



The Fable of Fisher Body Revisited

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Working Paper

10-081

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July 2000

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Introduction

It is difficult to hit a moving target. Benjamin Klein (2000) essentially presents a new Fisher Body story despite his contention that “the facts of the Fisher-GM case are shown to be fully consistent with the hold up description provided in Klein, Crawford, and Alchian.” Klein (2000) concedes many of the points made in the articles by Ronald Coase (2000), Robert Freeland (2000) and Ramon Casadesus-Masanell and Daniel F. Spulber (2000). Contrary to Klein et al. (1978), Klein (2000) now acknowledges that the main economic force behind the merger was the need for coordination: “As body design became more important and more interrelated with chassis design and production, the amount of coordination required between a body supplier and its automobile manufacturer customer increased substantially. [...] These economic forces connected with annual model changes ultimately led all automobile manufacturers to adopt vertical integration.”

Despite having made this important admission, Klein creates a new fable: the Flint plant problem. He alleges that Fisher Body refused GM’s request to build a plant in Flint, Michigan to supply bodies to Buick. According to the new story, GM’s merger with Fisher Body in 1926 stems entirely from a disagreement over the location of a single plant. This assertion is just the tail wagging the dog, the merger of two major companies could not have been driven by such a minor matter. Francis J. Gawronski’s (1983) history of Buick explains that “in 1923, Fisher Body Co. began building Buick bodies in a plant in Flint.”¹ Gawronski adds that “Buick production, which dipped in 1921, then accelerated and recorded the one millionth Buick on March 21, 1923, a year in which a record 210,572 units were sold.”

¹ Francis J. Gawronski, “The car that built a city,” Automotive News, (GM 75th Anniversary Issue), September 16, 1983 at 112.

Klein's (2000) version of events differs substantially from the original 1978 account. The major discrepancies are as follows. (1) Although the original version speaks of the problems of locating multiple unspecified plants, Klein (2000, 116) now asserts that Fisher Body held GM up by not relocating a single body plant in Detroit, 57 miles away from GM's preferred location in Flint. (2) Although he now agrees that Fisher manufactured composite bodies, a combination of wood and steel, rather than metal bodies, he now suggests that body panels involved relationship-specific investment. (3) While he concedes that the contract worked well until 1924, he now suggests that the supposedly intolerable conditions began in 1925. (4) In the original version, Fisher Body held GM up by asking high prices for the bodies, Klein (2000) now asserts that high prices were a consequence of the so-called Flint plant problem.

I. Historical revisionism

The burden of proof must be on those who assert that historical facts support an economic theory. Klein (2000) adopts many points made in the articles by Ronald Coase (2000), Robert Freeland (2000) and Ramon Casadesus-Masanell and Daniel F. Spulber (2000), but then goes on to make new unsupported historical assertions that fail to support his hold-up theory.

Klein (2000), contrary to Klein et al. (1978), now acknowledges that in the six year period from 1919 to 1924 the relationship between the Fisher brothers and General Motors was amicable.² Yet, he argues that Fisher Body help up General Motors from sometime in 1925 until June 30 of

² Klein et al. (1978) state that Fisher's hold-up had already occurred by 1924: "By 1924, General Motors had found the Fisher contractual relationship intolerable." In contrast, Klein (2000) claims that the hold-up began in 1925: "It is crucial to distinguish between the early period of operation, from 1919 to 1924, when the contract functioned well, and the period 1925-26, when the contract was used by Fisher to hold up GM."

1926 when GM acquired the 40 percent of the shares of Fisher Body that it did not already own.

Casadesus-Masanell and Spulber (2000) review trial exhibits GM-32, GM-33, and GM-34³ and Sloan's 1952 deposition.⁴ Even though the three exhibits constitute the primary source of evidence in Klein et al. (1978), Klein (2000) fails to discuss our analysis of these documents. From the exhibits one can only conclude that the few potential points of contention between GM and Fisher Body in the period in which Klein sustains the hold-up took place, revolved around the ratio at which GM stock was to be exchanged for Fisher Body stock in the merger (to better coordinate activities). The 1926 negotiations concerned the terms of the merger itself, not the 1919 manufacturing contract. These exhibits never mention the manufacturing contract.

