STABILIZING THE FINANCIAL CONDITION OF THE AMERICAN AUTOMOBILE INDUSTRY

HEARING

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ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

STABILIZING THE FINANCIAL CONDITION OF THE AMERICAN AUTOMOBILE INDUSTRY

Wednesday, November 19, 2008

U.S. House of Representatives,
Committee on Financial Services,
Washington, D.C.

The committee met, pursuant to notice, at 10 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Kanjorski, Waters, Maloney, Gutierrez, Velazquez, Watt, Ackerman, Sherman, Meeks, Moore of Kansas, Capuano, Clay, Baca, Lynch, Miller of North Carolina, Scott, Green, Cleaver, Moore of Wisconsin, Davis of Tennessee, Hodes, Ellison, Klein, Wilson, Perlmutter, Murphy, Donnelly, Foster, Speier; Bachus, Castle, Royce, Manzullo, Jones, Biggert, Capito, Hensarling, Brown-Waite, Neugebauer, McHenry, Campbell, Bachmann, Roskam, and McCotter.

Also present: Representatives Pascrell, Kaptur, Jackson-Lee, Levin, Kildee, and Ehlers.

The Chairman. The hearing will come to order. We are going to begin right away. There is—and I apologize for the schedule conflict—going to be a Republican Conference today, so we are going to accommodate our Republican colleagues. The ranking member is here. He is needed at his conference. I notice Mr. Upton has come to testify. I am going to take the Republicans right away because they do have their conference to go to. So I am now going to recognize for his opening statement the ranking member of the committee.

Mr. Bachus. Thank you, Mr. Chairman. If the U.S. automakers didn't play such a central role in the American story we wouldn't be here today. But the Big Three stand as emblems of the American dream. And they have been an integral part of the American economy for generations. Because of that, they are special to all Americans.

GM, Ford, and Chrysler have hit hard times. They are now asking for taxpayer help. Even though all Americans, I would hope, want this industry to succeed, and the workers who work at those factories, I cannot support a plan to spend taxpayer money to bail them out. My initial problem justifying these loans to the Big Three is when I speak to my constituents, and it is a fairness issue. The vast majority of my constituents are not making anywhere near what General Motors, Chrysler, and Ford pay their employees. Even with recent changes, the average hourly wage at General Motors is still $75 an hour. That is 50 percent, 100 percent, or in some cases, 3 or 4 times what my constituents are making.

My constituents do not understand why their taxpayer dollars should go to support what they consider less efficient businesses. And that raises a second issue, which is that a bailout is not a solution to the fundamental problems of the Big Three automakers. A bailout of the auto industry would just push the problem further down the path.

To survive, the Big Three are going to have to change and become more efficient and competitive. I am not sure that management and labor are willing to make that sacrifice. Both management and labor at the Big Three have pay and wage scales that are substantially higher than their competitors. That is not being anti-management or anti-union; it is just being truthful.

A bailout to me raises fairness issues, and does not solve the problem. Additionally, a bailout is not good economics and is not the American way. We believe in fair competition and free markets. The markets are unforgiving and they can be hard, but they are very good at showing business the path to long-term success.

The American way to solve this problem is not to depend on the government for a solution. The government handing them taxpayer money and telling them how to run their business is also not the American way, and will only lead to prolonged pain. The American way to solve this challenge, and it is a challenge for all of us, is for all the parties involved to sit down at the table and hash out a solution that will make these companies competitive in the long term and assure their survival. Once they have done this, and not until they have, I believe they should not come to Congress and the American people and ask them to sacrifice. Once they have made this sacrifice, I believe the American people and this Congress will be more receptive.

Unfortunately, the parties have not had the fortitude and foresight to make admittedly difficult decisions that needed to be made. They have made some. They made them last year in some wage issues. But it is not enough.

Unfortunately, in the case of the Big Three, the parties have been unable to make the difficult decisions that could be made to strengthen their businesses. It is important that management and the union stop kicking the can down the road, sit down, and resolve these important issues. Sacrifices will be required, as in the case of all challenges and changes.

Now, let me conclude by saying if we continue down the path of taking money from more efficient and competitive companies and giving them to companies with less efficient models and those that are in trouble because of bad management and bad decisions, even with good intentions, our overall productivity as a country will continue to suffer. While we will avoid a certain amount of pain in the short term, we make the situation far worse in the future. By rewarding failure, we send a signal to the marketplace that we would live to regret.

Finally, we need to protect the taxpayer. The American people have bailout fatigue. During hearings last week and again yesterday I said we needed an exit strategy from the string of bailouts. We still do.

I yield back the balance of my time.

The CHAIRMAN. We will now go to our congressional witnesses. And again given the Republican Conference going on, I will begin with the gentleman from Michigan, Mr. Upton.

STATEMENT OF THE HONORABLE FRED UPTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. UPTON. Thank you, Mr. Chairman. I appreciate your willingness to go out of regular order to allow us to do that as we are expecting votes perhaps as early as 10:30 within our Republican Conference.

Our economy is in trouble. That is not news. There is uncertainty in the market, and job losses are mounting. It is our responsibility as lawmakers to act decisively to reverse this economic downturn and save millions of American jobs. We all know what is at stake. The financial rescue plan that Congress passed just before the election was for a large part opposed by many of our constituents. Most Americans saw that bill as a bailout for Wall Street, when help is desperately needed for Main Street.

I opposed the Administration's initial proposal, and later pressed Secretary Paulson to use the authority granted under the measure to help average citizens, not just $147 billion for AIG, especially as AIG's execs were holed up in a posh resort on Uncle Sam's dime. My concerns were answered with a plan that I supported containing stronger oversight and a variety of positions intended to help Main Street.

They have failed in meeting that congressional intent, and Secretary Paulson said of the vote, "This was obviously a very important vote. It was a vote to protect the American people, protect their jobs, their economic well-being. It was to protect the small businesses, people's savings."

That is what he said. Well, I ask Secretary Paulson, does allowing the U.S. auto industry to die and losing millions of jobs supported by this vital industry fulfill his definition of protecting American jobs or small businesses? Denying support to the auto industry, losing millions of jobs across the country, runs counter to the initial intent of Congress in passing a rescue package.

That is completely unacceptable. President Bush and Secretary Paulson should know that the U.S. auto industry is Main Street. The auto industry is American jobs. The auto industry supports countless small businesses all across the country, and the U.S. auto industry created the middle class and the manufacturing sector, the backbone of our very economy. You don't get more Main Street than the U.S. auto industry. And turning our backs at this time would be a disaster for our economy.

Earlier this week, everyone in the financial sector cringed when Citibank announced the layoffs of over 50,000 employees. Now imagine the economic impact of multiplying those job losses by 50; that is the magnitude of what is at stake today. If we lose one of the Big Three, we will lose literally perhaps as many as 2½ million jobs almost overnight, and the ripple effect will be devastating on the national scale. Not only will we lose those jobs, we will also lose over $100 billion in tax revenue and $275 billion in middle class income over the next 3 years.

So let's look at what we are talking about here: $25 billion in loans that is going to get paid back versus $100 billion in lost tax revenue; millions of jobs lost in a prolonged economic crisis.

There is vast support for helping automakers and their millions of employees survive this crisis. There is fear out there, not just in Michigan, that the collapse of GM, Ford, and Chrysler could and would trigger an economic depression. Americans understand that the auto industry is extremely important to the U.S. economy, not just for Michigan.

The legislation that we passed wasn't supposed to be about bailing out Wall Street, but rather protecting working families, students, retirees, and all taxpayers, every one of them, from the consequences of a financial meltdown. If the White House won't use its existing authority to protect Main Street jobs, then Congress must act again to ensure that they do.

The people of Michigan are suffering tremendously, big time, with the highest rates of unemployment and home foreclosures in the country. And while there is plenty of blame to go around, we cannot stand idly by as the pillar of our economy collapses, the aftershocks of which would further damage our Nation's economy.

The State of Michigan already has an unemployment rate of nearly 10 percent. To do nothing and watch the domestic manufacturing sector crumble would further fan the flames of unemployment on a national scale in a way which we haven't witnessed in our lifetimes.

I yield back the balance of my time. Thank you, Mr. Chairman.

The CHAIRMAN. Next, we will go to the Levin of your choice. Who goes first? Are we going by age or branch?

Senator CARL LEVIN. We have never disagreed on anything in our entire lives, and we are not disagreeing on this one.

The CHAIRMAN. Our colleague. We will go by age. Our colleague from the House.

Senator CARL LEVIN. That is the one thing we disagree on as a matter of fact.

Mr. SANDER LEVIN. If you are going to go by age, the Senator goes first.

STATEMENT OF THE HONORABLE CARL LEVIN, A SENATOR FROM THE STATE OF MICHIGAN

Senator CARL LEVIN. Mr. Chairman, members of the committee, thank you so much for the opportunity to testify this morning.

When today's hearing is over and our witnesses go back to the challenges they face to save their companies and to save this economy, the spotlight is going to be on Congress. It is going to be on what is our response to the plight of an industry which results from an economic downturn not of their own making. The collapse of our domestic automobile industry would be, in the words of President-elect Obama, a disaster for the entire economy.

The auto industry is like no other industry in this country. Ten percent of the Nation's jobs relate to this industry. The industry accounts for 20 percent of our retail sales. Their dealers are on every

Main Street in America, and their suppliers exist in most of our States.

So where are we in Congress today? Where is the Congress? The President says that he supports bridge loans. The President-elect says that he supports bridge loans. The Speaker supports bridge loans. The majority and minority leaders in the Senate support bridge loans to the auto industry. So where is the problem? What are the barriers when that leadership supports bridge loans for the auto industry?

Well, there is no disagreement over the fact that conditions need to be attached to the loans. Everybody who supports the loans agrees that these loans must be accompanied by strong oversight, taxpayer protections, and a financial plan which outlines the companies' steps to produce energy efficient, advanced technology vehicles and to achieve financial recovery. There is agreement that there should be a limit on executive compensation, bonuses, and golden parachutes.

The problem now is that there is no agreement on the source of the funds for the bridge loans. My preferred course is contained in legislation that Senator Reid introduced Monday to provide bridge loans to the auto industry. That approach would take just 4 percent of the $700 billion made available by the Emergency Economic Stabilization Act, which after all was enacted to try to restore stability and assure stability in this economy. But the White House says no. They don't like that source of the funds although it is only 4 percent, and the failure of this industry would have this kind of a destabilizing impact.

What the White House wants is to use the so-called Section 136 Energy Department funds, which we provided earlier to support development of energy efficient, advanced technology vehicles. Now, some of the Section 136 supporters say no to that source of funds.

Time is shorter than short. People in communities across this country are anxiously awaiting what Congress is going to do when there appears to be so much support, at least among the leadership here and between the President and President-elect. Where there is that kind of support, are we going to permit a difference over the source of funds for these loans to destroy an opportunity to help an industry so essential to this economy?

Now, I know there is frustration with past actions of the U.S. auto companies. Blame them if you want for quality problems in the 1970's, or for paying their executives and their workers too much, or for not moving aggressively enough to produce advanced technology, fuel-efficient cars. But don't throw millions of jobs and a vital segment of this industrial and defense economy overboard in that frustration.

There was an article in this morning's paper which to me was the most important of all the articles in the papers this morning, as important as our hearings were yesterday in the Senate and your hearings are here. This article is headlined the following: "Facing a slowdown, China's auto industry presses for a bailout from Beijing." This is not just the domestic automobile industry which has problems because of this global economic slump. This is a worldwide problem.

And the question is: Will we have an auto industry when this slump is over? China is going to have an auto industry. Germany is going to have an auto industry—Read what Chancellor Merkel said: She is going to make sure Opel gets enough money, if necessary, to keep going. European automakers have asked for $56 billion in loans. No auto-producing company in the world will permit their industry to go under. They are being asked for and will provide loans for those industries. We can do no less.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. I just want to acknowledge that this is a matter of great interest, and while we have a number of Michigan representatives here, we have been joined by the gentlewoman from Ohio, Ms. Kaptur, who is here because of the importance to the State of Ohio, and also the gentlewoman from Texas, Ms. Jackson Lee. Any members who want to sit up here—and of course our very distinguished colleague from Michigan, Mr. Kildee, whom I think is waiting a chance to get there. I wonder if it would be all right with Ms. Kilpatrick and Mr. Levin, there is the Republican Conference, could I go now to Mr. Hoekstra, to Ms. Miller and Mr. Hoekstra? Are you in a great hurry if I could get them?

Let me also say to Mr. Upton, I consulted with the ranking member. I believe we could save our questions for later. If we have questions, we will get to you on the Floor. We know where to find you. So having testified, feel free to leave. I know you have your conference. It is not a sign of your lack of interest.

I will go first to Mr. Hoekstra, then to Ms. Miller, and then we will continue with the others, for 5 minutes, please.

STATEMENT OF THE HONORABLE PETER HOEKSTRA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. HOEKSTRA. Thank you, Mr. Chairman. It is good to be here, and I am glad you are having this hearing. I will submit my statement for the record—

The CHAIRMAN. Without objection, all statements from all members will be printed in the record.

Mr. HOEKSTRA. Let me just summarize the points that I would like to make today. Clearly, the automobile industry is critical to the United States, and it is critical to Michigan. That is not up for debate. Critically, or also essential, if the Big Three receive taxpayer-funded infusions of cash, I believe all the rules change. And I will explain that as I go through my statement. But I think that as a committee and as a Congress, we need to consider a wide range of alternatives as we take a look at how to get the automobile industry healthy again.

The first thing that I think we need to do is we need to take a look at the Federal and the State level to provide incentives so that the consumer can be the driving force behind getting a healthy industry.

