The Fate of the Two U.S. Auto Centers

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Detroit had been the heart of world's largest carmakers, with its population amounting to 2 million in the early 1950s, but now is on the brink of collapse on the fall of the Big Three. In contrast, George Town, Kentucky, has turned from a secluded farm land into an auto town, with its residents enjoying prosperity. What made such a difference between the two auto cities? We can find the answer from their contrasting consumer strategy and management skills, labor's participation in the production and attitudes. -Editor

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General Motors (GM) was the world's largest manufacturer in the 1950s when the U.S. auto industry dominated the global market. GM built many plants in a city called Flint, 40 miles north of Detroit. Flint was the final destination for many poor farmers from the South who set out on an exhausting journey to find a new world after the World War II. They found jobs in this city and no longer worried about feeding their children. During its golden days, Flint hired about 100,000 workers and provided jobs to 50,000 or so well into the middle of the 1 990s.

Today of Detroit

However, the number of workers in GM's Flint plants has plummeted to about 7,100 in 2008, sending the town into an unprecedented economic suffering. More than a third of the residents in the town are struggling below the poverty line as the unemployment rates have soared to 13.6 percent, more than double the nation's average level. Most citizens are not able to access to even the basic training for new jobs while 25.5 percent of Flint citizens aged above 25 have not graduated high schools. Many high-school graduates are leaving the town to seek for job opportunities. In 2006, Flint recorded murder cases more than the aggregate of the other five Michigan cities ?Ann Arbor, Lansing, Saginaw, Grand Rapids, and Traverse City. This city's crime rate is near double that of the other cities and as high as that of Detroit, the state's biggest city and notorious for crime.

Detroit has enjoyed a long fame as the world's center of auto industry, with the Big Three carmakers ? GM, Ford and Chrysler- headquartered there. Detroit was one of the most prosperous cities in the U.S. in the early

1950s with a population of 2 million. With the auto industry's fall, the population has sharply decreased to about 900,000 now. The depopulation and demolition of abandoned properties has left the city dotted with thousands of vacant parcels, ranging from single home lots to open fields of many acres.

Dan Pitera, professor of architecture at the University of Detroit Mercy, contributed an interesting article to a local newspaper with a dramatic picture vividly illustrating Detroit's sad saga. The map shows how to tuck the land mass of Manhattan (23 square miles), San Francisco (47 square miles) and Boston (48 square miles) ? and their combined populations of nearly 3 million people ? into Detroit. All three urban areas fit snugly within Detroit's 139 square miles with room to spare. Some town planners have concluded that Detroit needs no more than about 50 square miles of its land for its current population, leaving the remaining 89 square miles idle. The collapse of the U.S. auto industry has left much of the state land empty.

The article proposed several interesting ideas for new uses of this abundant vacant land, such as such as urban farming, reforesting the city, and large-scale recreational areas. Some suggested Detroiters should seize the opportunity to become a leaner, greener city for the 21st Century, by building more parks or cordoning off the entire swathes of the city and returning them to nature. Town planners proposed large-scale commercial farming, both as a way to put the space to good use and to generate new income and jobs for the cash-starved city. A civil group supported small family and neighborhood plots of no larger than 3 acres, arguing commercial farming would exploit Detroiters and their land. Whatever happens, clearly Detroit is looking for a new identity, entirely different from its past fame of the car manufacturing industry's heart. New Detroiters will likely enjoy a pastoral life with suburban farming, supplying vegetables and flowers to neighboring cities. The "Motown" who boasted of the highest average income and home ownership ratio in the U.S. in the 1950s has now been facing a transformation into a "Cowtown."

The culprits behind the fall of the Detroit auto industry

The fall of the Detroit auto industry has not come overnight. The Oil Shock in the 1970s sparked by wars in the Middle East gave an opportunity for Japanese carmakers to enter the U.S. market with small-sized cars. The U.S. carmakers failed to meet the consumer's strong demand for fuel-efficient cars in the wake of soaring gas prices, seeing the Japanese rivals taking away a large chunk of their domestic market share helplessly. The Japanese carmakers beefed up their assault with improved quality and competitive prices, invading mid-sized passenger cars and then the luxury sedan segment. In the late 1990s, the U.S. carmakers managed to stay profitable by selling expensive sports/utility vehicles and pick-up trucks. But the Iraq War sent oil prices into a spike, hitting hard the demand for large vehicles. The latest financial crisis has crippled the consumption further, squeezing the Big Three to near bankruptcy.

United Automobile Workers (UAW) with a tradition of 100 years as a hard-line labor union has achieved remarkable success in improving the members' welfare to the world's best. Last year, GM paid $7075 per hour in wages to UAW

members while its Japanese rivals paid only $45. Under the agreement signed in the 1950s, GM has paid lifetime medical care expenses and pensions to its workers, retirees, and their family. The deal had GM spend a total of $4.8 billion in medical coverage last year, equivalent to $1,500 per a finished car. Its employees are merely 80,000 while those subject to the company's medical coverage are over 430,000. Which company would survive in the market with such a huge extra cost? The huge medical bill has eroded GM's competitiveness and even sent it into a near collapse. The devastation of both Detroit and Flint shows dramatically how a city highly dependent on an industry can become a tragic story along with the industry's fall. The top managers of the U.S. auto industry should be held accountable for their failure to predict the future, move ahead of the consumer's changing desires, and lead the industrial innovation through management reform, new model development and technology renovation, while focusing on the production of gas-guzzling luxury sedans.