Klein (2000) misreads Sloan (1952) and claims that high monopoly prices for the bodies were an issue.⁵ Sloan's testimony concerns pricing flexibility and the need for coordination, not high prices.⁶ Moreover, pricing could not have been much of a problem, since during 1925 and 1926, General Motors earned record profits not only in absolute terms but also as a percentage of sales and the average price of GM's automobiles was lower, as Sloan himself shows.⁷

Klein (2000) continues to maintain that GM did not have a controlling interest in Fisher

³ Defendants' Trial Ex. Nos. GM-32, GM-33, & GM-34, Du Pont, 126 F. Supp. 235.

⁴ These are the only documents referred by Klein et al. in the original 1978 tale.

⁵ Deposition of Alfred P. Sloan Jr., at 188 (April 28, 1952), Du Pont, 126 F. Supp. 235.

⁶ Sloan testified that the pricing formula "became very restrictive; in other words, we were bound by a contract in which the minority interest was outstanding, which we had to respect. And it was a matter of great importance to us because we didn't have the flexibility in our price procedure that was necessary to meet commercial needs. It became absolutely necessary that we take over the 40 percent in order that we might coordinate the Fisher Company, integrate their operations more in line with our own." [Emphasis added.]

⁷ Sloan, Alfred P. My Years with General Motors, New York: Doubleday 214 (1963).

Body despite its 60 percent ownership! In 1919 a five-year voting trust was established to hold the new stock to terminate on October 1, 1924, with equal representation: William C. Durant and Pierre S. du Pont from General Motors and Fred J. Fisher and Louis Mendelssohn from Fisher Body.⁸ Klein claims that the need for unanimous consent gave control of the trust to the Fishers that could only be remedied by merger. Unanimity and equal representation were voluntary choices by GM and if anything indicate trust and sharing of control. Moreover, the expiration of the trust in 1924 after the typical five-year period certainly contradict Klein's notion that the hold occurs in 1925.

Klein's (2000) assertion that a 1925 hold-up was motive for merger ignores the fact that that merger talks had already begun at least by 1922, as shown by Casadesus-Masanell and Spulber (2000) and Freeland (2000).⁹ Even during the period when Klein consents the contract was working well, the parties acknowledged that a complete merger could be beneficial.

Although contrary to the original 1978 story, Klein (2000) admits that the bodies were

⁸ Voting Trust Agreement (November 24, 1919), Gov't Trial Ex. No. 429, Du Pont, 126 F. Supp. 235. The voting trust provided a device for owners of stock to control a corporation without tying up the money to hold the shares, since the stock was transferred to the trust and the trust issued certificates that others could hold as stock. Voting trusts acted as holding companies and served as a means of unifying and allocating control rights and separating control from property rights.

⁹ Casadesus-Masanell and Spulber (2000) at 82 and Freeland (2000) at 45. Pierre S. du Pont writing to Lamot du Pont on October 31, 1922 observes that "Recently the Messrs. Fisher have brought up the question of their future relations with General Motors and have expressed a desire to become more intimately associated with the proposition as a whole and with that end in view, have requested a study of relative values of General Motors and Fisher assets with a view to an exchange of Fisher Body common stock for General Motors Shares." GM also was interested in a merger. Pierre S. du Pont stated that "a closer association with the Messrs. Fisher and closer cooperation between the two corporations would be of great benefit." Letter from Pierre S. du Pont to Lamot du Pont (October 31, 1922), Gov't Trial Ex. No. 435, Du Pont, 126 F. Supp. 235.

composite; made mostly out of wood, not metal.¹⁰ Nevertheless, Klein maintains that the original 1919 contract was signed “to prevent GM from holding Fisher up and, thereby, to encourage Fisher to make the GM-specific investment.”¹¹ This is inconsistent with the fact that in the 1920s body production technology was the same as in the 1910s when Fisher Body and GM conducted business effectively through spot transactions. Potential hold-up resulting from transaction-specific investment was not the motivating factor for the 1919 long-term contract.