Drive demand. At the Federal level, I think we should consider a tax credit for new car purchases. At the State level, I think we should take a look at the State policies. Michigan has an illogical sales tax. When someone in Michigan buys a new car, they pay a sales tax on the full purchase price of the car. The State, Michigan, should take the lead. We should only charge sales tax on the differential, the difference between the purchase price of a new car and the trade-in value. So I think the States and the Federal Government need to take a look at how we can drive demand for new car purchases to help get the Big Three moving again.

The second thing that I think we need to do is we need to take a look at some of the Federal policies that have or will be implemented or are being considered for implementation. The first is we have provided this $25 billion for the industry to retool itself to move towards new CAFE standards. In this economic downturn, is it appropriate for us to consider delaying the implementation of CAFE standards for a period of 3 to 5 years and use those dollars for other things? Or recognizing that provides significant savings to the automobile industry, and that might be preferential to an infusion of taxpayer dollars into the auto fleet?

The second thing that we ought to consider is there has been a lot of discussion about whether there will be State standards for CAFE or emissions. Should Congress reassure the Big Three that we are going to have a consistent national standard for safety standards, for CAFE standards, and emission standards so they don't have to worry about the complexity or the confusion that they would be under if States started implementing various standards for them to meet for them to sell their cars in their States?

A third point is if the committee and Congress finds itself moving down the path of providing taxpayer assistance, the rules do change. These companies, the workers, employees, and management are now accountable to the shareholders. We have a fiduciary responsibility to protect the interests of the taxpayer. Yes, these companies and these employees now are accountable to Joe the Plumber and others. You know, in my district, the average manufacturing salary or the average manufacturing salary across the country is $31 an hour, including fringes. For the transplant countries, it is $48 an hour. For workers in the Big Three, it is $73 per hour. Should manufacturing workers who are making $31 an hour, or $48 an hour, should their taxpayer dollars be used to provide assistance to blue collar and white collar workers who are maybe making significantly more than what they are?

These are struggling industries. I have a lot of these suppliers in my district. There needs to be an element of fairness and sacrifice as we go through this process. Mr. Chairman, I am glad to see that in, I think, some of the legislation that you have brought forward you have strengthened the requirements on CEO pay and capping CEO pay. Because what we have seen in the financial bailout package, you know, when the companies set aside $40 billion for bonuses, we have done something wrong.

And Mr. Chairman, of interest to yourself and myself, let me raise one final point: Federal Prison Industries. How does that fit with the automobile industry? Federal Prison Industries is an $800 million business rapidly growing to be a billion dollar business. They make $150 million of automobile components, and they make over $100 million of office furniture. These are industries that are struggling. They should at least have the opportunity to compete for that business.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentlewoman from Michigan, Ms. Miller.

STATEMENT OF THE HONORABLE CANDICE S. MILLER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mrs. MILLER OF MICHIGAN. Thank you very much, Mr. Chairman, Ranking Member Bachus, and all the members of the committee. I can't tell you how much we sincerely appreciate you calling this hearing and allowing all of us to come here today and make our case for saving millions of jobs, not just in Michigan, but all across our great Nation.

You know, a number of critics have said the domestic auto industry is a dinosaur, that it is too fat to survive. But the truth is that over the last number of years, America's domestic auto manufacturers have made very tough decisions to make their operations leaner and more competitive. In Michigan, unfortunately, we have seen the loss of over 400,000 manufacturing jobs as the auto companies have restructured themselves. And if those critics who think there is just too much fat in the industry really think that, I would invite them to come to Detroit, come to, for instance, Macomb County, which I am very proud to represent along with Sandy Levin and Carl as well, and to visit some of those who have been laid off. Or maybe they could visit with some of those whose homes are now in foreclosure, or visit some of those who have worked their entire lives and are now fearful that their jobs are going to go away. Or they could visit with some of the retirees who worked so hard to earn their pensions and now face the loss of substantial portions of their income if their pensions are thrown into the PBGC. Or perhaps they could tell those people that they are part of an unsustainable business model, and that they need to be sacrificed.

The fact of the matter is that this industry, for all of its faults, has made very tough decisions. It has cut to the bone and it has dealt with crisis after crisis to return to profitability. It has been handed new government mandates, regulatory mandates that the experts say will cost this industry as much as $86 billion in order to comply. And of course this at a time of an economic downturn. It has dealt with skyrocketing health care costs, and it has worked with its employees to make major concessions to help the companies survive.

But the final blow was an economy in a meltdown situation brought on not by the mistakes of the auto industry, but by those on Wall Street. Many have said that the problem with the domestic auto industry is that they don't make products people want to buy anymore. That is simply untrue. Do you know which company actually makes the most models that get over 30 miles to a gallon? That is General Motors. Or how about the car company that has the highest mileage SUV in the entire world? That company is Ford. And I am proud to drive a Ford Escape Hybrid. It is General Motors that is working to bring the very next great innovation to the auto market. The Chevy Volt extended range electric vehicle could revolutionize the industry, and will do it with American designed and American built technology.

So the domestic auto industry's problem is not a lack of product, because that product is getting better each and every day. The problem is a lack of customers brought on by the economic meltdown. The actions of Wall Street have stifled consumer confidence, and they have frozen the credit markets and made auto loans unavailable for too many consumers.

Last year, over 16 million vehicles were sold in this country. In October, the annualized rate of vehicle sales was at 11 million. And that is not the result of the product, that is a result of consumer confidence in the availability of financing.

So this Congress just 7 or 8 weeks ago passed a $700 billion bailout of the banking industry to help Wall Street to better times and to free up credit, $700 billion sent to those who caused the problem in the first place. And today all we are asking is that $25 billion of that money be targeted as a bridge loan to support the domestic auto industry.

I would say this as well, Mr. Chairman, and all the members of the committee, I hope you think about the very rich, rich heritage that the domestic auto industry has had on our Nation in times of need, in times of national crisis. Southeastern Michigan was actually, during World War II we were known as the arsenal of democracy because we had the manufacturing capability to build the armaments that literally, literally led the world to peace. There were a couple of years where we didn't even produce automobiles because we were producing tanks and Jeeps, and we were fully engaged in the war effort. And I hope we would think about that as we are looking at perhaps the demise of a huge segment of our manufacturing segment. As well after the horrific attacks of our Nation of 9/11, when the terrorists were trying to bring our economy to its knees, it was the domestic auto industry, led by General Motors, I would tell you, that started the Keep America Rolling Program with the zero interest financing and the rebates, etc., that kept the workers working and kept America buying.

And I will also say this, and let me just close on this, the domestic auto industry literally created the middle class of this great Nation. The middle class was not created by AIG or Bear Stearns or Lehman Brothers or whatever. They might have created the upper class, but they did not create the middle class. The middle class was created by this great industry. We are facing some tough economic times. We are asking for a loan; not a bailout, but a loan. And I think it is entirely appropriate that this Congress sees to it that happens.

Thank you very much.

The CHAIRMAN. Before I turn to Mr. Levin, let me just say, and we don't under our rules allude to a TV audience, but let me make a factual statement. I have been watching there. It may appear to people watching this that there is some lack of interest on the Republican side on this important issue. I want to stress again, unfortunately, there was a scheduling conflict. The Republican House Members have a conference that is going on now, their official organizing conference. It is important that they be there. The fact that there are more Democrats than Republicans is no indication of a disparity in interest. We unfortunately had this situation where people had to be in two places at one time. And I know as soon as they can they will be coming back. I didn't want to have any false impressions created by TV, God forbid that should ever happen.

The gentleman from Michigan.

STATEMENT OF THE HONORABLE SANDER M. LEVIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. SANDER LEVIN. Thank you, Mr. Chairman, Ranking Member Bachus, and all of my colleagues. I was in the Senate yesterday and heard some of the testimony, and I think the issues were raised and answers were given, and awfully good answers in most cases, if not all. I think what was missing is the sense of urgency, a sense of urgency.

Lehman Brothers went under. This government did not act. A spark was set off that went around world. This industry now faces utter urgency. Yesterday, the Big Three indicated how much they thought they might well draw on the $25 billion. They needed it, and they need it as a bridge in the next few months. We can't leave here this week and take a chance. President-elect Obama has said that the auto industry is the backbone of American manufacturing, and we can't leave here and see the backbone splintered.

This is an international credit crunch. My kid brother, I am older, referred to China. Europe is being asked, the Commission, for over $50 billion to help their auto industry. And we are thinking of leaving here and taking the risk of bankruptcy? There is a looming cliff, and we have to act.

I want to spend a few minutes, if I might, talking about some of the issues, Mr. Bachus, that you raised. You talked about people sitting down and facing the problems. I worked in the auto industry when I was a kid. It is a very different industry from then to be sure, and from 10 years ago, and I think from 5 years ago. As has been mentioned by others, there has been restructuring and cost cutting. Look at the number of employees who have gone: GM has reduced its head count by 84,000; Chrysler by 32,000; and Ford by 51,000. They have closed plants, and they have done this in discussions with the labor movement.

There is talk about quality, and I hear some references to dinosaurs. Ford, for example, has tied Honda and Toyota in quality, according to the Consumer Reports. And as mentioned, GM has more cars that get 30 miles per gallon than any other company. That is a dinosaur? The Chevy Volt. Chrysler warranty claims dropping. This is a vibrant, alive industry that now has improved and faces a circumstance outside of its control. And everybody else is acting in this world. Are we going to leave and not act?

Let me just say, if I might, a word about bankruptcy. I saw two articles today in the paper, one by Mitt Romney. I won't comment, because he came to Michigan and said, "I will fight for the auto industry." The other went through the bankruptcy issue. Bankruptcy Chapter 11 will mean Chapter 7 and the liquidation of a company. People may get on an airline and go from Washington to Erie, Pennsylvania, or I forget, Wilkes-Barre, Pennsylvania, but they won't buy a car if they are not sure there is service or if the warranty won't be met.

So let me just say one last thing about an issue that has not been well versed, I think. My brother is modest. He, years ago, worked to have developed a national automotive center in the defense area. It is in Warren, in the district I represent. It has the responsibility—I am almost done. It has the responsibility for the development of vehicles for the military. There is a complete interaction between the automotive center and its development of vehicles for the military and the Big Three. Is there going to be that kind of synergy between the Defense Department and companies that are owned and run by foreign manufacturers? We can't stand to lose the domestic auto industry for either economic or national security purposes. We need to act this week.

The CHAIRMAN. The gentleman from Alabama would ask for 30 seconds to make a clarification.

Mr. BACHUS. Thank you, Senator. I appreciate your—or Congressman, I appreciate your remarks. Let me say this: I have never myself, and you didn't say this, but I never said that GM or Ford or Chrysler was a dinosaur.

Mr. SANDER LEVIN. I know.

Mr. BACHUS. I would never say that. In fact, I drive two GM cars and they are great cars. I drive a Ford car. There are some cars we all know that there are a lot of models, a lot of problems. They have made changes. I don't think the American people are aware of the changes they have made. And finally, this thing about AIG, they pay their employees a lot. And I realize that when you give to AIG and you give to Lehman Brothers, you know, a part of fairness is why not the automobile industry? And it to me is every bit as important as those Wall Street companies, if not more important.

So, I think that what we are looking for is a sacrifice and assurances to make sure that it is a solution, and not just a postponement.

Mr. SANDER LEVIN. Mr. Bachus, I fully agree, and the Big Three have agreed to a new wage structure. People are going to come into their plants earning $14 an hour and not have a defined contribution plan. And I think if people can aspire to have good health care and pensions like was worked out between the Big Three and the United Automobile Workers, that is an important part of America and aspiration to a solid middle class. I think you agree with me.

The CHAIRMAN. I would just note, and I get the gentleman's point, but Lehman Brothers is probably not the best example of people who got anything; they got stiffed.

Mr. BACHUS. That is right.

The CHAIRMAN. There were others, however. The gentlewoman from Michigan.

STATEMENT OF THE HONORABLE CAROLYN C. KILPATRICK, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Ms. KILPATRICK. Thank you, Mr. Chairman, and members of the committee, for allowing us to come today before our powerhouse CEOs who run the most effective, outstanding manufacturing companies in our country and the world. The American auto industry is alive and well, employing over 13 million direct and nondirect employees who benefit from the over $340 billion worth of payrolls every year. I come today to ask for your quick, honest, thorough, comprehensive review of what we have before us today.

The country is in total crisis, as is our industry at the moment. It is the last manufacturing base that we have in America. We must save this industry because of that manufacturing base, as well as it moves to our energy independence as we move into this 21st Century. Our car companies will build better, more efficient, environmentally sound cars as we move forward, and have made that commitment in previous energy legislation that has come before us. The jobs, the businesses, the revenue that our Federal Government, State government, local cities, and townships receive from this industry is paramount. It is not to be taken lightly.

As was mentioned by a couple of our other Michigan bipartisan panel as you have had, Mr. Chairman, the military, our own military, is at stake here. Our car companies build the tanks, build the Humvees, build the armed resistant tanks that go through these wars, and I hope we end these wars very soon, lest we have none. Do we want to turn that over to our competitors? I think not. Our military and national security are at stake here. Since World War II, when our automobile companies built those same vehicles and helped us to win that war, the tanks, the Jeeps, the trucks that support the men and women in our military, often created the technology that helps us navigate in our own personal cars, brakes that last for thousands of miles. No other car company can say that. They protect our bodies in accidents. We can't afford to lose these intellectual properties that the American auto industry, only they provide today as we move forward. Our economy and our troops cannot survive if in fact our American auto industry goes under. And we know you won't let that happen.

