The Fall of the American Automotive Industry and the Missteps that Drove Us Here

written by Jack Lifton | September 29, 2024

The OEM automotive industry ignored the mining industry after Henry Ford taught it to break the commodity “trusts” (a/k/a/ monopolies) of his day by simply going farther up the supply chain and vertically integrating. Thus was born Delco, Mopar, and other, now forgotten, internal supply “divisions” of the OEM automotive industry. As recently as just one generation ago General Motors had an internal commodity and specialty metals purchasing unit that controlled all purchases of steel, copper, aluminum and precious and platinum group metals in a successor group to Delco, which was called “Delphi.”

Less than a dozen men were well experienced specialists in sourcing and purchasing the commodity metals necessary for the manufacturing of vehicles powered by internal combustion engines. The Critical platinum group metals for the exhaust emission catalytic converters mandated by government were also sourced and purchased by this Delphi group.

The Delphi commodity men, as I called them were not pencil pushers; they visited, for example, copper mines, copper refineries, and copper wire drawing companies (I’ll bet you didn’t know that there was such a business, did you?) with goals not just of understanding a commodity industry’s internal supply chains, but also to seek an entry point for the best form of that commodity to purchase! They bought copper “cathodes” from Asarco’s copper refinery in Amarillo, Texas (now owned and operated by Grupo Mexico) and consigned them to America’s Southwire Corporation to make the wire for GM’s internal wire harness manufacturing operations. The purpose of these sourcing/purchasing operations was to discover and fix commodity metal prices. General Motors would buy the copper cathodes from Asarco and ask downstream vendors to bid on processing charges to turn the cathodes into wiring harness quality electrical wire.

How do I know this? I participated as an unpaid consultant to GM in finding and vetting commodity metal sources in East Europe in the 1980s and 90s. My compensation arose from the fact that I was sourcing short runs of service parts for GM in Eastern Europe and by working alongside Delphi's commodity men I gained credibility.

In any case, it soon became apparent to me that there was a significant cultural difference between GM and its European competitors-note that I was also associated with a major supplier of parts to France's Renault from Romania (the end of the communist regime in Romania ultimately caused Renault to buy Romania's national car company, Dacia, and to transform it today to the maker of the most popular selling car in Europe).

This period, the last quarter of the twentieth century, was a time of very bad judgements by the US OEM automotive industry. While European companies, like Renault, were increasingly vertically integrating their supply bases, the U.S. "Big Three" were doing the opposite. The Big Three were desperately trying to maintain profitability and the Europeans were focused on employment and social issues as a priority. This reflected the difference between European socialism and industrial policy (European governments either had direct ownership in the car companies or strong social control of their supervisory and management boards) and America's professed "free market" capitalism.

At GM in the 1980s and 90s sourcing policy was controlled by one man, the corporate VP over “purchasing.” His remit was judged by his performance to budget and objective. His idea, which was attributed to corporate governance, was price management by vertical integration of supply, in the case of metals, from the mine to the final product. Most importantly, prices for the metals would be set by GM and the metals would be consigned to outside fabricators for process value addition, such as wire drawing, so that they could be directly then used by, in this case, GM’s own wiring harness manufacturing unit at the known prices best suited to the long term advance planning required by an industry that makes and sells products that have expiration dates.

Unfortunately for GM, while this executive, Harold Kutner, was managing raw material costs to a degree unknown since the time of Henry Ford, his colleagues in the C-suite were mismanaging the operation he was supporting and GM overbuilt large expensive cars that increasingly the public didn’t want. While the US domestically owned car industry entered what was to be its last pass at consolidation first the Japanese and then the Koreans entered the market with smaller affordable and innovative cars that the public soon learned to love.

I think we can date the initiation of the second decline of the American automotive industry to the 1980s when just-in-time inventory (capital) management began to replace vertical integration.

I have watched both GM and Ford decline from significant global players to protected domestic shells of their former industrial selves.

Now, as even their domestic markets are imperiled by lower cost Chinese made “good quality” vehicles, the remaining American

“Big Two” ask government for tariffs and additional subsidies in the form of tax credits and prohibitions of critical minerals for manufacturing that are not made by price supported (subsidized) domestic producers of critical minerals and their downstream manufactured products.

If you want to know why deglobalization has advanced so rapidly, just look at the domestic American OEM automotive industry. In a free market global economy, it would no longer exist.

An imperfect copy of the type of industrial policy successfully implemented by the Chinese to secure for themselves sufficient supplies of critical minerals is now being put forward as the solution to the extinction of American critical mineral self-sufficiency. But – it’s too late for politically driven half-measures.

I heard the latest self-serving version of the “correct” industrial policy declared by a newly minted member of the oligopoly’s junior varsity only last week.

The man in question gave a brief audience to a group of oligarch wannabes at a conference I attended, to inform us that (in my words, not his) the dialectic of American economic history required that the Biden administration treat the still unborn domestic American total rare earth permanent magnet supply chain in the way that, in the speaker’s view, the Roosevelt administration “solved” the deflationary farm crisis of the 1930s, by the price control that is a euphemism for subsidies.

I doubt that the beautifully dressed and aristocratic acting speaker knows the meaning of “dialectic” or that floor prices are typical of mercantilism, or that mercantilism with Chinese characteristics is the openly stated Chinese agenda for industrial self sufficiency.

America and its aged and addled teacher, Europe, are long past the time when they can simply mandate the global flow of critical minerals. Both now have to compete for those resources with the revived China, which has now finally achieved Mao’s vision of a “cultural revolution” after its aborted first try 3 generations ago.

China has made no secret of its plan to create a Chinese mercantile empire.

China’s capitalist (with Chinese characteristics) capture of the worlds trade in critical minerals has been underway for more than 25 years. It is now operationally successful.

No American or European owned and operated producer of critical minerals or any downstream product enabled by the electronic properties of critical minerals can succeed (aka, be profitable) unless it is a lowest cost commercial volume producer in its market.

Protectionism in the form of tariffs and subsidies is a gift of public money to the oligarchs who brought us to this point.

Today’s American manufacturing economy is the result of financialization. If American governmental policy is intended to create wealth and distribute it widely to maintain our standard of living, then it has failed.

Well-dressed junior aristocrats who have gamed the system with hollow showcase projects in critical minerals, alternate energy, the climate “crisis,” and now (drum roll, please) AI, are the problem, not the solution. The allocation of capital by the economic lightweights who “govern” us and the sweeping up of that capital by eager manufacturing industry operations illiterates is the problem, not the solution.