Klein contends that the 1925 breakdown of the Fisher-General Motors manufacturing contract was triggered by a dramatic rise in demand in 1925-26 that pushed the contract out of its “self-enforcing” range. GM’s demand for Fisher’s closed bodies in 1925-26 increased by no more than what it had increased in the years 1923-24 when, Klein contends, the manufacturing contract worked well. According to Klein, “[a]fter growing modestly (about 50 percent) over the initial 5-year period of the contract from 1919 to 1924, the number of vehicles produced by GM jumped 42 percent in 1925, and then another 48 percent in 1926.” A glance at Klein’s source reveals that the data refer to to sales and not to production as Klein (2000) mistakenly claims (Sloan at 214).

¹⁰ Klein et al. (1978) incorrectly claimed that “By 1919 the production process began to shift towards largely metal closed body construction for which specific stamping machines became important. ... In order to encourage Fisher Body to make the required specific investment, this contract had an exclusive dealing clause.” Klein (2000) now states “The closed bodies produced by Fisher and other body producers at this time were composite ... Composite bodies required less specific capital investment than the pure metal bodies that began to be used in the mid-1930s.”

¹¹ Also on this point Klein (2000) relates a different tale. In Klein et al. (1978), the specific investments were on the “giant presses used to stamping body parts.” Instead, in Klein (2000), the specific investments consisted of huge facilities “needed to store bodies while paint and varnish dried” (footnote 8). A storage plant relationship-specific? In Klein’s new account there is no mention of the “giant presses.” The rest of footnote 8 refers to asset specificity in the 1920s, not in 1919 when the manufacturing contract was signed and thus it is irrelevant for Klein’s argument.

Moreover, sales in earlier years had jumped by similar absolute amounts and larger relative amounts, 113 percent in 1922 and 75 percent in 1923, years in which everyone agrees that the contract worked well.

Data problems continue. Klein states: “The industry share of sales that were closed bodies, which was 17 percent in 1920 and only 24 percent as late as 1923, simultaneously jumped to 43 in 1924, 56 percent in 1925, and 72 percent in 1926.” Checking Klein’s source reveals that the industry share of sales of closed bodies in 1923 was a more substantial 34 percent.

II. Klein’s New Hold-Up Argument

Although Klein et al. (1978) observe that to hold up GM, “Fisher Body refused to locate their body plants adjacent to General Motors assembly plants, Klein (2000) now agrees that Fisher Body plants “were generally conveniently located near GM production facilities.” Yet, Klein raises a new issue: the Flint plant problem. By supposedly not building a plant in Flint, Fisher caused GM to bear “increased shipping costs, including the extra costs of transporting the bodies 57 miles from Detroit to Flint and the extra labor costs involved in loading and unloading the bodies, on which Fisher could add 17.6 percent.” Klein adds that the day after the merger, GM expanded production facilities in Flint including the purchase of the Durant Motors and eventually closed the Detroit plant.

This is much ado about nothing. To imagine that a merger of two major industrial companies could be caused by the desire to relocate a single industrial plant a few miles away strains credibility. GM and Fisher operated a large number of plants. The location of one plant could not have been a great influence on the history of the two companies. The shipping and labor costs would

be relatively inconsequential relative to the size of the two companies. Fisher is alleged to have sought to profit from inflating the transportation and labor costs, a mere drop in the bucket for their business or for GM, who anyway would receive 60% of Fisher's earnings. Moreover, the purchase of the Durant Motors plant provides not evidence of hold up. If anything, it shows the generic nature of auto plants.