It is a loan. In the 1980's, when Chrysler came to this Congress and asked for assistance, at that time, I was a member of the State House of Representatives. Not only did we give that loan, Chrysler paid the loan early, and our Federal Government made $800 million more than was given to them at that time. I predict when we allow these companies to do the same, we will see growth and development and energy independence move as we move throughout this time in our lives.

It is a critical time. Some of our colleagues don't understand. And a lot of times as leaders we have to be the ones, which is why we are chosen leaders, to educate, to demonstrate, and to let our constituents know that the American auto industry deserves our assistance, deserves the protection of those 13 million plus. And in my written testimony we have outlined from the sources of the Bureau of Labor Statistics, the Center for Automotive Research, and the National Automobile Dealers over 13 million job-related jobs in this economic automobile industry that we have before us.

So we have to be very serious. And as my colleagues say, we have to be very quick. This is not something that can languish over to the next Administration, really over for the next month. It is that critical. Over 1 million pensioners who built the industry, who helped to build the middle class, who deserve their pensions be protected are a part of this bridge fund that we are asking you to approve for us.

As we come to you today, just know that the energy independence, the manufacturing base that is the only one left in our country, the revenue that is generated from these companies is the sustaining force of our country. It is not a bailout; it is a loan. We will return it—5 percent interest over the next 5 years, another 9 percent over the second 5 years. Don't let the automobile industry die because of our inaction. We have a responsibility to the children, to the villages, to the schools. We have a responsibility to the workers to make sure that they can have a decent living. We are in a very precarious situation as our country moves into the next Administration and throughout this century. What we do over the next 24 or 48 hours will determine what America will be for the next 50 to 100 years. I urge you to act.

And thank you, Mr. Chairman, for your bill, with some of the things that you put in your bill that will help as we monitor and work with the auto dealers, the auto companies.

And let me just, as I close, say something about the dealers and the ethnic dealers particularly. I am told that over the next 60 days, if something is not done, we will lose over 60 minority automobile dealers. If it is longer, over 700 will go out. And neither the bridge loan nor the restructuring loan addresses that. I am pleading for you, Mr. Chairman, and members of this committee that we take a look at that. Those are thousands of families, thousands of children, revenues to cities and villages that must be protected.

Thank you for the opportunity to testify before you today. I ask that you move swiftly, and assist the only manufacturing base that we have in America, the healthiest, the best. We ask for your assistance. Thank you.

The CHAIRMAN. I thank the gentlewoman. I thank all my colleagues for testifying quite succinctly, all on the point. We will excuse all of our colleagues now. And I did have a request, because there are some other meetings. The gentleman from California, Mr. Baca, had a unanimous consent request, I believe.

Mr. BACA. Thank you very much, Mr. Chairman. And I appreciate you holding this very important meeting right now, especially on the automobile industry, because the American people and the taxpayers are asking us to do something about this recession. And this impacts the recession right now, based on the amount of jobs that will be lost, you know, and basically what we are asking for is a loan. There is a whole difference right now in reference to the automobile industry asking for a loan to enable GM, Ford, and Chrysler to continue operating and avoid liquidation in the near future. The car industry represents almost 4 percent of the U.S. gross domestic products; 1 of every 10 U.S. jobs are impacted in the U.S. auto industries. And that impacts working families, it impacts our cities, and our communities as well.

But Mr. Chairman, I wanted to ask again, this is a question I would like to ask the panel.

The CHAIRMAN. No, we are not going to be having questions of the panel.

Mr. BACA. I basically wanted to support this legislation. I think it is important that we deal with it. It impacts the United States. The American people are asking us to do something. This is a step in the right direction. And I believe that we have to support it. We bailed out everybody else. And what we are doing now is providing a loan, providing assistance to keep the American people working in our communities.

Thank you very much.

The CHAIRMAN. Thank you.

Mr. SANDER LEVIN. Mr. Frank, thank you for all of your work, and I hope everybody will take a look at the bill that you introduced.

The CHAIRMAN. You are welcome. And we will now call on our next panel. The next panel will come forward. I will make my opening statement. We will continue with opening statements, if the panel will sit. Please, let's move quickly. Hey, all you people can say hello to each other in Michigan. Let's clear the room and get the panel seated. As the panel is seated, I am going to make my opening statement. I ask that the panel please be seated. If you are helping someone be seated, be seated yourself. They seem to have made it to the chairs on their own pretty good.

I have been struck, not happily, in the time that we have been discussing this, that there is frankly, it seems to me, an inherent cultural bias. There is a double standard here. Aid to blue collar employees is being judged by a standard different than white collar employees. Now I have no complaint about white collar employees. They are my friends and constituents, as are others. But I do not remember complaints, and I am not talking about CEO compensation—and let me just add one thing. We have the CEOs with us. People have said, well, are we bailing them out? Should we deal with them? I do not think any of the three CEOs before us will show up on the unemployment line, no matter what happens. This is not about them personally. And none of them are going to be in any distress. But when people talk about bankruptcy, and I am struck that bankruptcy has become to some extent the new spectator sport; people are perfectly prepared to watch other people go through it, without understanding the stresses and strains it imposes.

But there has been a particular concern raised about the wages of the auto workers. I was here through the entire debate on the $700 billion plan and on other interventions into the financial markets. Yes, there was concern about CEO compensation. By the way, when this committee last year voted for constraints on CEO compensation, it was something of a partisan issue. And while we did pass it in the House, there was a great deal of opposition who said, oh, it is just envy and jealousy. But while there was some talk about CEO compensation, there was none about the compensation of the people who work at these financial houses. And I am sure that even before the concessions in the recent contract, the hourly wage of people at the financial houses that have received assistance through the Federal Government are a good deal higher than auto workers. I think the average AIG worker gets a good deal more than the auto workers. Probably not the clerical people, but the people at AIG. There is apparently a cultural conditioning that is more prepared to accept aid to the white collar industry than to the blue collar industry. And I think that has to be confronted honestly.

The $700 billion and this much smaller amount have in common the following: The justification for them has to be the impact on the broader economy. We have no right trying to help an industry for that industry's sake. And by the way, for people to say where is it going to stop? Pick up the papers. No one intervened for Circuit City. No one has intervened for any of the retailers that have gone bankrupt. No, we haven't declared that no one can go bankrupt. We have a criterion. Is this of a magnitude that it will threaten the entire economy? And particularly at a time of great vulnerability for the economy? You know, if we were at 4 percent unemployment, as we were in the Clinton Administration, if things were going well, this would be a different thing to contemplate. We have an economy already staggering, both because of our credit crisis and problems in the real economy. Adding to this enormous disruption at this point would be an awful idea.

But here is the point: We aid an industry only when it is necessary to do that to avoid much greater harm to the economy as a whole. In doing so, however, we should acknowledge that while we are doing it because we want to help the whole economy, people in that particular industry do benefit a little more than the average. There is no question about it. That is unavoidable. Why was it so acceptable to do that for the financial industry, that is respond to the need to avoid macroeconomic harm by helping the financial industry, but doing it to a blue collar manufacturing industry is somehow not right and we have to look at the wage scale, etc.? And that is the issue that I think the country has to more honestly confront than we have done.

One of the arguments I have heard as well, you know, the nice thing about bankruptcy is it will let them break the union contracts. I want to be very clear. The union and the management have already renegotiated downward to nobody's happiness. We have already in this country had too successful an assault on the right of men and women to bargain collectively, legally and economically. We have already had too great a gap in income inequality growing and growing and growing. I do not want to see bankruptcy established here as a precedent which can be used to take away from working men and women what gains they have accomplished.

Now, that doesn't mean an endorsement of any particular level of wages here and there. But when you look, as I said, at the—now, there are people who are against this $700 billion. They have every right to be against this. But people who were for the $700 billion, who were for an $85 billion injection of capital into AIG by the Federal Reserve without a vote of Congress, and who did not raise the question of the average compensation of people at AIG or of the people who were the debtors of Bear Stearns—we didn't bail out Bear Stearns, we bailed out the debtors of Bear Stearns—it is a little late in the game for people who encouraged that infusion of far, far more money than we are talking about today to suddenly decide that an auto worker makes too much money, when it was okay to put hundreds and hundreds of billions of dollars into helping industries, again because it was economically necessary, and I don't dispute that, but in industries where the average wage is far beyond what the auto workers make.

The gentleman from Pennsylvania.

Mr. KANJORSKI. Mr. Chairman, like many industries in America, the automotive sector confronts dire economic conditions. What we have here is a complicated mixture of ineffective management, a lack of innovation, exploding health care and pension costs, a struggling economy, increasing commodity prices, and changing consumer preferences. Regardless of the causes, the current plight demands dramatic reform.

The Big Three must either adapt to survive or face extinction. To have a chance at survival, some maintain that the government should underwrite these needed changes to protect American jobs and prevent an impending economic catastrophe. Others counter that government assistance will merely prolong the inevitable failure of American automakers. Some also suggest that $25 billion is not enough to save the industry. Just like we have recently experienced at AIG, the automakers could soon be back at the government's doorstep with a beggar's cup demanding more money in short order.

Most of us surely agree that if the Congress chooses to act, and that remains for me a big 'if,' any money must come with substantive stipulations. While the draft House bill offers some important conditions, I believe they are insufficient to prevent recipients of taxpayer aid from abusing it. The draft provides no guarantees that these companies protect American jobs. Nothing prevents them from purchasing foreign-made supplies over American-made parts. Moreover, unlike the 1979 Chrysler bailout law that required concessions by many, the proposal before us contains no similar substantive sacrifices by suppliers, dealers, management, and workers. After all, Lee Iacocca symbolically accepted just $1 in annual pay. Why can't today's CEOs at General Motors, Ford, and Chrysler do the same?

Furthermore, I am not yet convinced that the Congress must act so rashly. If one of these companies have a specific dollar amount to prevent its insolvency in a matter of weeks, then we should know that so that we can provide a limited bridge loan. We can then take the time to structure a proper deal that does not sell us a pig in a poke to allow yet even more businesses to bathe like pigs at the taxpayers' trough.

The American people expect and deserve careful deliberation from this body rather than a blessing of last minute, expedient deals. Only after the Congress carefully and thoughtfully considers its options can it then draft a solution that not only keeps these companies running for months and years to come, but also helps them to thrive in the next generation.

Even if we consider this bill, the onus lies with today's witnesses to explain why a direct government loan is a superior option. Many have credibly argued that bankruptcy or a structured receivership remain viable alternatives. The successful Chrysler loan guarantee provided a similar plausible road map this Congress could pursue. Whatever we ultimately decide, we must proceed with caution toward a prudent, long-term solution.

In sum, the American public expects us to take the time to get it right, even if we have to stay in Washington to do it. I am committed to getting it right, and look forward to the testimony.

The CHAIRMAN. The witnesses will now begin with their opening statements. We had no further requests for an opening statement on the Republican side. We will begin with Mr. Richard Wagoner, the CEO of General Motors.

STATEMENT OF RICHARD G. WAGONER, JR., CHAIRMAN AND CHIEF EXECUTIVE OFFICER, GENERAL MOTORS CORPORATION

Mr. WAGONER. Thank you very much, Mr. Chairman. I appreciate the opportunity to speak with you today about this important topic. I would like to acknowledge for the committee the audiences that I represent, General Motors employees directly, almost 96,000 people in the United States. We have 6,500 dealers who employ another 340,000 people. Last year, we purchased more than $30 billion of goods and services from more than 2,000 suppliers in 46 States. Our pension program covers nearly 475,000 retirees and spouses. And our health benefits extend to about 1 million Americans. We have more than a million registered stockholders. And 70 million of our vehicles are registered to U.S. citizens, 22 million of them purchased in the last 5 years.

As the recent news coverage has made abundantly clear, many people have a picture of GM that hasn't kept pace with the hard work that our people have been doing. Since 2005, we have reduced our annual structural costs or fixed costs in North America by 23 percent, or $9 billion, and expect to reduce them by about 35 percent, or $14- to $15 billion by 2011. We negotiated a landmark labor agreement with the UAW last year that will enable us to virtually erase our competitive gap. We have addressed pension and retiree health care costs in the United States, on which we spent $103 billion over the last 15 years. As a result of these and other actions, we are now matching or besting foreign competitors in terms of productivity, quality, and fuel economy, and by 2010 will match them on labor costs as well.

On the product side, we are building vehicles that consumers want to buy, like the Cadillac CTS, Motor Trend magazine's 2008 Car of the Year, and the Chevy Malibu, the 2008 North American Car of the Year. We have made huge progress in developing advanced propulsion technologies, like 20 models in the United States next year that will get at least 30 miles per gallon on the highway; 6 hybrids on the road now, and 3 more next year; more than 3 million flex fuel vehicles; the world's largest hydrogen fuel cell test fleet; and the upcoming Chevy Volt extended range electric vehicle.

In short, we moved aggressively in recent years to position GM for long-term success, and we are well on the road to turning our North American business around. Last October, following the negotiation of a new labor agreement with the UAW, our stock price climbed to almost $43 per share based on analysts' views that we had finally overcome the cost competitiveness gap with foreign manufacturers. Since then, our industry has been hit very hard by the global financial market crisis. And the recent plunge in vehicle sales threatens not only General Motors' ongoing turnaround, but our very survival.

In response, we moved quickly to keep our company on track. Since June, we further reduced North American manufacturing capacity, put parts of our company up for sale, suspended dividend payments, reduced head count, and eliminated raises, bonuses, 401(k) matches, and health care coverage for many of our employees, all designed to improve GM's liquidity by $20 billion by the end of 2009. These actions affect every employee, retiree, dealer, supplier, and investor in our company.

