



Episode 936: Another Bubble About to Burst?

Guest: Eric Peters

WOODS: All right, as always, you've got some great, interesting stuff. Now, the most interesting piece that I saw recently over at EPAutos.com – which I remind people I donate to every month. So should you. It's absolutely unique. Nobody else is doing it. Eric is really knowledgeable and he's a great libertarian and he does this all for nothing. You should be helping him out by kicking him a few bucks every month. I mean, really, you should do it. EPAutos.com.

Anyway, so you've got an article called "Pop Goes the Car Bubble...And It May Not Be a Bad Thing." And what I liked about this is I didn't realize how much there was to this. Of course it never dawned on me, since I'm only a consumer, the model that the dealerships use and how they get the cars and are they getting the cars with borrowed money and stuff like that, so you filled in a lot of blanks for me. All I saw on the consumer end was that, even though I never take out a car loan because I don't believe in them, nevertheless, what I do see is the loan terms getting – I mean, first it was – you know, it was 48 months, then 60 months, now 72 months to pay off a car. I mean, in the old days you wouldn't even – in some cases, you wouldn't even have the car for 72 months. So what's going on there?

PETERS: Well, within living memory, the typical car loan was three to four years, not that long ago, and the reason that they're having to push the loans out to those incredible durations have to do with the fact that the price of the cars has gone up markedly. The average transaction price for a new car as of this year is I think \$34,000, which is something that most people can't afford when the payments are spread out over, say, four or five years. So they push it to six or seven to make it appear more affordable.

And this trend has got the industry very worried, because cars are after all simply disposable appliances when all is said and done. They're not investments. You have car salesmen talk about them as investments. Well, they're not. It's an appliance that you buy and you use it for a period of time and it wears out, and then essentially you dispose of it and you get a new one. And cars depreciate, so after a certain period of time, typically after about four or five years, the typical car has lost about 40 to 50% of its value. So you can sort of see where this is going. If a loan amount is spread out too far, you get to that point of being underwater, upside down. You owe more on the principle of your loan than the car is worth, and that's economically untenable. That kind of thing just can't go on.

WOODS: Okay, we'll get back to that in a minute, but tell me what's going on on the dealers' side of this.

PETERS: Well, the dealers, it's almost a shell game. Everybody just wants to move the product. The dealer will buy a vehicle from the manufacturer — actually, "buy" isn't the correct word. He, just like you and I as consumers, takes out a loan to get the vehicles, the new vehicles from the manufacturer. Say I'm a Ford dealer. Well, I contract with Ford Motor Company to purchase X number of vehicles, and then they go on my lot, and I have the carrying cost every month until I sell the car. So I have that financial burden, so I have this very strong incentive to sell the car, to transfer that debt load onto you, the buyer, who then is hocked to a lender, and you see how it just kind of moves on down the line.

And it's getting to the point where a lot of people are defaulting on these things because they can't afford it. Like the housing bubble, they're writing loans to just about anybody. I actually know of two particular people who have absolutely no business buying a car, yet they managed to get approved for it, because from the dealer's point of view, it goes down as a sale; from the manufacturer's point of view, it goes down as a sale. "Hey, we moved a car. We're selling cars." Even though at somewhere down the line, that loan gets defaulted on, it goes on to repossession, the car gets resold on the secondary market as a used car, and you can see it just goes on down the line, very much like what happened with the housing market. And ultimately, somebody's going to get stuck with the bill, and that's the question: who's going to get stuck with the bill?

WOODS: Yeah, what's the answer to that question?

PETERS: Well, at some point, the margins now on new cars are razor thin. To even say that they're selling cars is almost an abuse of language. They are virtually giving the cars away — and in some cases, they literally are giving the cars away. If you look at some of the lease deals, there is just simply no way that they are making any kind of money on this transaction. They're losing money on the transaction. The most egregious examples are the electric cars, of course, but it's also true of other cars. They want to just put that down as a sale on their books, and then once they've got their sale recorded and the bill has been offloaded onto somebody else, they're not too concerned about it. Now it's a question of will the banks then collapse, will a lender stick out his hand to the government so that the taxpayer bails him out? Probably ultimately that's the final source for the money. Somebody ultimately is going to have to pay the bill for this.

