The guilty blame everyone else for weak car sales

auto talk

Dan McCosh

There are a few U.S. congresspeople wandering around Detroit this week, anxious to learn more about the auto industry.

Judging from a few of the statements attributed to them concerning their ignorance, you probably could recognize them in a crowd because of the bags they wear over their heads.

One confessed that he was surprised he had to worry about suppliers when he was talking about the car business. He thought the auto companies made everything themselves.

THIS IS easy enough to understand, since U.S. Steel Corp. was so ashamed of the metal it was selling to General Motors it renamed itself USX Corp., or something like that, a few years ago. Anyone who doesn't realize that auto companies buy steel and rubber from other companies would really be shocked to find out how many computers they buy, which aren't made on Detroit assembly lines either.

Actually, the avowed ignorance of how the car business fits into the U.S. economy isn't half as disconcerting as the ignorance of how the U.S. government — all national governments, for that matter — affect the largest manufacturing business.

I FIRST noticed this phenomenon when David Halberstam, a Pulitzer-prize-winning political analyst, managed to write a 750-page analysis of the U.S. and Japanese auto industries without mentioning Washington policies and how its policies affect the business.

Still, the mere fact that a few congresspeople took the time to visit Detroit is encouraging. Not so encouraging was the remark from a think-tank type who was quoted "Washington isn't Detroit's problem; the problem is making cars as good as the Japanese."

Blunt as it is, this is as succinct a statement as you are likely to find about what drives the seemingly unending mountain of legislation that hamstrings what used to be a relatively straightforward business of making and selling cars.

IN FACT, making cars as well as the Japanese is what the bonafide competitive effort is all about. On the other hand, if making good cars is all it takes, we would be driving Deusenbergs today, and Saab would be giving Toyota a run for its money.

Actually, I'm afraid that the total effort of this trip will be wasted on the obvious — that nobody can really make a fleet averaging 45 mpg or make exhaust so clean that it's cleaner than California air.

What I'd like to hear are a few people address some questions that have been bothering me lately, problems that have built up over the years since I was a youth, which I somehow think reflect a long effort of government policy.

'WAY BACK then, in the mid-1960s, a monthly payment on a new car, a year's car insurance, and a term's worth of tuition at Michigan State University's engineering school all were slightly less than $90. General Motors was paying nearly 15 percent in dividends, and interest rates were 3 percent.

At the risk of sounding reactionary, I wonder if the changes we have seen, in tort liability, the dwindling dollar, the national debt, a diminished industrial base, and the dissolution of the system of education haven't somehow had an effect on the U.S. auto business. Maybe, in fact, more of an effect than the mechanical improvement in Japanese cars accomplished during these years.

It's an odd thought that elected officials who have orchestrated these changes don't think so.

Record-setting Dow means it's time for investors to be careful

finances and you

Sid Mittra

On April 17, at 14:09 EST the Dow Jones Industrial Average crossed the elusive 3,000-mark and, for the first time, stayed about that level at the close.

The next morning the Wall Street Journal published the following headline, "Dow Industrial Crack the 3,000 Mark". What is really surprising is the fact that investors pushed the Dow over the top without any help from the Federal Reserve.

This year much of the stock market's rise has been fueled by the Fed's policy of lowering interest rates to counter the recession. However, on April 17 the Dow closed at a record 3,004.36, up 17.58 percent on the day despite the fact that the Fed decided not to lower the interest rate.

ANALYSTS POINT out that this stock market rally is very different from the one last July. It is broader; the Dow's 30 Blue Chips are laging other market indexes, such as the S&P's 500, which hit records a while ago. And it is being led by a very different group of stocks.

The six-month rally that has sent the Dow Industrial surging 639 points, or 27 percent, since the October low of 2365.10 has been dominated by growth stocks, and, to some extent, by cyclical companies whose earnings turn higher as the economy strengthens. In fact, what we have experienced is a market driven by the expectation of economic recovery and responding to lower interest rates.

In July 1990, the Dow rose above 3000 on two successive days, but both times closed at 2999.75. Shortly thereafter, Iraq's invasion of Kuwait and the ensuing economic slump in the United States resulted in a large decline in the market. But beginning in October 1990, with most economists forecasting only a short recession, the market has been rallying. And it got a strong support from the U.S. victory over Iraq.

BUT ALTHOUGH the Dow Industrials are back at 3000, investors are facing very different bets than they were last summer. Nine month ago, when the Dow and the S&P 500 were racing to record levels, much of the stock market was not going along. Small stocks, especially, were taking a beating. As of mid-July, when the Dow was flirting with 3000, NASDAQ's Index of small industrial stocks was off 12 percent from its late 1989 peak.

Now the Standard and Poor's 500, the NASDAQ Composite, and just about every other market index is setting records. The S&P 500, a broad-based market measure, is 6 percent higher than it was in July. The NASDAQ Index, which represents small stocks, is up 57 percent from its low in October. And some of the fastest-rising stocks are those most sensitive to economic cycles and to interest rates.

EVERY FINANCIAL newspaper is predicting that the Dow is about to reach 3200. However, I am really concerned about the short-term prognosis of this market.

In my view, investors are speculating that a quick economic rebound lies ahead. But, despite all th talk of recovery, autos, housing, employment, and consumer spending remain weak.

Investors are assuming that the economy will recover, interest rates will continue falling, and inflation is well under control. However, that line of thinking creates all the more opportunities for disappointments.

So I strongly advise caution.

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Sid Mittra is a professor of finance, school of business at Oakland University and owner of Coordinated Financial Planning.

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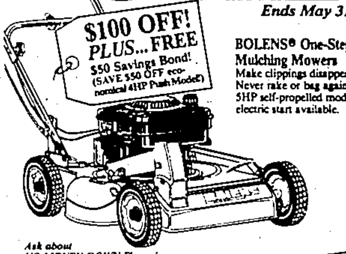

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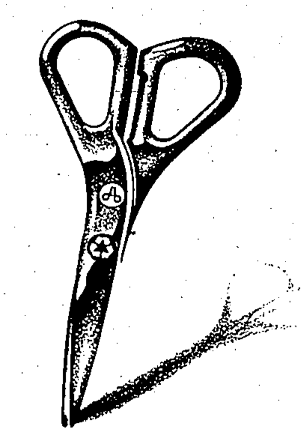

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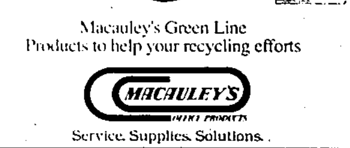

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