Mr. Chairman, I do not agree with those who say we are not doing enough to position GM for success. What exposes us to failure now is not our product lineup nor our business plan nor our long-term strategy. What exposes us to failure now is the global financial crisis, which has severely restricted credit availability and reduced industry sales to the lowest per capita level since World War II.

Our industry needs a bridge to span the financial chasm that has opened before us. We will use this bridge to pay for essential operations, new vehicles and power trains, parts from our suppliers, wages and benefits for our workers and retirees, and taxes for State and local government. But if the domestic industry were allowed to fail, the societal costs would be catastrophic: 3 million jobs lost within the first year; personal income reduced by $150 billion; government tax loss of more than $156 billion over 3 years; not to mention the huge blow to consumer and business confidence. Such a level of economic devastation would far exceed the government support that our industry needs to weather the current crisis. In short, helping the auto industry bridge the current financial crisis will not only prevent massive economic dislocation now, it will produce enormous benefits for our country later.

Thank you very much. I look forward to your questions.

[The prepared statement of Mr. Wagoner can be found on page 221 of the appendix.]

The CHAIRMAN. Next, Mr. Robert Nardelli from Chrysler.

STATEMENT OF ROBERT NARDELLI, CHIEF EXECUTIVE OFFICER, CHRYSLER LLC

Mr. NARDELLI. Thank you, Mr. Chairman, and members of this committee. I certainly appreciate the opportunity to be here today.

We are asking for assistance for one reason: To address the devastating automotive industry recession caused by our Nation's financial meltdown.

With credit markets frozen, the average working American can't get competitive financing to purchase or lease vehicles. Our dealers, many of whom are in the room with me today, don't have access to market competitive funding to place wholesale orders for new vehicles, which results in the constriction of cash inflow to all of us as auto manufacturers. At the same time, Chrysler has billions of dollars in cash payment obligations to pay wages, to pay suppliers, and to fund health care and pensions, all in the range of $4- to $5 billion a month.

Therefore, without immediate bridge financing support, Chrysler's liquidity could fall below the level necessary to sustain operations.

Independent research firms have quantified the fallout of a domestic automaker bankruptcy to the overall economy; and the impact would be devastating, as Rick mentioned. This is not a good option for Chrysler and, more importantly, for the auto industry or the broader economy for the following reasons:

One, we believe that retail sales would plummet. The fact is, in February of 2007, when Daimler announced the sale of Chrysler, our sales fell off 37 percent. Our existing inventories would need to be heavily discounted. We have over 400,000 units in the field worth about $1 billion.

Given our common supplier base, the bankruptcy of any one automaker could threaten the viability of all automakers.

Our factories would likely be idled for a significant period of time while we renegotiate contracts with literally thousands of suppliers and our primary lenders.

The overall amount and cost of financing the restructuring would be significantly higher in a Chapter 11 than the working capital bridge that we are requesting here today.

And, finally, we cannot be confident that we will be able to successfully emerge from bankruptcy.

That is why, as an industry, we are requesting a $25 billion working capital bridge to survive this liquidity crisis.

We are willing to provide full financial transparency and welcome the government as stakeholders, including as an equity holder. We are fully prepared to comply with the current conditions and policies under the recently enacted Emergency Economic Stabilization Act.

Furthermore, our private equity owner, Cerberus Capital Management, L.P., has made it clear that it will forego any benefits from the upside that would, in part, be created from any government assistance that Chrysler LLC may obtain.

Mr. Chairman, being new to the auto industry, I recognize the need to challenge the status quo and to seek significant change. Change is the only constant we know at Chrysler today and throughout our businesses. Chrysler is making those changes.

Since 2007, we have reduced 1.2 million units of capacity, or 30 percent of our installed base. We have identified over $1 billion in non-earning assets to sell, and we are more than 75 percent towards achieving that goal.

This year, we reduced our fixed cost $2.2 billion; and, unfortunately, by the end of the year, we will have furloughed over 32,000 employees.

It is equally important that the lack of liquidity to provide loans and leases to customers and financing to dealers is addressed immediately. It is imperative that our affiliated financial companies receive access to competitive liquidity and financing capacity.

At Chrysler, 75 percent of our dealers rely on Chrysler Financial to support their business, and 50 percent of our customers finance their vehicles through purchases through Chrysler Financial. Normally, these loans and leases are securitized and sold in the secondary market to generate fresh liquidity and finance capacity.

Today, there is virtually no secondary market and, therefore, no way to raise capital.

With immediate financial assistance, the lifeblood of the U.S. economy will continue to flow and Chrysler will be able to continue to pay at its current levels.

Mr. Chairman, Chrysler really is the quintessential American car company: 73 percent of our sales are in the United States; 61 percent of our vehicles are produced in the United States; 74 percent of our materials are purchased in the United States; and 62 percent of our dealers are based in the United States.

Chrysler has a strong pipeline, with a product renaissance coming in 2010. In September, we reveal three electric drive vehicles, one for each brand; and one of those will be produced in 2010.

Thank you very much.

[The prepared statement of Mr. Nardelli can be found on page 198 of the appendix.]

The CHAIRMAN. Next, Mr. Alan Mulally of Ford.

STATEMENT OF ALAN MULALLY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, FORD MOTOR COMPANY

Mr. MULALLY. Thank you, Chairman Frank, and members of the committee. I appreciate the opportunity to be here representing the Ford Motor Company.

As you know, the auto industry has been heavily affected by the turmoil in the financial markets. Much of the recent commentary has suggested our companies need a new business model. I completely agree. In fact, we at Ford are well on our way to transforming our company and building a new Ford that has a very bright future.

There are two fundamental questions today: First, is there a competitive and sustainable future for our domestic automobile industry; and, second, is a government bridge loan through these difficult economic times better for our country than inaction?

I believe the answer to both of these questions is yes.

As a relatively newcomer to this industry, I have the benefit of seeing the auto industry and its transformation clearly. I see parallels of what I have witnessed at Boeing after the 9/11 tragedy and the steps we took to transform the commercial airplane business. I can tell you that the transformation at Ford is even more aggressive and the progress we are making is even more remarkable.

Our plan for the past 2 years has been focused and consistent:

Aggressively restructure to operate profitably at the current lower demand and also the changing model mix;

Accelerate the development of safe, fuel-efficient, high-quality products that our customers want and they value; and

Finance our plan and improve our balance sheet and work together as one team leveraging our global assets worldwide.

Our goal is to create a viable Ford Motor Company and a lean global enterprise delivering profitable growth for all. Few companies have restructured more aggressively. We have taken out excess capacity, closing 17 plants and reducing our workforce by 51,000 vehicles. We negotiated a new contract with the UAW to improve our competitiveness. We shifted to a balanced product lineup offering high quality, proven safety and good value. We are delivering the best or among the best fuel economy with every new vehicle we are launching today.

The speed and the breadth of our transformation is evident by our actions this week alone. Yesterday, we submitted our application for direct loans authorized by Congress last year to help us speed advanced technologies and vehicles to market.

Today, at the Los Angeles Auto Show, we will introduce two all-new hybrids. Our new Ford Fusion hybrid beats the Toyota Camry hybrid by at least 6 miles per gallon. It is just a friendly competition.

On Friday, we will enlarge SUV production at our Michigan truck plant and begin converting to fuel-efficient small car production at that same facility.

To fund our new products and restructuring, we went to the capital markets early and we divested all of our noncore assets.

Our Ford Credit business has consolidated abroad to preserve capital in support of our U.S. customers and our U.S. dealers.

We appreciate the recently induced asset-backed commercial paper funding facility, and we anxiously await the Administration's term securitization facility in work.

In addition, the FDIC's approval of Ford Credit's pending industrial loan bank application will enable us to meet the financial needs of our dealers and our retail customers.

As a result of all of these actions, we were profitable in the first quarter of this year, 2008, and well on our way to sustainable profitability before the current economic and credit crisis stopped us cold. We have taken decisive action to deal with the current new crisis. We have reduced production to match the dramatically lower demand. We have further reduced employment, and we have eliminated all raises and bonuses for 2009. We took these measures while protecting the new vehicles that will secure our future.

Now, we believe we must join our competitors in asking for your support to gain access to an industry bridge loan to help us navigate our way through this difficult economic crisis. We suggest the loans be structured in a revolving format so the exposure to the taxpayer would be limited and, if used, would, of course, be repaid with interest.

We at Ford are hopeful we have enough liquidity, but we also must prepare ourselves for the prospect of further deteriorating economic conditions in 2009. In addition, the collapse of one of our competitors would have a severe impact on Ford and our transformation plan because the domestic auto industry is highly interdependent. It would also have a devastating ripple effect across the entire U.S. economy.

I am more convinced than ever that we have the right plan to transform Ford. We at Ford will continue to deliver our plan to create a thriving auto business for the benefit of all of us. With your help, we will create a safeguard to deal with the growing economic uncertainty. This is a really important industry. It is a pillar of our economy, and we look forward to working with you to be a part of the solution on the road to economic recovery.

Thank you very much.

[The prepared statement of Mr. Mulally can be found on page 178 of the appendix.]

The CHAIRMAN. Mr. Ron Gettelfinger, from the United Auto Workers.

STATEMENT OF RON GETTELFINGER, PRESIDENT, UNITED AUTO WORKERS

Mr. GETTELFINGER. Mr. Chairman, on behalf of the men and women of the UAW, thank you for the opportunity to testify today on the state of the domestic automobile industry.

The UAW strongly supports legislation to amend and clarify that the Treasury Department should use the existing financial rescue program to quickly provide a $25 billion emergency bridge loan to General Motors, Ford, and Chrysler to enable these companies to continue operations.

The situation now facing GM, Ford, and Chrysler is extremely dire. Because of the credit and financial crisis, overall vehicle sales have plummeted to the lowest level in 25 years. As a result, GM, Ford, and Chrysler are burning through their cash reserves at an unprecedented rate. The stark reality is that these companies could be forced into a Chapter 7 liquidation, with their operations ceasing entirely.

If this happens, as we all know, the consequences would be truly devastating. In addition to the hundreds of thousands of workers who would directly lose their jobs at the Detroit-based auto companies, a total of almost 3 million workers would see their jobs eliminated. This includes people who work for auto dealers, suppliers of components and materials, and thousands of other businesses that depend on the auto industry.

Furthermore, retirees from the Detroit-based auto companies and their spouses and dependents, about 1 million people, could suffer sharp reductions in their pension benefits and the loss of their health insurance coverage, an especially devastating blow to the roughly 40 percent who are younger than 65 and thus not yet eligible for Medicare.

If the automakers' pension plans are terminated, the PBGC would be saddled with unprecedented liabilities and the Federal Government would be liable for a 65 percent tax credit for the health care costs of pre-Medicare auto retirees.

The liquidation of the Detroit-based auto companies would severely aggravate the current economic downturn. Government revenues would shrink even further, forcing harmful cuts in a wide range of social services.

The UAW submits that it would be far better for the Federal Government to take prompt action now to prevent the imminent collapse of the Detroit-based auto companies. The human toll will be far less and the ultimate cost to the government will be far cheaper.

The crisis facing the Detroit-based auto companies is not attributable to overly rich contracts negotiated by the UAW.

In 2005, the UAW agreed to reopen the contracts midterm and accept significant cuts in workers' wages and health care benefits for retirees.

Then, in the 2007 collective bargaining negotiations, the UAW agreed to slash wages for new hires by 50 percent. New hires will not be covered by the traditional retiree health care and defined pension benefit plans.

In addition, beginning January 1, 2010, the liability for health care benefits for existing retirees will be transferred from the companies to an independent VEBA fund.

The changes in our 2005 and 2007 contracts cut the companies' liabilities for retiree health care by 50 percent. As a result of all of these painful concessions, the gap in labor costs between the Detroit-based auto companies and the foreign transplant operations will be largely or completely eliminated by the end of the contract.

Thus, the UAW active and retired members have stepped up to the plate and made the hard changes that were necessary to make our companies competitive in terms of their labor costs. GM, Ford, and Chrysler are now facing a crisis not because of their labor costs but because of the larger credit and economic crises that have engulfed our Nation and, with it, the unprecedented drop in auto sales that has affected all automakers.

For all of these reasons, the UAW strongly urges Congress to provide immediate assistance to GM, Ford, and Chrysler to enable them to continue in business and to avoid the devastating consequences that a collapse of these companies would have for millions of workers and retirees across our country.

Thank you.

[The prepared statement of Mr. Gettelfinger can be found on page 131 of the appendix.]

The CHAIRMAN. Thank you, Mr. Gettelfinger.

Let me at this point ask unanimous consent to insert into the record a column by the economist Ben Stein. We are in an economic tailspin. We cannot allow roughly 3 million workers connected to the Big Three auto industry to fall into the ranks of the unemployed. It is possible that this nightmare could push the oncoming recession into being a depression. This economy is in enough trouble already. And it is an endorsement of this legislation. I ask that it be put in the record.

I am now going to forego my 5 minutes in the interest of time, and I will recognize the gentleman from Pennsylvania.

I will hold everybody to 5 minutes. So let me advise my colleagues, if you have a really good question that will take 5 minutes, you are entitled to ask it. Do not expect an answer. You can look at the clock and know when—if you want answers, leave time for them.

The gentleman from Pennsylvania.

Mr. KANJORSKI. Thank you, Mr. Chairman.

Gentlemen, first of all, let me compliment the UAW. The first time over the last several weeks that I have had the opportunity to hear an adequate defense that this fault is not the fault of the labor contract, this is an economic fault. But I am not actually sure that it is only an economic fault. That is what I would like to ask Mr. Wagoner. None of this would have happened if the credit crunch had not occurred in Wall Street or do you anticipate that it would have happened or possibly would have happened anyway?

