industrial organization, monetary policy, income distribution, education, health care, labor relations, foreign relations, or any other sector of society and economic life.

Government planning not only fails; it tends to produce outcomes that are the opposite of what its proponents say that they favor. The only stable and productive social system is one that embraces human liberty in its totality, and defends the market economy, private property, sound money, and peaceful international relations, while opposing government intervention as economically and socially destructive.

This is what the Mises Institute seeks to do with all its educational programs, teaching conferences, books, journals, opinion pieces, and podcasts. We seek not only to make the ideas of liberty compelling and intellectually robust; we hope also to make the work of liberty engaging and fun. We hope to become, in the Rothbardian model, happy warriors in this cause.

The Members of the Mises Institute are a remarkable group of people. They are readers, thinkers, and visionaries in their own right. They have taken upon themselves the responsibilities of being responsible stewards of a great cause. They are supporting the Mises Institute not only for themselves and their interests but also that of future generations. They are all heroes in my eyes. ■



## Thomas DiLorenzo on Liberty and American Civilization

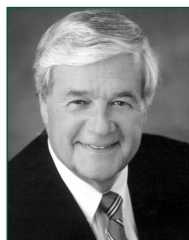
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