After the Fall

AT LUNCH WITH THE DETROIT BUREAU CHIEFS FOR THE NEW YORK TIMES AND THE WALL STREET JOURNAL

By Jaclyn Trop

The Times' Bill Vlasic (left) and the Journal's Neal Boudette, at the historic Westin Book Cadillac Detroit.

PHOTOGRAPH BY SCOTT STEWART
Neal Boudette, the Detroit bureau chief of the Wall Street Journal for the past four years, recently sat down for lunch with fellow scribe Bill Vlasic at the city’s historic Westin Book Cadillac Detroit, which, in the wake of a $200 million renovation, embodies the Motor City’s hope of resurrection. The New York Times Detroit bureau chief, Vlasic is the author of the 2001 Times bestseller Taken for a Ride: How Daimler-Benz Drove Off with Chrysler. His new book, Once Upon a Car: The Fall and Resurrection of America’s Big Three Auto Makers—GM, Ford, and Chrysler, is scheduled to be published by William Morrow in October.

Both Boudette (COM’84) and Vlasic (DGE’74, CAS’76) know the recent history of the American auto industry as well as anyone, and they have come here to talk about it: where it’s been, where it’s going, and why it has taken so long. That, and to eat the hotel’s prized steak salad (cooked medium rare).

BOUDETTE: I think Detroit has come back. All three automakers—GM, Ford, and Chrysler—are making money. Ford’s making serious money: $2.6 billion in the first quarter of 2011. They’re headed for a second year in a row in which they’re going to make six, seven, eight billion for the year. That’s big dough. That’s Toyota money—the old Toyota, of course. So I think Detroit has turned the corner. Detroit’s like the New York Yankees. It’s never going to be like the Mantle and DiMaggio days, but they’re still the Yankees. They don’t win every year. I look at them as the Yankees. I just don’t hate them as much as I hate the Yankees.

VLASIC: Yes, they are very competitive now. A lot of the things at the root of their crash have dramatically changed. Most of that is because of the bankruptcy and the government bailout, but with Ford, I think the change was about leadership. The word “reckoning” has been used a lot, but it was a reality check. If they didn’t change dramatically, they weren’t going to survive. And that goes for the United Auto Workers as well. Even before the bailouts, the 2007 labor talks had some extraordinary concessions in there. Now, they’re more realistic. In the ’50s and the ’60s Detroit was an oligopoly. Now they’re competitive—not just the products, but the financial structures of the companies.

One of the lessons here is that you can’t be wedded to your mistakes. It takes a certain amount of fortitude to get rid of a product that’s not doing well. You know, the Aztek was ridiculed as being the ugliest thing GM ever did, and it was. And it didn’t sell well. But they kept making that darn thing for years because they kept saying, “You know, it will find its...”

BOUDETTE: Its footing.

VLASIC: Yeah, its footing. I had so much admiration for CEO Carlos Ghosn at Nissan when they saw that the pickup truck they spent so much money on and so much time on was just not working. It wasn’t a bad product. It just wasn’t working, and they scrapped it.

BOUDETTE: I’ll tell you about one of the worst cars ever made: the Chevy Citation. In fact, when I moved into Warren Towers in late August 1980, my father drove me from New Jersey in his Citation. It was new—had only been on the market for about a year—and it was one of the worst cars of all time. My impression of American cars was largely shaped by that vehicle and all the troubles we had.

VLASIC: I had a Pontiac Firebird. It was stolen twice from West Campus, but I got it back both times.

BOUDETTE: Nowadays, it’s like Detroit had a brain transplant. It on the rebound, American automakers are hoping that fuel-efficient cars like the Ford Focus will drive them back to prosperity.
like, how dare you? I remember in 2005 when gas was $2 a gallon. At the same time, GM’s SUV sales were headed down. They just became adamant that no, it’s not gas prices. Gas prices are not driving down SUV sales. That was the first time I really saw GM denying reality. And they did it again and again. And then you got to the summer of 2008, and GM reported their earnings. They said they had enough cash to last the rest of the year. They just weren’t connected to reality. I think Rick Wagoner is going to go down as the worst CEO in American history. He was at the helm of the Titanic, and he practically hit the gas when they saw the iceberg.

**VLASIC:** Wagoner was a product of the GM corporate culture. He’d always worked at GM. He believed in GM, and the guy was extremely loyal to GM. And for better or worse, he was convinced that the GM way was the best way. And GM was doing a lot of things that were progressive in the sense of investing in China and trying to research all these different alternative fuels. But you can’t do all that stuff when your house is on fire, and that’s what was happening. It’s laudable that you’re doing well in China, but it’s almost a luxury you can’t afford when things are going so badly at home.