Mr. WAGONER. No, sir. I think it is completely due to the credit crisis. And I just give you as an example, sir, that all of us were well on the way with our turnaround which was reflected by stock price improvement and earnings; and, frankly, what happened is the lack of availability of credit at a time when our balance sheets are weakened. This has really hurt not only our ability to fund ourselves but also our consumers' ability to buy cars.

Mr. KANJORSKI. In the way of analogy, the committee or the Congress is sitting as a loan officer in a bank; and I propose that we have three rather substantial individuals requesting a loan. I am amazed with how little depthful sales analysis has been made of what you need this money for, when will it be spent, how will it be spent, and what kind of protections are involved for both the workers and for the American public.

For instance, I see nothing in this program that says the day we grant the power for you to make that $25 billion loan, you cannot strike a deal of General Motors in China and build plants in China or contract out most or all of the parts from China. Why do you think we should not take the time to make requirements and conditions in this loan, bridge loan, that would protect the American taxpayer, the American worker, and perhaps even some of your equity holders?

Mr. WAGONER. Congressman, in our various submissions we suggested restrictions and have commented on the kind of restrictions that others have suggested. Your point about the money being used to support our operations in the United States, we would fully endorse that. So we are wide open—

Mr. KANJORSKI. Then, Mr. Wagoner, you would be agreeable that we find some methodology to buy some time here. So can you tell me when will General Motors run out of money relatively in the near future and what amount of money would you need now to be prevent that insolvency so that we can take the 3 months necessary to really go into depth of what conditions and how this agreement or bridge loan should be made?

Mr. WAGONER. I don't believe, Congressman, that we have the luxury of a lot of time. And if I could—

Mr. KANJORSKI. Why? Tell me, when are you going to run out of money?

Mr. WAGONER. I can't tell you that for certain because a lot depends on the people—whether our suppliers will continue to ship us with that—

Mr. KANJORSKI. You have to—accounting-wise, you have to be—if everybody acted against your best interest, there is a time you cannot meet your condition—somebody has briefed you on that, Mr. Wagoner.

Mr. WAGONER. The needs are urgent. If everybody who lent money to the industry suppliers asked it to be paid off tomorrow, it would be a tremendous run on the financial position for all of us. So the need for funding actually is—

Mr. KANJORSKI. What amount of money would you need to take you to March 30th?

Mr. WAGONER. We have talked about this $25 billion bridge loan.

Mr. KANJORSKI. The $25 billion bridge loan is for three auto companies. I am asking about General Motors, and I am asking how much money you need today to keep you viable and alive so we can structure a reasonable loan contract by March 30th.

Mr. WAGONER. We have talked about an allocation of the $25 billion that would be approximately based on our U.S. market share, which suggests—relative market share, which suggests a total availability against that facility to GM to $10 to $12 billion.

Mr. KANJORSKI. Maybe I am dense or something, Mr. Wagoner, but I do not quite understand what you just told me. Can you just tell me in absolute terms, how much money do you need to survive at General Motors from today until March 30th?

Mr. WAGONER. Congressman, it is going to depend on what happens with suppliers and markets.

Mr. KANJORSKI. I understand that. Give me your worst-case scenario.

Mr. WAGONER. The worst-case scenario, the amount of money would be significant. I mean, we have supplier—

Mr. KANJORSKI. What is significant?

Mr. WAGONER. $4- or $5 billion every month.

Mr. KANJORSKI. So what you are telling us is, since you anticipate borrowing $15- to $18 billion under this authorization, if the market does not turn around and the economy does not recover by that time—and I think you have to be a wishful thinker to think it will—by March 30th, you are out of money; is that correct?

Mr. WAGONER. The analysis that we have done is based on an assumption that the U.S. market continues at about the current rate, which is a weak level. We don't assume a lot of recovery. We hope it won't get worse. On that basis, we would—with the amount of funding that proportionately would presumably be allocated to us, we think we have a good shot to make it through next year. And our effort is to do that.

The CHAIRMAN. The gentleman's time has expired.

In light of what the gentleman raised, I am now going to recognize myself for my 5 minutes, only to take 1 or 2 minutes.

The gentleman raised an important question about the possibility of additional fund investments elsewhere. We did specifically anticipate that in the legislation.

The bill would create an oversight board, including the Secretary of Energy, the Secretary of Labor, the Secretary of Transportation, the Administrator of the EPA, and the Secretary of the Treasury; and it specifically says later on in the bill that any of the recipients must report to this oversight board, "any asset sale, investment, contract or commitment posed to be entered into by such recipient that has a value in excess of $25 million."

And it then says, the board may, "prohibit the recipient of the loan from consummating any such proposed sale, investment, contract or commitment." That is, the members of the Cabinet of the incoming President will have the unchallenged authority to veto any investment, and we would expect that to be used to prevent any foreign investment. Trying to get more specific than that, you get too specific, and they come up with a new way.

What we have here in this bill is the Obama Cabinet appointees, by the time this gets implemented, able to veto any investment over $25 million. So if they want to give China $24 million, they are okay. But I think—and we did that specifically because of the point the gentleman raised.

I yield back the balance of my time and recognize the gentleman from California.

Mr. CAMPBELL. Thank you, Mr. Chairman.

Gentlemen, before I lost my mind and went into politics, I spent 25 years in the retail car business, most of that time as a dealer principal and dealer owner. Amongst the franchises I held General Motors, Saturn, Buick, GMC trucks, and Saab, Ford, Lincoln, Mercury, and Mazdas, quasi Fords. Sorry, no Chrysler, Mr. Nardelli. I learned a few things about the car business in that 25 years, but today I just have a few questions for you, and I will just listen.

You are asking for a bridge loan, and I think a lot of people want to know what does the other side of the bridge look like. With the exception—let me go back.

You know, in my 25 years, I lived through gas price spikes, I lived through credit shortage, and I lived through recessions in my dealerships. We have all three of those at once today, which is certainly the first time in my memory that has happened and I believe the first time in my lifetime; and I would argue that that is why the industry has been so hard hit, because there have been three different factors all convening all at the same time.

With that being said, with the exception of the one quarter that Mr. Mulally referenced and, obviously, Mr. Nardelli, we don't know entirely what your earnings were, that the three companies were not making money before those three problems hit. So what are you going to do differently than what you perhaps were planning to do 6 months ago?

As you mentioned, Mr. Mulally, you had a plan to come out of this. But these things have hit. They have happened. Conditions are worse. We will recover at some point. The economy will. But you go through a much more difficult time. What are you going to do differently than was your plan to change the other side of that bridge?

All three of you, in whichever order you would like to respond.

Mr. WAGONER. I will start. Thank you, Congressman Campbell.

The things that are being done differently in response to the current crisis are, obviously, we are all slashing back every expense that is noncritical to the business. We are looking to take from our own expenditures over about an 18-month period about $15 billion out. So that means things like a 30 percent reduction in salaried employment costs, including, frankly, a substantial curtailment of benefits and compensation. We have moved already to take out a number of additional manufacturing lines and facilities.

So I think the way we will come out of it from a cost perspective is we expect to be quite a bit leaner already. We are going to be dramatically leaner. So we have pushed back or even taken out spending on things like some of the larger engines and truck-based products; and we have accelerated spending on cars like the Chevy Cruze, which is our new subcompact car that will be built in Lordstown, Ohio. We have maintained on-schedule advanced technology spending for products like the Chevy Volt.

We have to keep those all on track, because, obviously, we expect energy prices to go back up; and we expect a lot of pressure to be applied by our consumers to continue to improve fuel economy. So, from that perspective, I think we will have a much leaner business and one focused on fuel economy and advanced technology.

The weight of our products, 18 out of our next 19 product launches, are cars and crossovers; 13 of our last 15 have been cars and crossovers. So I think you are going to see quite a different sales mix as well.

Maybe I will stop there to give my colleagues a chance to respond.

Mr. NARDELLI. Yes, sir.

For us, you mentioned, relative to the private equity, we did publicly disclose that through the first half of this year we had generated over a billion dollars in positive EBITDA, and we had continued to improve our cash position.

Unfortunately, this unprecedented drop from an industry of 16 million units down to 10.8 did catch us off guard. We have been dramatically restructuring and downsizing, it has cost us a few billion dollars in restructuring, but we are 1.2 billion units less in our capacity. We furloughed 32,000 employees. We have taken $2.2 billion in costs out. We are going to continue to make sure that we are lean and agile, assuming there is no sales recovery from our annual exit rate in this industry.

We also will spend the money to pay suppliers. We will use the money to pay ongoing wages. We will use the money to develop a part of our product portfolio that was void based upon the separation that took place in August of 2007. We introduced three new electric vehicles, one of which we will have in production in 2010.

So we have lowered the overall capacity. We have lowered our break-even point. We have paid for that one-time cost impact. It returns in one year. We hope to emerge leaner, stronger, and more formidable on the other side.

The CHAIRMAN. Mr. Mulally, quickly if you can. Thank you.

Mr. MULALLY. I think your question, Congressman, is very, very important.

As you well know, having a clear vision of what that future looks like, everything starts there. And in the automobile business, it is just so important that we are making the vehicles that people really do want and they really do value. That is the most important thing.

The second thing is that you size your production to the real demand. Because the worst thing you can do is make more vehicles than the customers really do want and then force that into the distribution chain, discount them, ruin the residual values, and delay the recovery.

So back on the first point—and we have seen the future. As I pointed out in my prepared remarks, we have been on this transformation plan for a number of years, and we have accelerated over the last 2 years, and we know it works. Because we got back to profitability in the first quarter of this year, and we did that by focusing on the product first. And the most important thing the consumer is looking for today is absolutely competitive and great quality. And in Ford's case, we have moved up to the place now where all the third-party people will tell you that, from a quality point of view, we are equal to or better than Honda and Toyota.

The second thing is that, on sustainability and with the fuel prices moving up and the awareness about energy security, energy independence, and sustainability, the consumer has moved up fuel economy right up next to the top on their purchase decision; and it is so important that we bring the enabling technology to bear to satisfy that customer requirement.

Right now, every new vehicle we make, whether it is small, medium, or large, is best in fuel efficiency. The given is safety. And we have more at Ford, more 5-star quality and safety ratings than any other automobile company.

The CHAIRMAN. Thank you.

Mr. MULALLY. And the best value.

The CHAIRMAN. Commercials can go later. We are in a time crunch.

The gentlelady from California.

Ms. WATERS. Thank you very much, Mr. Chairman.

Again, I thank you for this hearing. It is extremely important that we hold these hearings to find out as much as we possibly can about what is going on in these industries and these companies that are coming before this Congress asking for government assistance.

I am still traumatized by the hearing that we had yesterday and Secretary Paulson's denial of not paying attention to the loan modifications that we thought we would be getting as a result of the $700 billion bailout bill that we worked so hard to pass. So, on the heels of that, we have here today the automobile companies asking for their share of support from the Congress of the United States, from the people, to make sure that they are able to maintain their businesses. And what we basically get here are the big boys, the big industries who are well connected, have a lot of influence, and basically are too big to fail.

Today, and long after today, we are going to hear a lot about arrogance and mismanagement and a refusal by these big automobile manufacturers to recognize that they could not continue to build certain kinds of automobiles; and we are going to hear a lot about the refusal to comply with some of our concerns about CAFE standards, on and on and on ad nauseam.

But, in the final analysis, you know, people are going to roll. They are going to roll, and you are going to get what you are asking for. If I had my druthers, the $25 billion that we have already given you, I would say take it and run and we will deal with the environmental concerns a little bit later. However, many of our Members do not agree with that, so you will probably get an additional $25 billion.

Here is what I want to ask you. Mr. Nardelli talked about the car dealers, and we just heard my colleague talk about his experience with his car dealership. I have here correspondence from the National Association of Minority Car Dealers, and I am going to read you something.

"As you consider the request for financial assistance to the automobile industry, I urge you do also consider provisions to provide financial assistance to automobile dealers, especially ethnic minority dealers. These dealers are being negatively affected by financial and captive institutions with their increase in floor plan interest rates, the curtailing of lines of credit, the canceling and/or nonrenewal of floor plan loans and the overall lack of lending to automobile dealers.

"As a result of this credit crunch, it is estimated that over 600 dealerships and 30,000 jobs have been lost already. Of that 600, it is estimated that over 150 were owned by ethnic minorities. If immediate assistance is not provided to automobile dealers, extremely negative consequences will be felt within the dealer program and the industry that will directly and adversely affect the economy of the United States both short and long term."

You basically said that, too, Mr. Nardelli. You talked about the lack of liquidity and the inability to have these floor plans that would provide the capital that is needed, I guess, for inventory to these car dealers.

Having said that, I am about small businesses as well as about big businesses; and I have had enough experience here to know that oftentimes when we help the big businesses, they say that they are going to help the small businesses, but it never quite works that way. How many of you would be willing to dedicate a portion of this money, say a billion dollars of the $25 billion, to make sure that there was lending opportunities to these automobile dealerships? How many of you would agree to something like that?

Let me start with Mr. Wagoner.

Mr. WAGONER. Yes. What we are trying to do, Congresswoman, is also work on the ability of our finance companies to be able to go back to the kind of traditional funding that they have offered to all of our dealers; and we have been working with the captive finance companies, either fully owned or in our case partially owned, to work with the Fed to get better credit availability.

Ms. WATERS. GMAC has a letter here to your dealers that says, in response to difficult credit market conditions and recent actions by the Federal Reserve Board regarding the Federal fund rates, GMAC is making a change to its wholesale floor plan finance program. The following change is effective. And it goes on to talk about what it can no longer do.

So what I am asking you, in addition to the work that you do with your captives, will you also commit to the floor plans that you are involved with to at least dedicate a billion dollars of this money to assist these dealerships?

