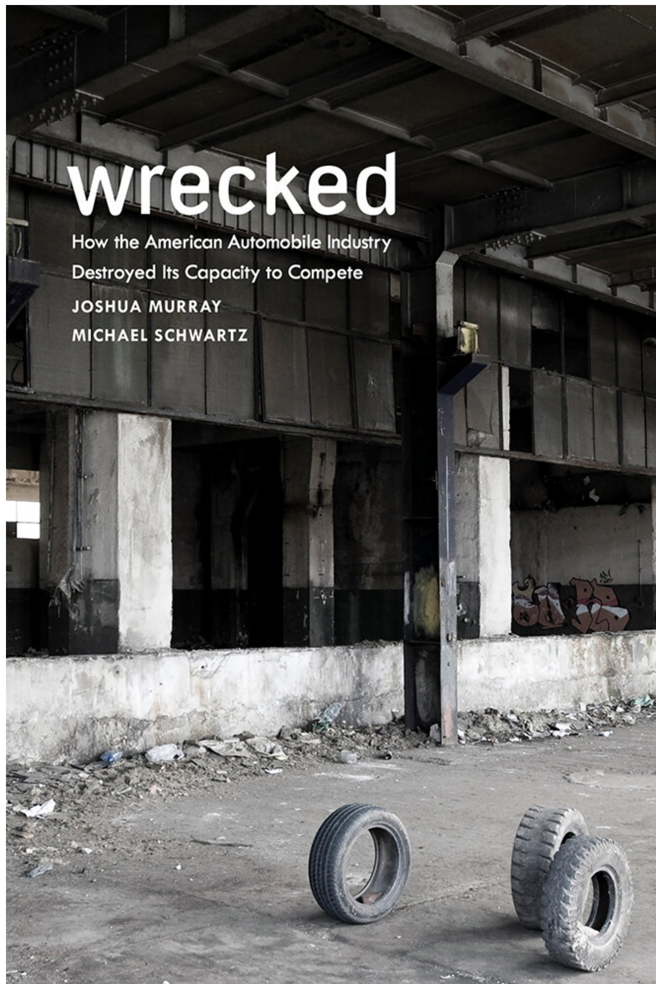
Decline of U.S. auto industry linked to midcentury shift in production models

19 July 2019, by Liz Entman



A massive shift in production models by American automakers to limit the impact of worker strikes may have unintentionally stifled innovation and led to the present decline of the U.S. auto industry, argues Vanderbilt sociologist Joshua Murray in a new book.

Wrecked: How the American Automobile Industry Destroyed its Capacity to Compete, coauthored with Stony Brook University's Michael Schwartz, has just been published by the Russell Sage Foundation.

Once the crown jewel of the world's automotive industry, the United States' top automakers today face an uphill battle against Japanese and European car manufacturers, who produce higher-quality cars at lower cost.

"We wanted to understand how what used to be the richest industry in the richest country in the world wound up so close to collapse during the financial crisis that the government had to bail them out," Murray said.

The U.S. auto industry was in decline long before the financial crisis, Murray said, and there are a number of theories as to why. One of the most widely held is that the industry has simply matured past its natural peak: Innovation has slowed, and now the automakers must find their profits through reduced labor costs rather than rising demand. Another theory is that innovation hasn't slowed—it's just that there's something about Japanese management culture that makes their companies more innovative than American ones. A third theory is that American labor unions simply grew too greedy, making labor costs unsustainable in the face of cheaper foreign competition.

However, Murray and Schwartz argue that there's a better explanation: the geographic dispersal of production after World War II.

Originally, the production ecosystem was highly concentrated—automakers worked with a small handful of sole suppliers, often with lifetime contracts, located close to the plants where the cars were made so they could provide just-in-time delivery. This system made innovation efficient, Murray said, because the long contracts gave suppliers the security they needed to tweak their products on demand and just-in-time delivery meant plants weren't stuck with a huge inventory of

parts they no longer needed.

It also facilitated communication. "Because of the geographical concentration, there's all this contact between everyone involved in making a car," Murray said. "It means the designers and suppliers could meet with the line workers at the plant to discuss and troubleshoot new features quickly and easily."

Josh Murray. Credit: Vanderbilt

However, that also made it easy for a small number of workers to completely shut down production during labor disputes. After a series of strikes in the late 1930s and early 1940s led to mass unionization throughout the industry, leaders at the Big Three began to decentralize production in an effort to reduce union leverage, Murray said.

The new model, which Murray described as dispersed/parallel production, was more geographically spread out, using parts sourced from multiple suppliers and stockpiled at plants. "If workers at one supplier go on strike, there are two or three others making the same part, so the plants don't stay idle," Murray explained.

However, this also made it harder to implement new innovations quickly or cost-effectively. Eventually, Murray said, the system became too entrenched to easily reverse. "Returning to flexible production will be very expensive for the industry," Murray said. "Not only will auto companies need to invest in new plants and equipment, they will need to repair their broken relationship with labor unions to ensure that the plants stay open as the industry recovers."

Murray said that while recent federal interventions such as the bailouts and other policies to preserve jobs have helped keep the U.S. auto industry afloat, they are unlikely to do much to reverse the decline in the long term. If U.S. automakers can't overcome their structural impediments to innovation, Murray said, the future of cars may well lie with foreign companies indefinitely.

More information: Joshua Murray, Michael Schwartz. *Wrecked: How the American Automobile Industry Destroyed Its Capacity to Compete.* Russel Sage Foundation, June, 2019. ISBN: 978-0-87154-820-7.

Provided by Vanderbilt University

APA citation: Decline of U.S. auto industry linked to midcentury shift in production models (2019, July 19) retrieved 22 September 2021 from https://techxplore.com/news/2019-07-decline-auto-industry-linked-midcentury.html

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.