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What Is Good for General Motors Is Bad for America: The 2009 Bailout Through the Lens of Heskett's Design-Oriented Theory of Value

Abstract This research is an applied case study of the 2009 General Motors bailout using John Heskett's economics as a starting point for analysis. In 1993, Heskett (1937–2014) wrote in *International Design* that GM's myopic design vision at the corporate strategy level led to the company's stagnation and an inability to compete. Professor Heskett had not only captured GM's competitive position at the time – he had foretold its future decline. Shortly after that article was published, GM declared losses of $23 billion – the largest in US corporate history. In 2009, despite accumulated losses totaling $35 billion, GM was bailed out and nationalized by the US government in another unprecedented event. Through the lens of the GM bailout, this article examines Heskett's critique of mainstream economics and uses his research into institutional economics and the national system to help define the rent-seeking asset regime that led to the GM bailout. Key observations will benefit firm management, policy-makers, and those interested in political economics from an historical and institutional point of view.

Keywords
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Introduction

This research is an applied case study of the 2009 General Motors bailout using John Heskett's economics as a starting point for analysis.[1] Prof. Heskett (1937–2014) wrote in *International Design* in 1993 how GM's lack of foresight at the corporate strategy level had led to a stagnating car company that was unable to compete. Heskett both captures GM's competitive position at the time and foretells its future decline.

For example, GM's US market share fell from approximately 43% in 1982 to nearly 20% at the time of its nationalization and restructuring in 2009 (see Figure 2). GM had accumulated losses in excess of $35 billion between 1982 and the restructuring in 2009.[2] Later on in 1992, shortly after Heskett's article was published, GM declared losses of more than $23 billion, the largest corporate loss in US history.[3]

Although some of the ideas used here lack empirical development in Heskett's own work, this article takes a fresh look at how Heskett's concurrent and subsequent writings on economic theory can shed new light on the GM bailout. Heskett's economic theory is a critique of mainstream neo-classical economics. He found that mainstream economic models could not adequately explore the ways that "creative destruction"[4] can create value in design-based entrepreneurship.

> "If designers are to cope with the demands of varying cycles of change, the concept of innovation must be understood on many different levels – from radical and incremental innovation. Radical innovations are the basis of Schumpeter's 'creative destruction' concept, which provides new industries and needs."[5]

In retrospect, the GM bailout in 2009 was a direct intervention against creative destruction. 'Stability' was prioritized over economic innovation using an unprecedented combination of fiscal measures and national and monetary policy changes.

Heskett's work leaves unexplored some of the economic concepts he contrasts with mainstream models of the economy. Tore Kristensen writes,

> "According to Karl Popper's 'falsificationism,' we may ask if he [Heskett] proposed falsifiable hypotheses and whether some important ones have indeed been falsified. If this is the case, then we may leave it here. We must admit that, although many of the writings are good approximations to an empirical reality, we find few real testable hypotheses; on the other hand many of Heskett's descriptions, assessments and predictions seem well corroborated. Heskett himself did not test hypotheses as such and his style of research was explorative rather than corroborative. That is perhaps a very good idea, because Heskett's interest was much more to stimulate the fire of contemporary designers and others interested in these issues rather than digging up the ashes of the past."[6]

Through the lens of the 2009 United States federal bailout of General Motors, this article will attempt to fill in some of the missing empirics related to two of Heskett's theses:

1) A user-focused design strategy at the highest levels of the firm is necessary for long-term value-creation, and
2) Heterodox thinking in economics is needed to better understand a design-based economy.[7]

In the 1970s, cars made by General Motors – and by smaller automakers Ford and Chrysler – came to lose their competitive edge to the more user-responsive designs of foreign competitors. This trend began and continued in earnest after the OPEC

1 This article draws on the economics of John Heskett as found in John Heskett, *A John Heskett Reader: Design, History, Economics*, ed. Clive Dilnot (New York: Bloomsbury, 2016), and John Heskett, *Design and the Creation of Value*, ed. Clive Dilnot (New York: Bloomsbury, 2017, forthcoming).

2 See GM profit history in Appendix of this article. In addition to accumulated operational losses from 1982 to year-end 2015, GM has almost $83 billion in non-current liabilities—mostly for employee and employee retirement benefits—more than half of GM's total liabilities. "General Motors Co. (GM)," Stock Analysis on Net, last modified December 31, 2015, accessed November 30, 2016, https://www.stock-analysis-on.net/NYSE/Company/General-Motors-Co/Financial-Statement/Liabilities-and-Stockholders-Equity.

3 Doron P. Levin, "COMPANY REPORTS; G.M. Lost $23.5 Billion Last Year," *The New York Times*, February 12, 1993, accessed November 30, 2017, http://www.nytimes.com/1993/02/12/business/company-reports-gm-lost-23.5-billion-last-year.html.

4 Borrowing from Max Weber, this article uses two "ideal types" to describe what happens during the downward portion of the business cycle. "Creative destruction" is a process wherein assets are freed-up—typically through bankruptcy—to seek their highest return. A "bailout" is when the state steps in to subsidize bankrupt or illiquid investments—usually in the name of stability, or to lessen unemployment. Creative destruction affords more economic growth over the long term than a bailout does. A bailout effectively prevents creative destruction. See Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, 5th ed. (Abingdon, UK: Routledge Classics, 2010) for further information.

5 First published as "Creative Destruction," *I.D. International Design*, September/October (1993): 8–9, and reprinted in Heskett, *A John Heskett Reader*, 285.