There is no evidence of the Buick body plant having any effect. Buick had switched to the annual model system in 1921.¹² The 1926 Buick models were introduced on August 1st of 1925 when the alleged hold-up took place. The data show that 17 out of the 18 models introduced on August of 1925 had the lowest prices since they first appeared, see Table 1.¹³ By 1927, the alleged hold-up problem had been solved, yet out of the 13 models that were offered in both years, only one (Model 48) was more expensive in 1926. For the rest of models, either the 1926 version was cheaper or it was priced at exactly the same level as the 1927 version.

¹² See George H. Dammann, "Seventy Years of Buick." Crestline Publishing Company. Glen Ellyn, IL. 1973 at 58.

¹³ Only one new model was introduced in 1925: a taxicab version of Model 50. 220 units were produced. Selling price is not available but the regular (non-taxi) version of Model 50 was sold for \$1,995/unit in 1925, 430 dollars cheaper than in 1924. Total sales of the non-taxi model amounted 12,752 units.

There is no evidence of the Buick body plant having any effect. Buick had switched to the annual model system in 1921.¹⁴ The 1926 Buick models were introduced on August 1st of 1925 when the alleged hold-up was taking place. The data show that 17 out of the 18 models introduced on August of 1925 had the lowest prices since they first appeared, see Table 1. The 1927 models were introduced on August of 1926 after the hypothetical hold-up would have been resolved.¹⁵ Nevertheless, out of the 13 models introduced in 1926 that were also produced in 1925, only one (Model 48) was more expensive in 1925. For the rest of models, either the version introduced in 1925 (when, according to Klein, the hold up occurred) was cheaper or it was priced at exactly the same level as the corresponding model introduced in 1926.

In 1919, Buick took over first place in automobile sales among members of the National Automobile Chamber of Commerce and would maintain that leadership through 1926, earning the company first choice of space at the national automobile shows in New York and Chicago. There is no mention of the so-called Flint plant problem in Terry B. Dunham and Lawrence R. Gustin's definitive The Buick: A Complete History.¹⁶ Indeed, as Dunham and Gustin explain "there was no doubting that the line for 1926 was a very marketable one. In a prosperous year, it hit the target straight on." In fact, things at Buick could not have been better:

¹⁴ See George H. Dammann, "Seventy Years of Buick." Crestline Publishing Company. Glen Ellyn, IL. 1973 at 58.

¹⁵ General Motors purchased the remaining 40 percent of Fisher on June 30, 1926.

¹⁶ Terry B. Dunham and Lawrence R. Gustin, "The Buick: A Complete History," Automobile Quarterly Inc. Third Edition, 1987.

“The 1926 Buicks would go down in the record books as among the most important ever introduced by the company. The 266,753 cars produced during 1926 would represent the company’s greatest calendar production year since it all began. What could go wrong with everything going so right?

Buick expanded production: total production was 156,627 in 1924, 196,863 in 1925, and 267,991 in 1926. Buick does not appear to be constrained, to the contrary, sales in the years 1925 and 1926 were among the largest of all of Buick’s history. In fact, the 1926 figure would remain an all-time record for the next thirteen years until 1940!

The high level of production, quality of design, and the great variety of 1926 Buick models, introduced in 1925, do not suggest that the company had been hampered by any production problems. Moreover, any imagined hold-up did not have cost effects since GM was able to cut prices:

There were a number of reasons for the ready public acceptance of the Buick line. The cars were well styled, had good performance—and, perhaps more important, were introduced with price reductions ranging from fifty to five hundred dollars over the previous year. In the face of an expanding automobile market, this last was an especial boon. For a lot of people, it changed the question of ‘can I afford to buy a car’ to ‘how can I afford not to buy a Buick at those low prices?’”¹⁷

TABLE 1: BUICK PRICES - MODEL YEARS 1919 TO 1927

	Model Year								
Model	1919	1920	1921	1922 ^a	1923 ^b	1924 ^c	1925 ^d	1926 ^e	1927 ^f

¹⁷ Dunham and Gustin, id. at 124-125.