WOODS: Why are the margins so razor thin? Is it just because of competition or something else?

PETERS: Well, competition isn't really it. It's overcapacity. It's overlap. There's too many cars on the market. The market in this country is glutted. That's why you see most of the majors are investing heavily in overseas market, in particular in China, where you have a billion people and they're potentially three or four times the potential market in the United States. It's saturated here. If you take any given segment of car — let's say subcompact economy cars — think how many individual models there are in that market and how similar they are. Whereas in the past

typically in a given segment, there might be four, sometimes five, and often fewer than that of a given type of car in that segment, so the margins are a lot better.

And you add to that the fact that you've got both government mandates adding costs to the cars, and then you've got this debt-driven extravagance. People want all these gadgets and technology that's being put into cars, luxury amenities that they really can't afford but which they get loans for, which has ballooned the market to this disproportionate, just absolutely crazy state that we're in now where people are routinely paying \$40,000 for a family car. If you look at what the average family income in this country is, it's just obvious that that can't go on.

WOODS: Yeah, I'm sorry, now that you explain it, now I get it, that it's not necessarily there's so much competition; it's that they're basically – they've got all these cars and they're practically begging people to buy them at this point because the demand for them is not there.

PETERS: The housing thing is very analogous. At the worst of it, they were issuing loans to literally anybody. They were doing cursory if any credit checks on people. They were not requiring any skin in the game. You didn't have to put down any money or any meaningful money to get this loan. They just wanted to make the transaction and then get it off their books, and then that got bundled. You remember that? They put it in these derivatives and shoved it off onto some other completely impossible-to-comprehend Wall Street instrument until the whole thing blew up.

A very, very similar kind of thing is occurring here. They're writing these loans to people who can't afford these cars. They're trying to stretch the payments out to six, seven, eight, nine, even ten years – there are some ten-year loans out there – knowing that that can't work. It's just not sustainable.

WOODS: All right, let's move on to the next bit of depression here, which I did not know about and I would not have known about unless I lived in Utah or if I read Eric Peters Autos, and that's the situation with the blood alcohol level decision, the new law in Utah, which now says that they're going to go from .08 blood alcohol content, which is already rather low to be considered the drunk driving threshold, all the way down to .05, which – now, okay, I'm probably 5' 6", not super-duper heavy. It would not surprise me if one or one and half drinks got me to that level.

PETERS: No, it would actually. Based on that statistic, it would. And even a guy my size – I'm a big bigger than you are – would be in peril. It would be very close to that threshold. It has the effect of criminalizing drinking. That's what it's doing. This has nothing to do with drunk driving. It's preposterous to assert that a guy who's had a beer over the course of dinner is somehow a drunk driver. It's ludicrous.

WOODS: Right, but if you were stopped for this, even if you were exonerated later – although, how could you be? If you were exceeding the .05, that's just it. You broke the law. So you really couldn't be exonerated, except in the court of common sense, which court you'll never be taken to. So your life would be ruined. Your reputation would be ruined. You'd be known forever as a drunk driver.

PETERS: That's right, and not to mention incurring the thousands of dollars in lawyer bills, fines, ASAP fees, insurance premiums, and so on. It's interesting. The standard has gotten to the point where they have to have these – I call them Fourth Amendment- and Fifth Amendment-free zones, these random checkpoints, where they just dragnet everybody on the theory that we'll hang them all and we'll get the guilty too. But it's interesting that they have to do that, because these people have given no indication that their driving is a problem. I find that to be very telling. In the past, you had to have probable cause. For example, a cop would notice that a driver was wandering over the double yellow, weaving back and forth, so that was probably cause and that would be the legal reason for pulling that driver over and investigating further. Now probable cause has been chucked out the window. All that's necessary is for you to happen to be on a given road at a given time, and you roll through one of these checkpoints, and you are presumed to be drinking until you prove to them that you have not been.

