100,000 layoffs or 100 mpg? Auto experts differ on future of industry

By Mike Scanlon
staff writer

Views on what the future holds for the auto industry, and what should be done about that future, sometimes sounded as much at odds as grinding transmission gears.

First prediction: Technology is sophisticated enough right now to make a four-passenger car that could get 100 mpg in city driving, perform reasonably well — and sell for $6,000.

Second prediction: Another 400,000 American auto-related workers will soon join the 155,000 Big Four workers already on longterm layoff.

THERE WAS a prediction for every taste Tuesday at a U.S. Congressional subcommittee hearing in downtown Detroit on automobile technology.

The committee winged into the Motor City to take testimony on pending legislation to establish a special research and development wing in NASA to study automotive technology.

Representatives of the UAW, Ford, General Motors, the University of Michigan, independent research companies and auto industry analysts testified.

Their views on what the future holds for the auto industry, and what should be done about that future, sometimes sounded as much at odds as grinding transmission gears.

Dr. Sherwood Fawcett, president of the research-oriented Battelle Memorial Institute, offered an alternative to government-directed research and development — a contest with a $140-million first prize.

THE WINNER would be the first company — domestic or foreign — to build the 100 mpg, $6,000 car.

"Forget who does it. Let the Japanese do it — I should cut my tongue out — but the nation would benefit, the world would benefit," said Fawcett.

Battelle might, too. Fawcett said the company makes the proposal after a year-long engineering study produced plans for a streamlined, supercharged "Pertran" vehicle that he says will fill the bill. No prototype has been built, however.

Fawcett's plan would impose a deadline by which production had to be under way. If only one manufacturer met stated criteria for the car, then the builder would get a $14,000 federal payment for each of the first 10,000 cars. That's $140 million. The manufacturer would have to establish assembly processes that would guarantee minimum production of 100,000 units a year.

"The technology is a lot more in hand than the cost," Fawcett admitted.

Dr. Beno Sterlicht, chairman and technical director of Mechanical Technology Inc. of Latham, N.Y., took a darker view.

More than half the cars sold in the U.S. by 1983 will be equipped with engines built somewhere else. That change will mean the loss of 400,000 jobs and a $5 billion annual balance-of-trade loss to foreign manufacturing nations.

IT WILL ALSO mean, Sterlicht predicted, that U.S. automakers will be on the road to becoming distributors instead of producers.

Sterlicht called for a presidentially created "National Automobile Project with dedication and commitment similar to Project Apollo."

Dave Cole, director of U-M's office of study for Auto Transportation, praised the idea of hooking auto research to NASA and further suggested the National Science Foundation become involved as well.

Cole said U.S. automakers, who spend only 3 percent of sales on research and development, should be spending 5 percent instead. And he echoed Sterlicht's warnings on foreign-built components, predicting that U.S.-built components in U.S.-assembled cars will drop from the 95-96 percent of today to 85 percent by 1990.

Cole also warned that American colleges aren't educating enough engineers in post-graduate courses, and that many of those now enrolled in those courses are foreign nationals.

Both Ford and GM spokesmen were cautious in appraising the NASA plan, and warned that such an arrangement should be limited to basic research, not research applications intended for quick production.

Former Treasury chief would reform tax system

The U.S. income tax system should be scrapped and a simpler, more efficient and more equitable system put in its place, writes former Treasurey Secretary William E. Simon in "Reforming the Income Tax System."

Simon, chairman of The American Enterprise Institute for Public Policy Research's tax policy program advisory council, looks beyond the current debate over tax reduction and asks what fundamental reforms are necessary for the long run.

"After years of attempting piecemeal reform, I am convinced that a fundamental reform is necessary," he says. "We can no longer afford to tinker. We must design an entirely new system and adopt it as an integrated whole."

The key element in basic tax reform is to redefine the income base that must be taxed, according to Simon, now a financial consultant. Marginal tax rates are high not only because government spending is high, but also because laws have greatly reduced tax rates on some types of income, very high rates must be imposed on other types of income, he says.

Simon discusses the advantages and disadvantages of two major alternatives for restructuring the tax system: adopting a comprehensive income base, under which all income would be taxed at a much lower rate with few itemized deductions; or adopting a consumption, or cash-flow, base, under which money used for consumption would be taxed while money saved or invested would not.

Noting that either approach would be a vast improvement over our current system, Simon prefers the consumption or cash-flow approach. Either system could be as progressive as desired, Simon writes, but he does not believe that the tax system should be used to redistribute income.

SIMON PROPOSES a new set of objectives to guide tax reform efforts: "These new objectives are economic efficiency; simplicity; equity among those at the same income level; and a lesser degree of progressivity that will lessen the work and investment disincentives inherent in the existing system," he writes.

By contrast, the present system "is supposed to fund government provision of goods, services and transfer payments; it is supposed to stabilize the economy; and it must redistribute income," writes Simon.

"As if this were not enough, it has been complicated beyond reason by efforts to encourage 'socially productive' activities, which is often a euphemism for saying that politicians use it to curry favor with narrow interest groups."

Simon cites the tax system as one factor responsible for the nation's economic decline because the system encourages consumption over saving and discourages investment and enterprise with high tax rates.

Other major industrial nations are well ahead of the United States in devising tax systems that encourage both savings and investment, he says. He notes that "the United States has fewer tax concessions to individual savers and investors than any of its major trading partners.

"Our new exemption of the first $200 of dividends and interest income, our qualified retirement plans, our limited tax concessions and our capital gains privileges pale in comparison with the generous incentives offered to the investors of Germany, Japan and France, which in no small part have contributed to personal savings rates that are more than double ours."

THE AUTHOR PRAISES recent tax efforts that focus on economic efficiency and concern for the taxpayer instead of shifting more and more of the tax burden to business and wealthy taxpayers. But if the nation is to meet its rapidly rising standard of living, a comprehensive tax reform is necessary, he says.

"Anything short of this, as is the case with most of the proposed reforms to date, would leave the existing problems largely intact," Simon writes. "The system would still be complex, inequitable and hostile to income from capital investment."

Simon, author of "A Time for Truth," also serves as president of the United States Olympic Committee and in a wide range of civic activities. He was secretary of the treasury from May 1974 through January 1977 in the Gerald Ford Administration and earlier served as administrator of the Federal Energy Office and deputy secretary of the treasury.

The American Enterprise Institute for Public Policy Research is a nonpartisan, nonprofit, publicly supported educational and research organization which itself takes no positions on public policy issues.