The trade union and unionists should be also blamed for this lamentable collapse of the U.S. auto industry as they have been preoccupied with their self interest such as high wage, benefit packages, and job security but paid little attention to improving quality and production process. The Detroit case vividly illustrates that their denial of continuous development and satisfaction with comfortable life undermined the competitiveness of the U.S. auto industry, leading to the collapse of a front-runner in the human civilization during the 20th century.

The rise of another auto city, George Town

George Town, about 360 miles south of Detroit, is a home to Toyota's gigantic plant that produces 500,000 cars every year. The hill areas in the middle of Kentucky State had been a rural community with dozens of horse farms until Toyota built the plant. The region was famous for horse races in every spring and first-class grass that produced a number of champions in the races. But the district was generally poor and most people lived by raising tobaccos.

The sequestered life in the mid-Kentucky has changed drastically since Toyota entered in 1986. There existed only one Japanese firm in the agricultural state of Kentucky in 1980. Toyota became the sixth Japanese manufacturer in the state when it began to build a plant in 1986. Now, in 40 out of 120 counties throughout the state, a total of 147 Japanese firms run their business and half of them are Toyota's sub-contractors. In average, about five car parts makers and related businesses have opened their business every year.

The consequence is a significant improvement of the people's living standards. Many residents have found more secure jobs and many people moved into the city for higher wages. The downtown of George Town has turned into a commercial center filled with various service providers such as retail shops, restaurants and hotels, largely thanks to Toyota. The population of the city increased to 20,000 in 2007 from 11,414 in 1990, with per capital income rising

to $28,651 in 2004 from $16,096 in 1990. In particular, Toyota has provided the best job opportunities to the citizens. The average annual income for Kentucky workers was $36,000 in 2006 while Toyota's workers earned $70,000. Toyota has contributed to a significant increase in the city's tax revenue, which in turn was used in public schools to provide better education for children.

Toyota workers have been voluntarily participating in the innovation of the production process called as "Toyota Way.' Toyota has had little trouble in hiring such an active worker. Toyota was able to hire quality labor as 100,000 people applied for 3,000 open positions when it started the operation in the George Town plant in 1990.

The workers have also realized the significance of the Toyota Way of innovation after hearing the sad story of Detroit as a result of ignoring change. For example, Toyota workers are not reluctant to a temporary suspension of the production line whenever there is a problem to fix. Rather, they voluntarily halt the line about 2,000 times per week to produce a perfect car. Their incessant reform for perfection would have helped Toyota emerge as the most acknowledged and reliable brand in the U.S. market. On the other hand, Ford's new Michigan truck plant in Dearborn stops the line only about two times per week, reflecting the long discord between workers and management over generations.

Toyota regards the job security as its most important commitment to the community and the region. And workers show their deep trust about the company by making best efforts to produce quality cars and pursuing ceaseless reforms. The trust and harmony between workers and the management would have be the most important driving force behind

Toyota's rise to the world's best manufacturer.

All of the success has started from Toyota's corporate culture that puts the group before individuals. The head of the George Town plant enjoys no perk and has to park his car wherever empty lots like ordinary workers. Workers are empowered to control the production line at their will. The empowerment has gone so well that every workers can do the best with their jobs. This management spirit leads to a team spirit where workers share their own problems and seek for the solution together.

Toyota has tried to solve any possible problems at the production line, rather than bringing them to top manager's desk. This management way prohibits any bureaucratic waste and helps the workers share the ownership of the company, contributing to bringing out the workers' dedication and passion. The Toyota Way to respect the people has produced a number of innovations that redefined the 20th-century production process and has brought a company hardly known to the U.S. consumers when they started to sell their cars in 1957 to the world's largest company.

Toyota has heavily invested in implementing long-term plans, rather than short-term trend and popularity. It rolled out a hybrid car with high fuel-efficiency, Prius, as long as 8 years ago when gasoline prices were only $1.5 per gallon. The hybrid model recorded more than 1 million unit sales in recent days in the wake of oil prices soaring to unprecedented levels. The success clearly demonstrates Toyota's long-term vision. And Toyota is famous for its excessive study of all possibilities over very long time before setting its course.

But once a direction is chosen, Toyota rushes out to implement the plan without reservation. Toyota is well regarded as reading the U.S. consumers' minds better than its American rivals by approaching consumers without bias and actively accepting their demands. The responsiveness has become Toyota's driving force to develop and roll out what the consumers really want.

The success story of George Town is based on Toyota's refined corporate culture, flexible production process to ensure the best quality, well-devised longterm vision, and strong capability to put a plan into action. George Town has been growing along with a company who has continued to do the best to figure out the demand of the market and consumers over decades.

The lessons of the two auto cities

As such, the two U.S. auto centers, Detroit and George Town, are facing a very different fate. The Big Three in Detroit, GM, Chrysler, Ford, have settled with their past fame and failed to realize and respond to the changing preferences of consumers in a timely manner. Their labor unions have been preoccupied with their own interest. As a result, the three companies are on the verge of collapse and Detroiters are living in difficulty.

In contrast, Toyota in George Town has never been idle in catching up with the changes in consumer demands and coming up with a timely and appropriate response. Furthermore, their workers have been voluntarily participating in the production process to improve their productivity. Consequently, George Town has been growing bigger and bigger, with the citizens enjoying unprecedented prosperity. We should not forget the lessons of the two U.S. auto cities.