The Daily Dish

Giselle's Mainframes

DOUGLAS HOLTZ-EAKIN | NOVEMBER 29, 2018

Eakinomics: Giselle's Mainframes

General Motors (GM) announced Monday that it was laying off 15 percent of its salaried workforce (including 25 percent of its executives) and stopping production at its Oshawa Assembly in Ontario, Lordstown Assembly in Ohio, and Detroit-Hamtramck Assembly in Michigan.GM's actions were largely due to poor sales, leading it also to give the axe to the Chevrolet Impala, Chevy Cruze Chevy Volt, Cadillac CT6, and the Buick LaCrosse.

As readers have doubtless been aware, GM's actions have spurred a rash of criticism, including presidential tweets that included: "Very disappointed with General Motors and their CEO, Mary Barra, for closing plants in Ohio, Michigan and Maryland. Nothing being closed in Mexico & China. The U.S. saved General Motors, and this is the THANKS we get! We are now looking at cutting all @GM subsidies, including for electric cars. General Motors made a big China bet years ago when they built plants there (and in Mexico) – don't think that bet is going to pay off. I am here to protect America's Workers!" and "If GM doesn't want to keep their jobs in the United States, they should pay back the $11.2 billion bailout that was funded by the American taxpayer."

But what would have happened if the GM in question was Giselle's Mainframes, which announced layoffs and a retooling of its product lines aimed at competing with more modern products. Doubtless there would have been an outcry of sympathy for the fates of those GM workers and the cities in which they lived and worked. This is entirely on the mark and appropriate and would remind everyone of the need for vibrant labor markets in every locality that offered new opportunities for those workers and effective re-training programs for those unable to take advantage of those jobs.

And it would have spawned market commentators to note that this GM was a walking zombie because it was still making (and not selling) its poorly named Cruze and Impala mainframes in the age of the smartphone, tablet and laptop. There would have been criticism of the management for letting GM get so far behind the curve and some question as to whether it should bear the costs of this transformation. (And there probably would have been a market reaction similar to that reported by the*Washington Post* for General Motors: "Wall Street applauded the news, with GM's stock closing up nearly 5 percent to $37.65.") This, too, would have been appropriate. There is always an issue of ensuring that corporate governance rewards quality executives but also disciplines those that get behind the market.

But that would probably have been about it. Indeed, I doubt most would have flipped (physically or digitally) to the Giselle's Mainframes story. After all, it had not been bailed out by the federal government during the previous recession. And that is an important lesson. It was a mistake for the federal government to bail out General Motors (and in the process make management decisions like closing dealerships). It was wrong in the moment, but has lasting repercussions. First, a bailout by definition is a statement that the *status quo* is ok and there is no need to change and move on. It rescues the past from the need to adapt to the future. As a corollary, it sends the same message to the localities — don't bother to diversity your business model Detroit, it will all work out fine.

Second, it allows government officials — right up to the president — to second-guess management decisions that are none of their business. The blurring of the line between private sector and government corrodes the ability to maintain both a small, efficient government and economic freedoms.

Finally, it invites company-specific retribution. Federal policy should never be company specific. Its job should be to present the same set of incentives to all market participants and potential entrants.

The next time you are asked a question about the right policy toward GM, first take a second and imagine they are Giselle's Mainframes. It helps to get the answer right.