WOODS: So what is the real motivation behind this? Let's just be frank about it. What do you think the real motivation – given that it is obviously an attempt to criminalize drinking, what could be motivating that line of thought?

PETERS: Well, you know, the elephant in the room: Utah is a heavily Mormon state, and I think the figure is 80% of the lawmakers at the state level in Utah are members of the Latter Day Saints Church. And I'm not casting aspersions on the Mormon church by any means, but it's a fact that they're teetotalers, they don't drink, and they frown on drinking. And I think it's reasonable to assume if you've got 80% of the lawmakers who just frown on drinking as sinful, as sort of a religious grievance, then that probably enters into it.

WOODS: Yeah. I mean, I know –

PETERS: It's kind of prohibition through the backdoor.

WOODS: Right. Right, right. And I have Mormon listeners who I'm sure are as frustrated with stuff like this as I am with ignorant Catholics, so there's no reason anybody should take this personally or have a problem with it, but it seems pretty obvious that this is not just some – because .05 makes no sense, so you have to look deeper and say what really could be happening here.

PETERS: .08 is dubious. They've had a difficult time providing substantive, actually verifiable evidence that a person is meaningfully impaired at .08. It's just this generic kind of a thing. If you think about the bell curve, sort of like the IQ thing, a bell curve and what the average capability of the average driver is, there really is no way to assert that a given person who has had a drink is any less or any more impaired than the average person out there. How about people who have poor vision, the older folks out there who can't see as well or who are arthritic? They're impaired. It's not by alcohol, but nonetheless, they're kind of on the other side to the left of that bell curve, but they're not the object of these kind of witch hunt persecutions.

WOODS: I've got a couple other items I want to review with you. There is a bill pending. This you wrote about a few weeks ago or at the end of last month, and it's on –

PETERS: The Black and Blue?

WOODS: – the Black and Blue Bill. Yeah, so of course it's not known as that, right? What is it actually called.

PETERS: No, it's called Back the Blue, which is actually an ironic title given that most cops now wear black like the Schutzstaffel in Nazi Germany, not blue.

WOODS: Not blue indeed. All right, so yeah, what does this thing do?

PETERS: Essentially what it does is it immunizes police who commit a crime in the course of – what's the verb they actually use? – in taking judicial capacity of the office. In other words, if they are arresting you for whatever reason, and even if it turns out to be a specious reason, if they're doing it in the course of their judicial capacity and in the course of that they exceed their lawful authority, let's say, and they beat you up or they deprive you of your rights, this bill would immunize them against your attempt to recover damages in a civil lawsuit, in actuality holding them to a much more lenient and lesser standard than us mundanes, in the great words of Will Grigg, are obliged to. We're expected to obey all laws, to know the law, and we're held to account whenever we violate the law, but in the case of those who enforce it, somehow they're to be given a pass.

And I find that very disquieting, and also I think that it's completely counterproductive. We're at a point now where people are, with reason, distrustful of the police, and if anything, I think police should be held to a higher standard than average people when it comes to how the law is enforced and how they conduct themselves in their capacity of enforcers of the law.

WOODS: So what do you think the chances are of passages of this thing? Is there any way to know?

PETERS: Well, this is in Texas. And you know, I like a lot of things about Texas. I've been through Texas many times. Lots of good people in Texas. On the other hand, they also have a penchant for this kind of law-and-order yahooism that to me sometimes borders on something very unpleasant. And I wouldn't be surprised if this does pass.

WOODS: Then finally I want to jump over to a piece you have here about automobile parts. And this seems like a mundane topic, but really, it could screw you pretty badly if this were to happen to you. What good is – we know that the cars these days last a lot longer than cars used to last, so the idea that you'd get a new one every three or four years doesn't seem quite as necessary anymore. You could have a car last for 10, 20 years. But the problem is what if the parts don't exist for it. So what's going on there?

PETERS: Well, you remember the old term, planned obsolescence?

WOODS: Yeah.