May I get those answers, Mr. Chairman?

Mr. WAGONER. I think we really need the amount of money that we are talking about here for the operating business. But, at the same time, as Mr. Nardelli says, we are working with the Fed to try to get better credit availability for our finance companies so they can provide the credit to our dealers and customers.

Ms. WATERS. Mr. Nardelli, would you be willing to dedicate a billion dollars of this money to help the dealerships?

Mr. NARDELLI. Ma'am, we would be willing and open to any suggestions from this committee or Congress. But I want to make the point, as I said, this is a parallel request. Your comments are spot on. Our affiliate and captive finance companies are in desperate need, desperate need of access to liquidity. There is no secondary market, And it is causing tremendous hardship. The consumer cannot—

The CHAIRMAN. You have to be more specific. We don't have time—

Ms. WATERS. So he basically agrees.

Mr. Alan Mulally, what do you think—from Ford Motor Company—would you be willing to dedicate a billion dollars, whether it was a $25 billion—

The CHAIRMAN. I think the question has been put. Let us have the—

Ms. WATERS. Or $26 billion?

Mr. MULALLY. I think that the actions we have taken with the Fed to free up the credit is absolutely the right thing to do which will help all of the dealers.

Ms. WATERS. So your answer is yes?

Mr. MULALLY. Pardon me?

Ms. WATERS. Your answer is yes?

Mr. MULALLY. I think the actions are in place right now where the Fed are doing exactly what you are asking for.

The CHAIRMAN. The gentlewoman from West Virginia.

Mrs. CAPITO. Thank you, Mr. Chairman.

I want to thank the panelists, too.

I have a question on the sum that we are talking about here. First of all, I would like to talk about the first $25 billion that is for retooling and reworking to modernize. I mean, that was my assumption when I voted for that. What is the status of that right now, just quickly?

Mr. WAGONER. Regulations were promulgated recently, and I think all of us now have filed our first applications. It is very helpful funding, but, as passed, the legislation basically allows you to draw down against credit facilities once you have already spent the money, and the draws are spread out over a fairly long period of time. So it is helpful, but as currently structured, it doesn't address the near-term cash flow issues facing our companies.

Mrs. CAPITO. I think there has been some suggestion that if we took the first $25 billion and freed that from the restrictions that might have been placed on it to begin with to help you with your liquidity issues, that might be a more immediate way to be of assistance. What is your feeling on that?

Mr. WAGONER. Well, from my side, to be honest, we have been clear that we think urgent funding support is required; and we are not overly prescriptive as to how it would be done. We leave that to the Congress.

Mr. MULALLY. Yes, I would like to make a comment on that. When we did that last year during the 2007 Energy Independence and Security Act, that recognized that all of us were making a commitment to improve the fuel mileage on every vehicle going forward as we move out the CAFE standards, and we all recognized the amount of money and investment it would take to do that, and that is why we put the $25 billion in and gave the Department of Energy the responsibility to implement that. We have been very pleased with their implementation of that.

As Rick mentioned, we have all of our requests in to use that, to accelerate the fuel-efficient vehicles. I think it is absolutely critical that be used to continue to get that done, because it is critical to that improving the fuel efficient commitment that we made. As Rick said, I think the reason we are here today is that the industry has a critical need right now for liquidity. So I think it is really important that we keep that fuel efficiency investment going.

Mrs. CAPITO. So basically you are both saying that a double track is what is needed here.

So let me go to the figures—$25 billion for the first—this is sort of the little cynic in me—$25 billion for the first, and all of a sudden it is $25 billion again. How did you reach the $25 billion figure for this particular request?

Mr. NARDELLI. Well, for Chrysler, we did—we looked at an assumption of what the balance of the year will be; and, as I said in my testimony, we could be dangerously close by the end of this quarter. We assume that next year's industry rate would match our exit rate. We looked at the continuation of what we will have to do, and basically our request is for $7 billion.

Mrs. CAPITO. And then GM was—

Mr. WAGONER. We performed a similar sort of analysis and came up with an estimate of $10- to $12 billion.

Mrs. CAPITO. And then—

Mr. MULALLY. At Ford, we are in a little different position, because we believe that the actions we have taken over the last 2 years, that we have sufficient liquidity in the near term to make it through in economic recession if it doesn't get worse. And the reason we are here together is if any one of us go under, it has such a ripple, a tremendous effect on the whole industry and we are going to watch it very carefully. But if the economy starts to go down, we would have to access that money, too, and how much we would access would be dependent on how far the economy and the industry degrades.

Mrs. CAPITO. The reason I am keying in on this is because, on the $700 billion bailout figure, there was a quote around—and I don't know exactly who it was from—why did you pick $700 billion; and a quote from an official supposedly at the Treasury Department, "We just picked a really big figure." Well, to the American taxpayer, that is pretty much a smack in the face.

When you see two figures come up with such large numbers that are exactly the same, it makes you—I am curious to know if there is a rounding-off effect here; and I want to make sure that whatever is being asked for is accounted for and has the oversight for but is also exactly what is estimated to be able to help the problem. Because I am certain that the last thing you want to do is to return here in another 6 months or 8 months and possibly be in the same position.

Now, I did a little mini survey as I was coming here from the TSA agent to just the guy sitting next to me on the plane. And you can imagine the American public is really all over the board on this. Because I represent a State, West Virginia, that has been gutted by the chemical industry. We have had difficulties with our steel industry, lost thousands of jobs. And, you know, nobody—the government didn't come in and save these jobs in the State of West Virginia. So you have that kind of feeling.

But I think people are empathetic enough to know that job loss across the board, whether it is in your industry or your supplying industry or your ancillary industries or any of these industries, has a devastating effect on everybody, including those who don't work in the industry.

So I thank you all for your testimony, and I look forward to hearing the rest.

Mr. KANJORSKI. [presiding] Mrs. Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman, for holding this important hearing.

It is unacceptable for America not to make its own cars, and it is unacceptable for America to continue outsourcing manufacturing and jobs. We have lost well over 22 million manufacturing jobs in recent years. No other country would let the major manufacturer, the major industry, fail in their country.

Other countries are reporting that they are moving to help their automobile industry. We have reports that China is helping their industry, that Germany is helping their industry; and I believe that we need to help American jobs and American industry. And I believe in the American workers, that you are going to retool, you are going to move into the 21st Century and be more competitive than the world economy, because that is what we need to do. You need to be fuel efficient. You know what you need to do, and we are counting on you to make those changes and to regain the prominent position of leadership on manufacturing of automobiles that we have held in the past.

Now, I will say there are a number of my colleagues who believe that we should let the automobile makers file for bankruptcy. But as Nobel laureate and economist Paul Krugman recently reported, "If the economy as a whole were in reasonably good shape and the credit markets were functioning, Chapter 11 would be a way to go. But, because of the current economic crisis, a wide-ranging default in Detroit would probably mean loss of ability to pay suppliers, which would mean liquidation; and that, in turn, would mean wiping out probably well over a million jobs at the worst possible moment."

So I am supportive of your efforts because I believe it is necessary, and all other available alternatives are far worse.

So my first question is, if you went to the private sector for your loan, would you not be able—you would not be able to get it or could you elaborate? Or, as I understand, the loan starts out at 5 percent and then climbs to 9 percent.

I would also like to ask the panelists, do you agree with the assessment of economist Paul Krugman on what the impact of what a bankruptcy would mean in your Big Three and our industry and what would be the overall effect not just for you but the overall effect for our Nation's economy as we are struggling to stabilize our financial markets and to stabilize our economy and move forward?

I ask anyone to respond.

Mr. NARDELLI. I think, as we said in our testimony, bankruptcy would be devastating. I know from Chrysler's standpoint and working with my colleagues, we have looked at all of the various options of prenegotiation, prepack, etc. There seems to be some major misunderstandings of what a bankruptcy allows a company to do.

We don't have to look much further than Delphi, for example, who went into bankruptcy, and I think it was in 2006. They then in—2005. And, in 2006, they filed with the courts to basically break their contract. The courts sent them back to the table. And I am sure Mr. Gettelfinger can talk about that.

So the—Mr. Chairman, as you mentioned, this has become such a spectator sport talking about bankruptcy. And I would submit to you that while it might freeze out all of our payables, most of our suppliers would go to cash in advance, which means there would be a significant increase in cash flow prior to our ability to manufacture a vehicle to get reimbursed from the dealer. I think it would turn us upside down faster and deeper than where we are today.

Mr. WAGONER. I just also would like to add the point that there would be a massive loss of revenue under any scenario. The independent research that has been done fairly recently concludes that 80 percent of consumers said they would not buy a car from a company in bankruptcy. If any auto company lost 80 percent of their volume or 40 percent of their volume, they would simply be in a massive liquidation. This would spread then to our common suppliers, and to other major manufacturers and dealers around the country. This would result in massive economic devastation.

The CHAIRMAN. The gentleman from Alabama.

Mr. BACHUS. Thank you.

From what I can understand—and you correct me if I am wrong—you have—there are two problems with the Big Three; and one of them is inefficiencies and the model that you are changing. I mean, last year, and what it was—is it VEBA?—you made some changes, but they don't go into effect until 2010. So you are not getting any benefit from those.

You have had the new hire with the wage scale, and that is going to help, you know, and the longer we go on that is going to help. So I agree that you are moving in the direction of addressing that. But I think your short-term problem is a different problem, and that is a problem that everyone is facing, and that is not being able to get loans to buy cars. That is consumers. And isn't that your short-term problem? Or is it?

Mr. NARDELLI. It certainly is one of the major problems that we are facing today, as I have stated. Our consumers cannot get loans. FICA scores of 700 are not common to the average American worker. Therefore, the—and the lack of liquidity for our dealers to get competitive wholesale rates are contributing equally to the fact that, as we are resizing our businesses 30 to 35 percent and, in fact, as we do that, the reduction in cash inflow while we continue to have liabilities and payables to suppliers, etc., sir, is what is causing—there is a dual effect—

Mr. BACHUS. Let me ask you this. I am assuming the other two gentlemen agree that—you know, the TARP funds are intended for financial institutions, but aren't GMAC and Ford Credit and Chrysler Financial they financial institutions? If you receive funding through those—

Mr. WAGONER. GMAC has been able to use the commercial paper backup facility at the Fed recently. That has helped some. But I think all of our finance companies are talking to the Fed about being categorized into different structures.

Mr. BACHUS. And that would help, wouldn't it?

Mr. WAGONER. That would help tremendously.

Mr. BACHUS. That is something we could do without legislation. I am not suggesting there won't be legislation, but that would be an immediate help, wouldn't it?

Mr. WAGONER. Yes, sir. And I understand those are at various stages of review at the Fed.

The CHAIRMAN. If the gentleman would yield. I had a colloquy specifically on that point with the gentleman from Michigan, Mr. Dingell, to emphasize that those were fully included in the TARP.

Mr. BACHUS. I would be disappointed if that wasn't a top priority of the Fed today.

Let me ask you this: You negotiated a new agreement, labor and union, in 2007; and I commend you on it. I think it was a step in the right direction, and it required sacrifice on the part of the workers. Things have gotten worse since then. We all agree. And I don't know whether some of these other things will help. But let me just ask you this: Are there any plans now that we have really hit a storm to at least sit back down and open up those discussions, at least to explore them, Mr. Gettelfinger?

Mr. GETTELFINGER. Thank you for the question, sir.

What we have been doing is we have continually in negotiations—I know most people believe that negotiations only happen at the expiration of the contract. But, right now, we are in discussions with the companies.

General Motors, for example, the Janesville, Wisconsin, facility. The sacrifices that we made last time were based on product commitment to our plants here for product to be made in America. We are going to lose that plant.

St. Louis South assembly plant, another plant that we were hopeful that we would have product in. So we are working with the companies on that.

We have—Ford Wixom's plant, since the negotiations, has closed down.

And a lot of people have the perception that the union and the company only negotiate part of the time. Well, maybe it used to be that way, but today when we negotiate a contract, it is not just the implementation of the contract, it is the ongoing daily negotiations.

The current operating agreements that have been negotiated at all of the facilities to make these plants more productive and the Harper report proves that that is effective. So we have those negotiations ongoing all the time.

And I might add also that the UAW can't be the low hanging fruit, the men and women, the only ones at the table. And so, while we are at the table, we would respectfully request that others come into the party and sacrifice as well. Because we certainly believe that the men and women, both active and retired, have sacrificed, sir.

Mr. BACHUS. I agree with you.

Let me say this: I think it would be helpful as you sell the public, as maybe some of these agreements or some of these changes are made for more efficiency, that you announce those, that the company and the union announce those. And I think it shows good faith on your part.

Mr. GETTELFINGER. Thank you for that. And we do try to get that out to the public, but, unfortunately, oftentimes if we have a conflict, they are willing to talk about that, but the positive things, it is much more difficult.

The CHAIRMAN. Mr. Gettelfinger, there is a lot of that going around.

The gentleman from New York.

Mr. ACKERMAN. Thank you, Mr. Chairman.

There is a delicious irony in seeing private luxury jets flying in to Washington, D.C., and people coming off of them with tin cups in their hand saying that they are going to be trimming down and streamlining their businesses. It is almost like seeing a guy show up at the soup kitchen in high hat and tuxedo. It kind of makes you a little bit suspicious as to whether or not, as Mr. Mulally said, we have seen the future and causes at least some of us to think have we seen the future. I mean, there is a message there. Couldn't you all have downgraded to first class or jetpooled or something to get here? That would have at least sent a message that you do get it.

If you are going to streamline your company, where does it start? And it would seem to me if, as the chief executive officer of those companies, you can't set the standard of what that future is going to look like, that you are really going to be competitive, that you are going to trim the fat, that you don't need all the luxuries and bells and whistles, it causes us to wonder.