20							\$1,295	\$1,195	\$1,195
21							\$1,475		
24							\$1,150	\$1,125	\$1,195
24A							\$1,190		
24S							\$1,250		
25							\$1,175	\$1,150	\$1,225
25A							\$1,250		
25S							n.a.		
25X							n.a.		
26							\$1,375	\$1,195	\$1,195
26S							n.a.		\$1,275
27							\$1,665	\$1,295	\$1,295
28							\$1,565	\$1,275	\$1,275
29									\$1,375
33									\$1,395
34				\$935	\$865		\$935		
35				\$975	\$885		\$965		
36				\$1,475	\$1,175				
37				\$1,650	\$1,395	\$1,495			
38					\$1,325				
39					\$1,025				
40							\$1,495	\$1,395	\$1,395
41					\$1,935	\$1,695			
44	\$1,595	\$1,495	\$1,795	\$1,495	\$1,175	\$1,275	\$1,365	\$1,250	
44A							\$1,400		
45	\$1,595	\$1,495	\$1,795	\$1,525	\$1,195	\$1,295	\$1,395	\$1,295	
45A							\$1,475		
46	\$2,085	\$2,085	\$2,585	\$2,135					
47	\$2,195	\$2,255	\$2,895	\$2,435	\$1,985	\$2,095	\$2,225	\$1,495	\$1,495
47A							\$1,475		
48			\$2,985	\$2,325	\$1,895	\$1,995	\$2,125	\$1,795	\$1,465
49	\$1,985	\$1,785	\$2,060	\$1,735	\$1,435	\$1,565	\$1,625	\$1,995	
50	\$2,585	\$2,685	\$3,295	\$2,635	\$2,195	\$2,285	\$2,425	\$1,995	\$1,995
50L				\$2,735		\$2,385	\$2,525		
50T								n.a.	n.a.
51						\$2,235	\$2,350	\$1,925	\$1,925
54				\$1,785	\$1,625	\$1,675	\$1,750	\$1,495	\$1,495
54C						\$1,945	\$2,075	\$1,765	\$1,765
54CC									\$1,925
55				\$1,785	\$1,675	\$1,725		\$1,525	\$1,525
55S							\$1,800		
57						\$2,795	\$2,925		
58									\$1,850

a. The 1922 models were introduced on August of 1921. (See Standard Catalog, at 173.)

b. The 1923 models were introduced on January of 1923. (See Standard Catalog, at 173.)

c. The 1924 models were introduced on August 1st of 1923. (See Standard Catalog, at 174.)

d. The 1925 models were introduced on August of 1924. (See Standard Catalog, at 175.)

e. The 1926 models were introduced on August 1st of 1925. (See Standard Catalog, at 176.)

f. The 1927 models were introduced on August of 1926. (See Standard Catalog, at 176.)

Source: Kimes, Beverly Rae, and Clark Jr., Henry Austin. Standard Catalogue of American Cars, 1805-1942, 3rd edition, Iola, WI: Krause Publications, 171-176 (1996) and Dammann, George H. Seventy Years of Buick, Glen Ellyn, IL: Crestline Publishing Company, 1973.

In 1925 GM's increase in net income more than doubled Fisher Body's increase, a 125%

increase for GM vs. a 53% increase for Fisher Body. GM's net income increased by 61% in 1926. By comparison, GM's main competitor, the Ford Motor Company, suffered a 18% profit cut in 1925 and then another 20% reduction in 1926.¹⁸

III. Conclusion

The economic definition of hold-up, in which a party to a contract takes advantage of another party's irreversible relationship-specific investments, is difficult to test empirically. The so-called Flint plant problem alleges instead that Fisher did not make such an investment so as to hold up GM, something that is impossible to verify since the story depends on something having not occurred. The story does not fit the facts nor does it illustrate hold-up. Moreover, Klein (2000, p.134) asks us to believe that even though GM had a controlling interest in Fisher, GM chose to merge as a means of "reducing reliance on the courts to enforce necessarily imperfect and rigid long-term contracts." The notion that GM sought a merger to avoid a fictional legal action against Fisher is another unverifiable proposition. Merging to solve the Flint plant problem is nothing but another fable that fails to hold up.

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