



The way I see it...

BY PAUL KINDINGER

“Politinomics” – where politics and economics meet

In recent months, the word “politinomics” has begun to surface. A Google search informs me that I am not the first to coin the phrase. However, my take on this word might be defined as politicians and/or government attempting to make economic decisions based on their political compromise model versus hard business or economic facts or principles. If we can agree on that definition for the purpose of this article, let’s examine how politinomics works.

Chrysler and General Motors are certainly in the spotlight these days. Both have filed for bankruptcy. As a result of taxpayers, you and me, putting money into these companies, the federal government and UAW are now major stockholders, especially in the case of GM, which is now 60 percent owned by the government. GM bond holders, again many hard working taxpayers and retirees, were asked to retire the company’s debt and they rejected it rather than sacrifice and settle for pennies on the dollar.

The most recent actions by Chrysler and GM affect thousands of auto dealers. For nearly 1,000 Chrysler dealers and twice as many or more GM dealers, these actions signal the end of an era. They may, in fact, be asked to make some of the greatest sacrifices of anyone yet. For these dealers, it means the franchises they purchased and plunked down good money for are now worth little or nothing. Many have worked all their lives and included second or third generations in building their businesses. In addition, their parts inventory is now worth little or nothing. Unless they have a second or alternative line, they are finished with little or nothing to show for their efforts except the real estate. As one dealer put it, “This is beyond imagination. My business is being stolen from me through no fault of our own. We did NOTHING wrong.”

On the other side of the equation are the remaining dealers who will now have additional territory and customers for their businesses. Their businesses may actually have an opportunity to grow and hopefully, prosper.

My point is simply that once government becomes involved as a major decision maker in private business the concept of a free market economy is lost. Economic principles become severely distorted and, for all practical purposes, worthless. As a reporter wrote in a recent WSJ article, “Politicians can only make political decisions, not economic ones.” He went on to state, “government does not tolerate competition...” Even worse, “government is regulated by government...”

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Ultimately, these political decisions will ripple throughout the entire integrated auto supply chain. Other suppliers may go bankrupt overnight, while others may diversify or hang on for a while. In either instance, politinomics will have many unintended and perhaps dreadful effects before it is all said and done. At the very least, as we see from these examples, a new set of “winners and losers” is emerging, based not on hard numbers, but political compromise.

Equipment dealers have been through mergers and consolidations previously. I am certain the circumstances I’ve described will send a mild shiver down the backs of some dealers. The difference now may be the sheer size and complexity of the shift from one set of owners to the new ones. If nothing else, perhaps this massive shift being caused by politinomics will, in turn, encourage many equipment dealers to closely examine how solid their suppliers are. It could also put more emphasis on business models that can weather the current storm of politinomics.

What is occurring in the auto industry may not directly affect our industry in the short run, but it certainly bears keeping an eye open to its plight and the many consequences that are yet to play out over the coming months or perhaps years. As I indicated earlier – we at least need to ask some hard “what if” types of questions. This is particularly true if credit markets continue to tighten and the global economy remains weak or sluggish.

My hope is that politinomics will not be irreversible – and that’s the way I see it. ■

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