You know, I don't have a dealership. I have driven a car for a long time. Around here, as my colleagues know, I drive the same 1966 Plymouth Valiant that I have always had. I can't seem to kill it.

I strut my stuff in New York a little bit, and I drive a Cadillac. And I just bought a new one. I bought it because of the finance companies that are in the financing of the car business. I bought this car a couple of weeks ago, and I had some problems with it, and I couldn't get in touch with anybody. Because the dealership—which is a great dealership, by the way—couldn't tell me that they had the phone number of somebody at Cadillac to call to fix this GPS system that I had trouble with in the previous car. That is systemically built in with a software problem that I can describe, but nobody can listen. And if you are going to sell cars that customers want, you have to find out what the problems are; and you are not doing that.

I wanted a loaded car in blue. I had to reach out to five States to find one in blue. I said, "Can't you tell them they should be making more blue cars this year?" He said, "We have no mechanism to get back to the company to tell them that." Well, lucky for me, you guys are in a crisis, and they reached out and called me because you all said to your dealers, call your Congressman if you know who they are.

And I got a call, and I actually had somebody call me. And in this discussion, I said, "Hey, part of the problem is you are not listening to your customers. You have a problem with this, that and the other thing and this GPS system, etc., and I have nobody to talk to." And the answer was, "Well, I think there is an 800-number in the manual somewhere."

Now when my wife has a problem with the foreign car that she drives, they bend over backwards to try to listen to her and figure out what is going on, what the colors are, what the bells and whistles customers like. And you all are not listening. If you are going to sell cars that customers want, you have to find a way to talk to your customers or better listen to your customers. You have no mechanism. There is an arrogance in that. We will all be out of business in 2 years. We have a time limit also.

So maybe you can tell us what you are actually going to do to sell cars people want and how are you going to do that in real short order because otherwise, you know, there is triage. Somebody heard that we were giving out free money in Washington, and they are showing up from all over the place. And we have to figure out where to put it.

And you know, you don't want to put your last tourniquet on a dead guy. So tell us, what is going to be different 3 months from now? Anybody?

Mr. NARDELLI. Well, sir, I can tell you what we have done at Chrysler in the last 18 months. We have installed the first ever chief customer officer. We have methodically gone through 400 line items, enhancing, improving the reliability, the durability. As a result of that, our warranty costs have gone down 29 percent. We established the first ever customer council online. Our chief marketing officer is listening.

God knows we have a long way to go. But I think we have recognized the first and biggest hurdle, that of denial. And we are committed to improve our overall product quality and the service with which we provide our valuable customers.

The CHAIRMAN. The gentleman from North Carolina.

Mr. JONES. Mr. Chairman, thank you very much.

Gentlemen, thank you for being here.

To your left—I am on the right. Politically I am on the Republican side. I want to read to you—

The CHAIRMAN. Sometimes.

Mr. JONES. Well, I am somewhat independent.

Thank you, Mr. Chairman.

The budget should be balanced. The Treasury should be refilled. Public debt should be reduced. The arrogance of officialdom should be tempered and controlled. And the assistance to foreign lands should be curtailed, lest America becomes bankrupt. People must again learn to work instead of living on public assistance.

Let me explain. I took advantage of a quote by Cicero in 55 B.C., but instead of "less Rome becomes bankrupt," I inserted "America." The people of this country, as well as the Third District of North Carolina, which I represent, where the average income of a family of 3 or 4 is about $36,000. And after the bailout of Wall Street, they want to know why we need to be bailing out the automobile corporations of America and if it is justified.

Now when I look at these cars—I am not going to go through them—but this is the General Motors Chevrolet Avalanche, assembled in Mexico. This is the Fusion, assembled in Mexico. This is the Crown Victoria, assembled in Canada. This is the PT Cruiser, assembled in Mexico. And this is the Crossfire, assembled in Germany.

Then I have articles from the latest news from China Car Times, "Chrysler and the Great Wall to Work on Small Car." Okay. Chinese cars will soon be sold in the United States. This, again, is a relationship with some of your corporations, and then Chrysler signs a pack. This again is with the Chinese. The problem with— you being here is not the problem. We care about those workers who are American workers. In fact, Mr. Obama carried my State of North Carolina. One of the ads that helped him win was: "We are not going to any longer give tax credits to companies who move jobs overseas. We are going to give tax credits to those companies that stay in this country."

And what my question to you is, when you are getting this money from the American taxpayer and you keep having these cars assembled overseas in different countries, what is the purpose of this loan? Is it to keep you viable so that you can continue to move jobs overseas? I speak for the frustrated people of the Third District of North Carolina because Cicero was right. We are in the last days of this country surviving. And how in the world can we find the billions of dollars that we are borrowing from China and Japan to help you stay in business when you are sending jobs overseas to pay those workers less than you are paying the workers in Detroit? What can you do to keep the jobs here? Anyone who wants to answer it, fine. If you don't, fine. But I just wanted to tell you, people are frustrated. You have been helped before. Maybe not with billions but with millions. And I have those figures, too. But you have to reassure the American people that you are going to stop sending these jobs overseas and work with these unions and work with this country and find ways to keep these jobs here because this country is falling apart. If anybody wants to—

Mr. NARDELLI. If I can just take 30 seconds and share the time.

Your point is well taken on the Crossfire. One of the things I did in the first 60 days was discontinue that car that was made in Germany, point number one.

Point number two, sir, the articles you referred to about China is part of our attempt to compete in China. As you know, you have to have, based on local restrictions, a joint venture to be able to compete there competitively in that market. So that article you are referring to is more about, how do we expand our business globally to try to get more volume to compete in that market as they are trying to compete in our market?

Mr. WAGONER. I would say the auto business has become somewhat more global over the years. And you know, of our foreign competitors here, in many cases, they import and sell more cars in the United States than they build here. And I think if you look at the labor intensity of the three of our cars sold in the United States versus our transplant competitors, it is vastly greater.

I can tell you, from GM's side, we certainly do want to grow in China and Brazil and the places that are growing around the world. That is good for our business here. But the United States is by far our biggest manufacturing site. And this is the most important market for us. So we are treating it that way.

We do export some to Mexico. We import some from Mexico. On balance, we have a huge amount of U.S. content in most of what we sell here from Mexico.

Mr. MULALLY. I would just like to add that the Ford Motor Company plan, we operate, as you know, around the world. Our fundamental plan is to make the vehicles in the markets that we serve. And the United States is by far our biggest market. We want to make our U.S. vehicles in the United States. And I really, I think that the actions we have taken over the last few years, especially starting with the transformational agreement that we made with the UAW, allows us to make vehicles of all sizes, small, medium, and large, cars, utilities and trucks and make them right here in the United States. That is our main objective.

The CHAIRMAN. If the gentleman would yield? I think one of the answers did highlight, however, a real problem in our trade policy, which, as I understand it, if they want to sell cars in China, it has to be a joint venture with a Chinese partner. No such restriction applies to people here. That is a defect in our trade policy in failing to insist on reciprocity for our own people.

Mr. Gettelfinger.

Mr. GETTELFINGER. I wanted to thank the Representative for his comments because these gentlemen to my right have all heard that from all three of our vice presidents and myself.

But it does go back to us being the most open market in the world. We do nothing to assist or to protect our industry. Our free trade agreements should be fair trade agreements, and they all well know our position on that. So you did an eloquent job of stating what we have said to them.

Mr. JONES. Mr. Chairman, may I make one statement in closing, sir?

The CHAIRMAN. Certainly, because I took some of your time.

Mr. JONES. The Thursday after the Tuesday election at East Carolina University in Greenville, North Carolina, David Walker, former Comptroller General of the GAO who is now with the Pete Peterson Foundation, spoke to over 400 people at the Hilton in Greenville.

At the end of his speaking, he was willing to take questions. But in his speech or presentation, he used the word "abyss." One of the questions from the audience was this: "Explain abyss and how you meant it in your presentation." And he said, "I would rather not answer because the press is here," but he was saying that jokingly. And then he said, "If this country does not become smarter and wiser with how it spends its money, then I see, in 4 or 5 years, a collapse and a depression."

I yield back.

The CHAIRMAN. The other gentleman from North Carolina.

Mr. WATT. Thank you, Mr. Chairman.

And let me start by thanking the Chair and the Senate yesterday for having these hearings because I think it is absolutely important that we understand better what is going on, but that the American public get a better understanding of the potential consequences of bankruptcy of any of the automobile manufacturers that are based in the United States.

We are in much the same position that we were with the original bailout. We are very much between a rock and a hard place, and the hard place is coming from the public out there who has a great resistance to bailing out anybody else as they did in the original bailout. So I apologize for having to step out, and I hope I am not being repetitive of questions that were already asked.

I did consult with Ms. Waters, and I think both she and the second ranking member on our side asked some questions about the use of this money, the projected use of the money. I guess, to some extent, as a bridge loan, this can be used for anything. But I am aware that up and down the chain under the manufacturers, there is substantial stress at the dealer level; a number of them are either going out of business, have gone out of business, or are on the verge of going out of business.

One of the questions I want to ask is, is there some plan here for a use of part of this money to address their urgent needs as well as the manufacturers' urgent needs? Can somebody address that for me?

Mr. MULALLY. You bet. I think it is a very important consideration because just like we have ended up over the years with overcapacity in the manufacturers, we also have overcapacity in the dealer network and also in our supplier network. And we have been working together very closely with our dealers and our suppliers to improve their profitability, their throughput, their revenue, and their productivity.

Mr. WATT. Well, overcapacity suggests that a number of them will go out of business. And my experience is that some of the most marginal, some of the most distressed of those are the newest dealers, and they tend to be disproportionately minority dealers because they have come to the table more recently. What particularly are you doing to address that issue?

Mr. MULALLY. Our data says that it isn't associated with how long they have been in business. It is their fundamental business acumen for all the dealers, all of them, not necessarily dependent on how long they have been in business. And it is really an important thing that we keep working together because we have to get their profitability up per dealership because it is the only way for them, just like us, to be competitive by going forward. But it is an ongoing thing that we are working on. We have made great progress, and we are going to continue to work it very closely.

Mr. WATT. A number of them are experiencing challenges with the financial services sector because the financial services sector has withdrawn from this industry, making any kinds of loans—you are a lot more likely to be able to get a loan to purchase a car than you are to sustain a dealership, as I understand it, because all of the lenders have kind of taken a hike on your industry because they perceive that you are in distress. Will part of that money take up that slack? Or is this just operating money that you are requesting?

Mr. NARDELLI. Sir, this is specifically operating money. And as we discussed, possibly when you were out of the room, our affiliate financial companies, in parallel to what we are asking for here today, must gain access to the TARP funds. They currently have submitted requests for, in one case, a bank holding company. We have a request in for ILC that will allow them to have access to the secondary market to generate capacity and to improve liquidity. That is the most important thing we could do for these men and women, these entrepreneurs, these small businesspeople that we have about 3,500 across the country to get vitality back into their businesses.

Mr. WATT. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman from Illinois, Mr. Manzullo.

Mr. MANZULLO. Thank you very much. I appreciate the opportunity that we have this afternoon. I especially welcome Mr. Nardelli from Rockford, Illinois, a graduate of Auburn High School. The district I represent is the proud home of one of the great Chrysler facilities.

I have two questions. The first one is, you are claiming that no one can buy new cars because the financial crisis has negatively affected the captive financing arms of the Big Three automakers. However, yesterday we heard from the bankers, and we have also heard from the credit unions, that they have tons of money to lend to car customers. What steps are you taking to get the word out to auto dealers and the general public that they shouldn't just use your financing companies to facilitate car and truck sales?

Mr. WAGONER. If I could start with that, we have recently actually begun a national advertising campaign to do just that and basically offer, through our dealers, that the customers can directly go to Web sites of all potential financing sources, because we welcome banks and credit unions. We have actually have some specific work going on with the credit unions to try to get them back in the auto finance business. So we are very enthusiastic.

Mr. MANZULLO. Those are local credit unions and local banks?

Mr. WAGONER. Yes.

Mr. NARDELLI. Sir, we have gone to two major banks. We have given one of them half our country, four of our business centers. And to date, through this new pilot, they have basically have had access to about 1,500 opportunities, 1,500 loans. We have approached Ron Gettelfinger and asked him to help us approach credit unions across the country to see if they are willing to help consumers get access to auto loans to help create some infusion of cash back into the system.

Mr. MULALLY. We also have a loan in to the FDIC, an application in for an industrial bank, which will help on that also. Plus, we have come to an agreement with the Fed on asset-backed paper for the short term, and also they are now working it for the longer term, which will also free up credit. So our Ford Motor Credit Company, as you mentioned, can offer the loans to the customers.

Mr. MANZULLO. The reason I ask that is you are asking for taxpayer funds for people to buy cars when in fact the private sector already has the money available.

The second question is, if you were given the $25 billion today, the additional $25 billion, exactly what would you do with it? Where would the money go?

Mr. WAGONER. The money will basically be used as bridge financing because, actually, private capital is not available to us at this time.

Mr. MANZULLO. Where would the money go?

Mr. WAGONER. For us to continue our capital expenditures, to continue our product development and research development, and to be able to pay our suppliers, employees, and retirees.

Mr. MANZULLO. All right.

I presume that it would be the same answer. It is going for general operating expenses.

Mr. NARDELLI. Yes.

Mr. MANZULLO. If you don't have new sales, won't you be back here again in 2 months?

