A government-supported restructuring of the auto industry is urgently needed for our economic and energy security. If the Bush administration allows the auto industry to collapse, it will compound the panic that started with the bankruptcy of Lehman Brothers. Washington should seize the opportunity to begin a new era of U.S. technological leadership in the global auto industry, starting with an immediate loan.

First, this is an opportunity to embark on a major industry restructuring to position the United States to lead the world in producing cars that get 100 miles or more per gallon. This achievement is closer than many suppose, with the pathbreaking plug-in hybrid Chevy Volt set to arrive in 2010 and several new hybrid models on the way. American-made fuel-cell cars may be a large-scale reality within a decade. Success would dramatically improve energy and national security, climate security, and U.S. global competitiveness, and a public-private partnership is needed to bring about this transformation.

Second, the sudden closure of an automaker would be catastrophic, possibly pushing our economy from recession to depression. Because of the impact on parts suppliers, the shutdown of one company would imperil domestic production across the board, and the jobs at risk include not only the 1 million in vehicle assembly and parts but millions more that would be caught in the resulting cascade of failures. The industrial Midwest -- especially Michigan, Ohio, Indiana, Illinois and Tennessee -- would be devastated, and the shock waves would reverberate across the world.

Third, any restructuring under Chapter 11 bankruptcy rules would be a death knell. Yes, in some industries, Chapter 11 can provide breathing space. For the automakers, however, it would accelerate the collapse of consumer demand and the mass bankruptcy of parts manufacturers. Consumers choose vehicles in part on their expectation of the long-term health of the companies that make them, which they rely on for parts, service and resale values.

The industry does not need a shakeout but a change of technology for long-term energy and climate security. The recent collapse of annual sales, from 17 million vehicles to 11 million, is not permanent but cyclical. Over time, sales will increase, especially as people in China, India and other emerging markets become buyers. A forecast of U.S. sales of 15 million to 20 million units a year is justified by normal replacements among the 240 million passenger vehicles Americans now own, and the U.S. market will also grow along with population and income.

Yet the automakers cannot turn to ordinary borrowing to tide them over until that happens because of the ravaged capital markets. The risk spreads of corporate bonds over U.S. Treasuries are the highest ever, and many borrowers can’t get credit at any price. That’s why the government has embarked on nearly $1 trillion in direct interventions. A small part of that should be used for the auto industry.

In this environment, the normal market test of consumer demand can’t be used to judge which industries should survive. We are experiencing the steepest temporary decline in consumer spending since the Depression. Consumer financing for autos has collapsed. Households are retrenching after the greatest wealth loss in equities and housing in history.

http://www.washingtonpost.com/wp-dyn/content/article/2008/11/16/AR2008111601743.html?nav=hcmodule
And a transformation of the type that’s required for long-term sustainability of the automakers will require both the market and government. Public policies and funding are needed to support the research and development of high-performance batteries and fuel cells and, especially, to modernize the national power grid and other infrastructure. These are steps that individual auto companies (and even the industry as a whole) could not accomplish on their own.

Some want to see the industry punished for its neglect of energy and environmental realities, but we should acknowledge that the SUV era reflected poor judgment across society. Yes, the industry ignored warnings about energy insecurity and climate, but so did the public and politicians. Rather than kill the auto industry, and destroy the U.S. economy in the process, we should fix the industry with a sense of national responsibility and purpose. (We should also fix our ramshackle health-care system, which has burdened the industry and the economy with punitively high costs.)

There are many crucial issues for the design of a long-term restructuring. The government needs the authority to steer a public-private consortium to create a high-mileage-vehicle economy in the coming decade. Public and private funding will be needed for research, development and demonstration of breakthrough technologies. During the restructuring, taxpayers will need protections, including warrants or equity shares, limits on industry compensation, and an equitable restructuring of worker benefits, a process that has already begun because of market hardships.

We face an unprecedented financial calamity, energy crisis and environmental threat. A vibrant, growing U.S. automobile industry should play an essential role in solving all three. The technologies that will win the day are in sight; industry has already made important advances. A partnership with government is vital and should begin this week.

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