PETERS: They used to accuse the car industry of designing the cars to fall apart very quickly. Well, now the car itself, in particular the engine, the drive train, all the major parts, as you just noted, will last an incredibly long time, usually with very minimal upkeep beyond routine maintenance – oil changes and filters and so on. However, some of the critical parts in modern cars – these tend to be electronic parts – may fail over the course of the years, and they are no longer manufacturing parts to the extent that they used to.

And this has to do with the fact that what they call in the industry the product lifecycle is much, much shorter. It's about half what it used to be. It used to be that a car would get introduced and that particular car would remain in production, with tweaks here and there but generally the same, for eight to ten years. Now the lifecycle is down to about four years before the car is completely revamped. And during the course of those four years, there are often major changes, running changes throughout the time. So these parts get obsolesced very quickly and they don't support them anymore. They stop making them.

So people are finding out they've got relatively recent vintage cars – these are six, seven, eight-year-old cars. They take it in for a problem to the mechanic, and they find out that the part is discontinued, no longer available, and their option is to try and find a used part if they can, or buy a knockoff that might be made in China to a lesser standard – a lower quality part that will end up having problems, doesn't fit correctly, and so on – or not find a part at all, in which case the car is useless to them.

A good example of this is the control unit for the air conditioning system. Most modern cars have a climate control air conditioning system. And if the controller for that goes out, your air conditioning doesn't work. What good is a car to you if it doesn't have air conditioning? Most people aren't going to put up with that. They don't want the car. So you've got a perfectly good car but some major system no longer works because you can't find this ordinarily inexpensive part – you know, it's a \$100 part, \$200 part – so you wind up having to chuck the car because of that. It's crazy.

WOODS: Are there particular manufacturers that are especially bad on this, worse than others?

PETERS: Unfortunately, no. This is an industry-wide thing. Because of this pressure, this newness pressure to constantly be revamping models, it's kind of – you know how computers keep changing. We find that we have to throw away our cell phone after about a year or two because it's been outdated and it's no longer supported. Things don't have the shelf life that they used to, and cars, of course, are now essentially computers that move. They have so much electronics in them, and these things just get dated quickly. And once the parts dry up, you're out of luck. And it's an industry-wide thing. Everybody feels the need to update their vehicles every four years or so. If you look at them and see how that happens, that's the reason behind all this.

WOODS: Well, that's an unfortunate story. There really isn't anything we can do about it.

PETERS: Unfortunately, no. The crazy thing is my Trans Am – you and I have talked about my ancient '70s Trans Am. The car's 40 years old now, and I can still get any part for it that I want. And part of the reason for it was that that car was essentially in production for 11 years, and it also shared parts with a lot of other vehicles made during that period that were common. So you could cross-reference if you like. That's a good word for it. And like for example, the Chevy Nova shared a lot of parts with the Firebird and the Camaro for that period. Now these cars are very individualized and specific and the part is only designed to fit that particular car and that's it. So when they stop making it and you can't find it anymore, you're stuck with this car that's a good car, but you need that part and you can't find the part.

WOODS: Oh, frustrating, frustrating. Well, here's an awkward segue: what you can find is a lot of great news and information about cars at EricPetersAutos.com.

PETERS: [laughing]

WOODS: I'm getting good at these awkward, ridiculous segues. But of course the easier way to get there is EPAutos.com. Now, in the coming days – we're going to get this up for you – you have an eBook that you're going to be giving away. Now, this episode that – you and I are talking a little bit before when it's going to come out, because I'm going to be out of town and this one's going to come out next week. We'll try and get it up in time for people to get it when this episode is up, but you have an eBook that you're giving away on what juicy critical topic we all want to know more about?

PETERS: Well, it's the ins and outs of car buying from somebody on the other side of the desk, so to speak, and I kind of tell you some of the behind-the-scenes things that go on that you should be well aware of if you're in the market for a car. And not just a new car, but also a used car. We try to convey all the wisdom such as it is that I've occurred over many years of being involved in the business. That's basically what it's going to be about.