**BOUDETTE:** To me, the astounding part of it was that GM’s problems were well known. Everybody in the industry knew they were producing more cars than people could buy, they were discounting heavily, their quality was bad, their reputation was bad, they had these high costs, and they never confronted that. And the same basic problems were at play with Chrysler. They had very high labor costs, and the UAW was still paying for the health care and pensions of tens of thousands of retirees. So they broke even when they sold a $20,000 car. One thing that strikes me is the contrast between new Ford CEO Alan Mulally and Wagoner. Mulally wants people who report to him to bring up bad news. There’s this famous story about one of the early meetings—Bill, I think you may have written about this—a story about when someone spoke up and said, “We’ve got a problem here,” and Alan starts clapping, like “Good, let’s know about our problems. Let’s not hide them and let them fester and get worse.” But Rick, you know, he was the smartest guy in the room.

**VLASIC:** The companies were always really defensive about their strategies. They felt like they were always being criticized, and they lashed out. **BOUDETTE:** I live in Ann Arbor, and one day I was taking my daughter to soccer and I drove past Eastern Michigan University. Near the football field, there were all these Chrysler vehicles parked, one after another. These were big lots where they normally don’t park cars. They were just stuffed there. And there were hundreds and hundreds of them. You’d call Chrysler to ask about this, and they’d give you some explanation that there are transportation issues and they’re going to sell them and they’re not building fence cars—surplus cars parked against a fence. And yet reporters around Detroit could just pretty much go anywhere and find them. They were at the airport. The jet would take off and you’d see massive parking lots, and you could tell it wasn’t just regular cars because it was just minivans or just pickup trucks. Hundreds of them you could see from the plane.

**VLASIC:** I think it’s just human nature sometimes that when something works for you and you believe in it to get defensive and continue to believe in this very slow transformation into something else. I mean, GM was

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**All facts are taken from** Once Upon a Car: The Fall and Resurrection of America’s Big Three Auto Makers—GM, Ford, and Chrysler by Bill Vlasic, published

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changing, but it was so slow that by the time they started to make smaller cars, they were out of money and it was too late. What’s amazing to me is how quickly people have seemed to move on from how bad it was, and now they’re saying that Detroit is going great guns again. Of course, they’re making money and the cars are well received. It’s proven that there’s a lot of talent in these companies and in GM’s case, there was nothing that $50 billion from the U.S. government couldn’t solve.

BOUDETTE: They’re showing that American engineers are just as smart as anybody in Germany or Japan. It’s really sad that for 20 years, or maybe even 30 years, American automotive engineers had this reputation of being idiots and slapping these crappy cars together. And the truth was, the people who actually did the engineering work knew they were making crap and they were being forced to make these compromises because of costs. Now the United States can show in this very high-profile global industry that we’ve got smart engineers, that we have people who can make cars just the way Apple has really smart people who come up with these new devices.

VLASIC: I think there is still, at least in Detroit, a lot of sentiment to buy American, but it’s not like it used to be. For one thing, people understand that even American cars are not necessarily made here, like the Ford Fiesta is made in Mexico. You really don’t know where your car is made half the time. It could be Canada, it could be Mexico. The Chevy Aveo is made in Korea.

BOUDETTE: We did a story one time that looked at the content in cars and we showed that the Honda Odyssey minivan had more American parts in it than the Ford Mustang, which at the time was made in Canada.

VLASIC: And who’s to say that we won’t see good cars for the United States coming out of China or India someday? Hyundai is a real player. They’re a major car company now. It just goes to prove that no one has a monopoly on good ideas and on making good cars. The question with Hyundai is how big do they get, and can they translate that underdog freshness into mature growth as a company?

Frankly, a lot of young people in particular like brands that are new. They don’t particularly care that a brand hasn’t been around for 50 years. I was amazed when I saw that the best-selling TV was a Vizio. I was like, who’s Vizio?

BOUDETTE: If you look at Hyundai and Kia together, they’ve passed Ford to become the fourth largest automaker in the world. Hyundai is almost certainly going to have more than 5 percent of the U.S. market this year. That means there are seven companies with more than 5 percent market share: GM, Ford, Chrysler, Honda, Toyota, Nissan, and Hyundai. Seven. This is really an extraordinary development.

VLASIC: What about electric cars? Ford’s coming out with one this year.

BOUDETTE: I’m not convinced that electric vehicles are going to take over the world just yet, certainly not in the next three to five years. I just looked at the Chevy Volt sales this morning. It was under 500 for the month of May. The Nissan Leaf is good for making short runs to pick up the kids from school and run an errand, but it’s not an everyday car and an every-situation car. I look at the Leaf as an electric car opener. If you’re going to feed the cat, there’s no better appliance to go to in the house.

2006: Ford ends the year with a loss of $12.6 billion, the worst in its 103-year history.

2007: Chrysler has $19 billion in health care obligations to UAW workers and retirees.

2008: In the spring quarter, Ford posts an $8.7 billion loss, the worst quarter in its 105-year history.

2008: Chrysler sales fall below one million, to a 15-year low.

2008: GM stock hits $7, its lowest price since 1953.