

Multiplier effects of circular flow

Another story making the point that failures in one sector of the economy can have magnified effects elsewhere.

Questions to consider:

- Given that GM employs only around 250 000 employees (with Ford and Chrysler smaller), why does Wagoner argue that 3m jobs would be lost?
- Why would this cost the government \$156 billion?
- Should the government have bailed out GM and other car makers, or should market forces have been left to sort out the strong from the weak?
- Would there really have been a 'catastrophic collapse' of the US economy (In other words, if GM, for example, went out of business, might it not have been the case that other US based car companies would have picked up sales and created jobs? Is there a danger that bail-outs create zombie firms and malinvestment, a question which is at the heart of the Keynes-classics debate:

<https://www.youtube.com/watch?v=d0nERTFo-Sk>

More detail on the US auto-industry bail-out:

http://useconomy.about.com/od/criticalissues/a/auto_bailout.htm

Carmaker Failure Would Be Catastrophe, Wagoner Says

By John Hughes - November 18, 2008 19:34 EST



Rick Wagoner, CEO of General Motors Corp.

Nov. 18 (Bloomberg) -- The U.S. economy would suffer a “catastrophic collapse” if domestic carmakers fail, General Motors Corp. Chief Executive Rick Wagoner said, as the nation’s auto industry renewed appeals to Congress for federal aid.

Three million jobs would be lost within the first year, personal income would drop by \$150 billion and government budget losses would total \$156 billion over three years, Wagoner told a Senate panel.

“Such a level of economic devastation would far exceed the government support that our industry needs,” he said. “This is about much more than just Detroit. It’s about saving the U.S. economy from a catastrophic collapse.”

Source: Bloomberg