WOODS: Well, it's thrilling that you're doing this and that people could get a free – and by the way, I've talked to Eric about this eBook. It's not one of these five-page, triple-spaced, 28-word, so-called eBooks that just puts you on a mailing list. This is a real book. It's 35-40,000 words. It's going to give you everything – you're going to go in there armed with all the knowledge you could reasonably be expected to have, and he's giving it away for nothing over at EPAutos.com. So the signup – anyway, we're going to try and coordinate this that it's going to be up and ready to go by the time you are hearing this.

But in any case, especially if you get that book and you find that it benefits you, please do remember Eric, because I try to support libertarians I can support who are doing things where I think they're more or less irreplaceable and there's nobody else like them and I want to support them. So people like Scott Horton. I mean, who else knows foreign policy like Scott Horton? So I support him. I support AntiWar.com and [Tenth Amendment Center](http://TenthAmendmentCenter.com). But Eric Peters Autos is in my handful of sites that I support with my own smackers, so check him out at EPAutos.com. Well, always fun – well, fun talking to you, Eric. It doesn't mean the topics are cheery all the time –

PETERS: Well –

WOODS: Oh yeah, go ahead.

PETERS: Well, later this summer, hopefully I'll be able to get my hands on the Dodge Demon. Do you know about the Dodge Demon?

WOODS: Well, I was just going to say if we can start talking about cars without the government being involved, then it gets a lot more fun. But I don't know about the Dodge Demon.

PETERS: Well, this is the first production car that's available for sale for the general public that has the capability to pull the front wheels off the ground and run a quarter mile in 9.5 seconds.

WOODS: Okay —

PETERS: [laughing]

WOODS: Did we need that?

PETERS: It has nearly 800 horsepower, and for \$1 — it's an option for \$1 — you can buy a package that includes skinny drag tires that goes in the front, along with an ECU that bumps up the horsepower to about 90% of what a Nextel stock car produces, which is about 800 horsepower.

WOODS: What's the purpose of making that a \$1 up-sell?

PETERS: Just to say that it's optional.

WOODS: [laughing] Oh, right.

PETERS: Just to say that they didn't make the car this way — yeah. And another option, as the car comes, it comes with a driver's seat only. For another dollar, you can buy a passenger seat.

WOODS: Ah, okay. That's funny.

PETERS: The car itself is the Challenger muscle car. You know, that's Dodge's entrant in the pony car wars. It competes nominally with the Camaro and the Mustang, but it blows them all out of the water. It is faster than most high-performance sport motorcycles and it's fully DOT and EPA legal. You can drive it on public roads. Isn't that fabulous?

WOODS: That is totally fabulous.

PETERS: It's driving the control freaks absolutely out of their minds. Even *Automotive News*, allegedly an automotive publication, they wrote an editorial — and they got a lot of flack for this — denouncing Chrysler for even offering this thing and saying that it should be made illegal because it's not safe and it's too much horsepower, too much speed for the average person to be allowed to possess.

WOODS: Ugh.

PETERS: Yeah, I wrote an article denouncing them and got a lot of favorable response for it. But the government, the people in the EPA and DOT are just beside themselves that somehow Chrysler was able to get away with this, to use that word.

WOODS: Oh yeah, that's tremendous. Yeah, we're definitely going to want to hear about that. That'll be a much happier episode of the show when that happens.

PETERS: Yes, it will.

WOODS: When's that going to be?

PETERS: You can bail me out of jail too, actually [laughing], after I get caught.

WOODS: Yeah, yeah, yeah, sure. So do you know when?

PETERS: It's going to be later this summer. I'm not exactly sure when the car is going to get into my regional press fleet when guys in my part of the country have access to them, but it should be sometime this summer.

WOODS: All right, well then that'll be the next time that we have you on. That'll be great. You've got to send me a photo of you in it.

PETERS: Oh, you know I will. Smokey burnouts and everything.

WOODS: Ah, that's going to be fun. All right, Eric, as always, I appreciate it, and EPAutos.com is the website. Thanks so much.

PETERS: Thank you, Tom. I always enjoy it.