WebMemo
Published by The Heritage Foundation

No. 2137
November 20, 2008

Does Detroit Really Need a Bailout? Lessons from Britain

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Virtually no one doubts that the U.S. automobile industry is in the deepest of trouble.

All three Detroit behemoths—General Motors, Ford, and Chrysler—are failing badly. The fact that GM's shares are now at their lowest since 1943 underlines its desperate plight.

Against this background, it is no surprise that politicians, industry big guns, and lobbyists have all waded into the debate over whether billions of taxpayers' dollars should be spent in order to save a key industry.

It is instructive to consider the experience of other industrialized countries that have faced similar problems of major industries falling on hard times, along with the serious impact on local employment levels. In particular, Britain's experience with two major industries—shipbuilding and automobiles—shows why governments should hesitate to provide heavy subsidies in an effort to "save" firms with serious management and commercial problems. It also shows that the best way to turn around areas dependent on a crumbling industry can be to limit subsidies and encourage new industries.

U.K. Experience with "Lame Ducks." In the U.K., financial problems of major employers dominated the 1960s and the 1970s as many old industries, including the automobile industry, faced profound problems. Dreadful labor relations were one obvious element.

Political opinions were firmly split as to the way forward. Many Conservative Party members of Parliament opposed saving the so-called "lame ducks" (a term that a Conservative government industry minister, John Davies, effectively patented).

In contrast, leading Labour Party members of Parliament, many of whom represented seats directly affected, were strongly in favor of financial support for these lame ducks.

The scenario was best demonstrated in the city of Glasgow, then famous for its long history of shipbuilding. On the downside, 1960s Glasgow had some of the most appalling housing in the U.K. as well as widespread areas of dereliction, so there was great concern when high labor costs and changes in world demand for ships threatened the future of the city's major industry.

In 1968, five of Glasgow's leading shipbuilders—John Brown, Charles Connell, Fairfield, Alexander Stepney, and Yarrow—were combined into one consortium, Upper Clyde Shipbuilders (UCS).

Three years later, UCS collapsed, and the Conservative government initially refused to bail it out. With 15,000 jobs at stake and much media interest, ship workers staged a "work-in" that lasted for 14 months—essentially coming to work each day even though there was little or nothing to do.

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/wm2137.cfm

Produced by the Thomas A. Roe Institute for Economic Policy Studies

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

Perhaps not surprisingly, political realities finally kicked in. In what became an infamous U-turn, the then-Conservative government provided £35 million (in 1972 money) in order to finance Govan Shipbuilders, the part-successor to UCS.

And under strong government driving and financial support, Texas-based Marathon Manufacturing Company was also prevailed upon to buy the Clydebank shipyard.

Thatcher Weans Industry off Subsidies. However, the U.K. commercial shipbuilding industry remained very uncompetitive, especially against Far Eastern shipbuilders in Japan and South Korea.

Faced with the prospect of providing continual subsidies to prop up commercial shipbuilding, the new Conservative government of Margaret Thatcher, elected in 1979, decided enough was enough.

Consequently, commercial shipbuilding was allowed to "wither on the vine" (as some described the policy of refusing substantial aid).

The result? Thirty-six years after the UCS work-in and following 11 years of Thatcherism, Glasgow has become a different city.

Employment is now far more services-orientated, with nearby Silicon Glen—host to Scotland's IT industry—epitomizing the pronounced shift in employment. Many skilled workers in the shipyards left to work in new, growing firms, many of which were involved in the expanding oil industry. Consequently, the city embarked on a remarkable commercial turnaround.

The Notoriety of British Leyland. British Leyland (BL), which was the result of industry consolidation during the 1960s, became the most famous of the U.K.'s lame ducks with a seemingly endless need for public money.

From its volume production plant at Longbridge in Birmingham, the birthplace of the U.K. motor industry, BL supported many thousands of industry suppliers. But its products could not effectively compete with those of Japan and other foreign suppliers.

Like the automakers in Detroit, the claim was that with just a little more government support, BL would turn the corner. But it never did. Eventually, the BL empire, which received about £1.4 billion of government equity between 1979 and 1983 alone, was dismembered; much of the infamous Longbridge site has subsequently become derelict.

The payback for taxpayers from BL has been miserable, with little of the industry remaining. Yet just as in Glasgow, the impact on the local city turned out to be smaller than expected, despite the ominous predictions. Modern Birmingham, now less dependent upon the motor industry, is more diversified—and more capable of absorbing today's major economic setbacks.

Detroit's DeLorean at Dunmurry. Equally high profile in the late 1970s were the efforts of successive governments to create a motor industry in Northern Ireland, when the sectarian disputes between Catholics and Protestants were near their height and exacerbating the industrial problems of the area.

A flamboyant former GM executive, the late John DeLorean, promised to bring his revolutionary winged car design to Northern Ireland, where a new factory at Dunmurry would provide some 2,000 jobs.

As the hype ran seriously ahead of the reality, DeLorean's vision crumbled, with just 9,000 cars—and many dissatisfied customers—being produced. The whole DeLorean episode cost the U.K. government an estimated £80 million (in 1981 money).

Detroit Awaits Key Decisions. It is against this background that key decisions will have to be made regarding the bailing out of the Detroit-based automakers.

Certainly, the short-term case for aid seems powerful to many people, as politicians have continuously emphasized. But major assistance? Even if an electric car can eventually become a viable product for mass consumption, the evidence for using large sums of public money for long-term sector gains is less persuasive.

Indeed, in a rapidly changing world, there is a stronger case to be made for developing and nurturing, through such policies as low taxation and a light regulatory hand, the industries of tomorrow, not the "lame ducks" of America's past. In the longer run, such policies will leave the American economy better off.

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