Mr. WAGONER. We have built, as we explained earlier, our estimates of the amount of funding we need on an assumed level of auto market sales next year. And in our case, about 11.7 million units, which we have viewed to be quite conservative given that that would be the lowest level the United States has seen in—

Mr. MANZULLO. The reason I ask the question is, isn't it better to give a $3,000 or $4,000 tax credit to any person who buys a new automobile so the money is directly infused into the automobile industry, no bureaucrats to screw it up, no testimony such as we had yesterday that there is no game plan on how to spend the TARP money, no need for testimony. The money would go directly to all the automobile manufacturers in the country. Isn't that the best way to spend $25 billion?

Mr. NARDELLI. Well, sir, there is no question, you know, given where we are, we are open to any suggestions, and certainly a consumer tax credit would be great. The reality of that is, the industry has fallen from 16 million last month to 10.8. So before that is a benefit, the consumer has to have access to a loan to be able to get credit—

Mr. MANZULLO. The consumer has access to a loan, Mr. Nardelli. It is the local credit union and the local bank. The money is there. It is there.

Mr. NARDELLI. Well, then, sir, certainly the increase in the balance sheet, the reduction in the debt to equity ration for these banks, they need to let it start flowing.

Mr. MANZULLO. Well, I thank you.

The CHAIRMAN. Did you have a last comment you wanted to make at this time?

Mr. MANZULLO. No, I just, the comment—Mr. Chairman, thank you, you are very generous.

Well, the comment is the fact that if car sales don't pick up, you are just throwing money at a problem. That is what my union guys are saying back home. They are saying, unless there is a plan—all you guys advertise on television are the big trucks. Why not the little cars that are made in my district, the Caliper and the Patriot, the finest and the smallest car in the world?

The CHAIRMAN. I think the statement has been made.

The gentleman from California.

Mr. SHERMAN. It would be insane if this country stopped designing and building automobiles and trucks. It would also be insane if the top executives from the three automakers came here on private jets. I am going to ask the three executives here to raise their hand if they flew here commercial. Let the record show no hands went up.

Second, I am going to ask you to raise your hand if you are planning to sell your jet in place now and fly back commercial. Let the record show no hands went up.

I don't know how I go back to my constituents and say, the auto industry has changed if they own private jets, which are not only expensive to own but expensive to operate and expensive to fly here rather than to have flown commercial.

I also, though, must recognize that you are in trouble mostly because of the economic downturn. The proof of that is that all three of your companies were worth roughly 5 times what they are worth today at the beginning of this year based on Wall Street and, in one of your cases, of course, a private transaction. I don't think Wall Street wasn't aware at the beginning of this year of all the problems that we have all talked about. It is the additional problem of this unanticipated downturn that has driven the value of your company down.

I have three questions for the record. First, is the idea of building and buying in America. We have talked about new investments in China. I am not worried about your new investments. I am worried about your dis-investments. Chrysler, in particular, shuts down in Missouri a shift that its building the Dodge Ram while continuing to build the same vehicle in Mexico and then shuts down a plant in Missouri building the Dodge Caravan while running three shifts at their plant in Windsor, Ontario. I would hope that you would respond for the record whether you expect to get any bailout money from Ottawa or Mexico City? And if not, whether you will commit yourselves as you disinvest, as you close down plants, to close down the foreign plants and not those in the United States?

Second, I am concerned about the consumers. People in my district are buying your cars. They expect that 5-year warranty to be there. You go bankrupt, they have no warranty. They are going to figure that out. But even before they do, are any of you willing to establish trust funds with a few hundred dollars per vehicle sold, so that if your company ceases to exist, there is at least something there to provide warranty service?

Third, executive compensation. We have already talked about bonuses, which are covered in the bill. But your total compensation package includes your salary, your bonus, the stock options as valued by the new accounting rules, and ancillary compensation as well. I would hope that you would be able to respond for the record that no one at your companies is going to get more than $1 million per year in total compensation package including bonuses, including stock options, including contributions to pension plans.

Now, I have a question that I would like you to respond to orally, and that relates to the number of warrants that the taxpayers are going to get if we make this investment, because God knows we may lose it all. When Warren Buffett made investments, he demanded—and he was making much less risky investments than what you guys are asking for here—a number of warrants equal to 100 percent of the number of shares that could be purchased for the amount invested; a strike price equal to the amount—equal to the current fair market value of the stock; any term on the warrants at least as long as the investment remained in place.

Now I know that you would like to give less warrants. And you are going to tell me how unfair it is that we don't just give you all the money that you want and not dilute your shareholders' equity. But are you willing to accept a Federal infusion of capital where we get the kind of upside that Warren Buffett was able to negotiate, mainly the terms I have just outlined?

I will start with the—

The CHAIRMAN. We won't have time for everyone to answer, but can get a couple.

Mr. SHERMAN. Let's hear from General Motors.

Mr. WAGONER. I think we have all been clear that we are very willing to do warrants. To be honest, our shareholders have been dramatically diluted, as you highlighted. And we certainly feel an obligation to be responsible to them. But the most important item on our agenda is this bridge funding, and we respect the government should get fair compensation and are very willing to discuss the kind of terms you laid out.

Mr. SHERMAN. If I have time, Ford as well.

Mr. MULALLY. Nothing else to add.

Mr. SHERMAN. So we are talking roughly 5 times the number of warrants called for in the current draft of the bill.

I yield back to the chairman.

The CHAIRMAN. The gentleman from New York.

Mr. MEEKS. Thank you, Mr. Chairman.

I was listening to some of the questions by Mr. Watt, and I am trying to be clear on the utilization of the money. I am one who believes that, given the close to 5 million jobs, whether it is direct or related, that we could lose, this industry is tremendously important. But I am concerned about how the money is going to be spent, and I know that, for example, in some places or areas in the country where there is no manufacturing, but there are dealerships which employ a substantial amount of people. And in listening to some of the responses, it is that dealerships are going to shrink substantially. And I don't know whether or not there is any plan with reference to the dollars that the taxpayers will be lending you to help stabilize dealerships and others, because that becomes part of the local community—and both sides, where they go buy their cars and also employment for them. And so I am trying to say, are there any plans with this taxpayer money to keep and to preserve dealerships or to strengthen dealerships?

That is my first question.

Mr. WAGONER. Maybe, I could offer some perspective on it. I think generally people who look at the industry say that those of us who have been around a long time have probably more dealers than we can support with current volumes because the economics of the dealership business now require higher scale than they did a few years ago, the technical training, the technical equipment they have to have. So what we have been doing is working with our dealers.

But I highlight, each dealer makes their call, whether they want to stay in business or not. We do have a number of dealers who, with the economic downturn, with the change in generations have said, hey, I would like to get out of the business. And what we try to do in that case is have them work with another local dealer, for example, to try to take over their business, take over their customer responsibilities, although it has to be done in cooperation with individual dealers. And so we do need to try to do that in an orderly and constructive way.

Mr. MEEKS. And encourage mergers. I mean, this is the day and age of mergers.

Mr. WAGONER. And we do provide, in some cases, support for that to be done. I can assure you, in virtually every significant community in the United States, we have and will continue to have dealer representation. In some cases rather than three Pontiac or standalone Pontiac, Buick, and GMC stores, there might be one store that has all three franchises, so the retailer has a chance to make some business profit. So as part of our normal business, we have some budget to facilitate those kind of things happening.

Mr. MEEKS. Yesterday at the Senate hearing, I think I heard a number of Senators reference Honda made in Indiana as a benchmark for the most efficient cost to produce it and for profitability. How, with this taxpayer money, will our three major industries be able to compete with Honda made in Indiana so that—because, you know, part of what we haven't discussed is the American consumer. Nowadays, a lot of times they are buying what they believe is the best vehicle, cost-wise as well as reliability-wise. And that is why others got into our market. How will this $25 billion help you compete so that we are not back here again with Honda made in Indiana?

Mr. NARDELLI. Sir, if you are familiar with the Harbor report, and I think Mr. Gettelfinger has it, the Chrysler team, long before I got there, has been on a path to improve the overall efficiencies of our manufacturing plants as measured in hours to assemble. This year, I am proud to say that we are spot on Toyota relative to the hours required to produce a vehicle. If you look at our contract that was just negotiated, with the forward-looking rates times those hours, we think we can be extremely competitive.

I would tell you, sir, to your other question, the dealer council that is here with me in the room would say the most important thing we can do for them is to have a financially sound business with a continuous flow of products and the kinds of investments we are making in the quality, reliability, durability, fit, and finish of our products, where some of that money, you question, would go into $300, $400, or $500 per vehicle to enhance the overall aspirational aspects for our consumers.

The CHAIRMAN. Before I go to the next question, let me say, I am going to assume the indulgence of the witnesses, this is obviously very important. I intend to stay here until every Member gets a chance to ask questions. I assume you can accommodate us. There are facilities just off the hallway there if you need them. The staff will be available. But I do think, given the magnitude of this, other than the Republican Conference, which unfortunately took them away for some time, but they will be back, there is not much else going on. I think this is important enough for us to stay, and I certainly intend to.

The gentleman from Kansas.

Mr. MOORE. Thank you, Mr. Chairman.

I had a conversation with an auto dealer in my district back in the suburbs of Kansas City in the Kansas side about 2½ or 3 years ago, but I am not going to name the dealer because it doesn't matter. I think it is applicable here to the auto industry here generally. I said to him, "You know, I am concerned that auto sales in our country are falling off, and the sales in foreign countries are increasing because a lot of the foreign cars are more fuel-efficient than the cars in our country. I am not saying this because I want to be critical of our industry. I want us to succeed. I want us to win. I don't want us to lose and fall behind the sales of other countries."

He said, "Oh, I don't think that is a problem."

Well, that was 2½ or 3 years ago, and I think things have changed dramatically since then. That is why we are here today. And I am here today because I want the U.S. auto industry to survive and succeed. I don't want the industry to fail. The auto industry is a huge part of our job market; it provides a living to millions of Americans. We have to survive. We have to pull through on this. And that is why I am here today, and I think that is why every member of this committee is here today.

The auto industry is a huge and very important part of our job market and our Nation's economy. I am very concerned the United States' auto industry learn something here from what may be mistakes that have been made in the past and not repeat those mistakes.

Energy supplies are limited. Bigger and better SUVs are not what every American consumer wants when the price of gas increases to more than $4 a gallon as it did just a few months ago. The price of a gallon of gas has fallen to almost half of that very recently, but I think we can expect that there may be similar increases in the future.

Our auto industry needs to be competitive with foreign automakers. I am glad that you are here. I have heard you describe some of the new models you have designed to be more fuel efficient. I hope it is not too little and too late.

My questions I guess are these: What lessons have we learned? What are the auto manufacturers doing to make sure we don't repeat mistakes made in the past? And we have heard about a couple of new fuel-efficient models. Is there anything else we can expect to see in the near future? And, again, I am asking this because I want us to be there together. Anybody, please.

Mr. MULALLY. It is just such an important question. I think, from a lessons learned point of view, being relatively new to the industry, it really surprised me the lack of consistency, the lack of purpose on staying with the vehicles and improving them every year forever.

This is well known at Ford. But when I first arrived, one of the things I knew about Ford was the Taurus. And when I was at Boeing and we were going getting ready to launch the 777 program, we happened to have a member on our board who was also the chairman of Ford, Don Peterson. He told me that Ford was getting ready to design and launch the Taurus sedan, and would I be interested in getting together and comparing notes on the technology on the digital product definition, the digital pre-assembly on the manufacturing plant? And I said, absolutely.

So we hosted the Ford team, and for 3 days, we compared notes. They went back to Detroit and created the Taurus, which was the number one sedan in the United States for 9 years, 7 million Tauri. A fabulous vehicle. And we created the Triple Seven, which is the number one commercial airplane in the world.

And so when I was doing my due diligence, when I was recruited by Ford, I thought that I would just be going home because here is the Taurus. And so the day I arrived, I found out that they had changed the name, and they were killing it. I said, we are the ones who made it look like a football. Can't we have a consistency of purpose? We had all that brand. We had all that equity.

And so one thing that I think you are going to see from us going forward is an absolute laser focus on every vehicle that we have in our portfolio, small, medium, and large; a car, utility or a truck. And every year we are going to improve the quality. We are going to improve the fuel efficiency. We are going to improve the safety, and we are going to improving the productivity so we can offer the consumer the very best value.

Mr. MOORE. And be competitive?

Mr. MULALLY. And be competitive, absolutely.

And like I mentioned this morning, we are now competitive in all of those areas, all of the areas the consumer is considering. But, clearly, when we lost that consistency of purpose, there was a brand awareness that was lost. And we are fighting every day to get that awareness out and that message out that we are back, and that Ford is worthy of consideration. We have these fabulous vehicles.

And when we had this big void for a number of years, we are still hurt by that. So I think consistency of purpose and absolutely delivering on this brand promise is going to be the most important thing we do on our transformational plan.

The CHAIRMAN. The gentlewoman from New York.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Mr. Wagoner, clearly, the $25 billion assistance package the Congress passed in September was not sufficient for the auto industry. You are back again, and now you want more and a different type of assistance.

My issue is not with providing this assistance. But since the Wall Street bailout, I believe we have learned our lesson. Congress is not just going to hand out money without significant oversight on requirements. Given this, how will you restructure GM so that it is a more valuable business and the taxpayers are not left wondering why we gave you this money in the first place?

Mr. WAGONER. Thank you.

I think I tried to address the business restructuring, the cost restructuring, in some detail in my opening comments.

And Mr. Gettelfinger has also talked about what the union does. So I won't repeat that side.

But fundamental is obviously to be cost competitive. And so we are going to continue on that very aggressive path we have there, including recent additional plans.

Ms. VELAZQUEZ. So when you mentioned the union side, will that mean what, pensions?

Mr. WAGONER. No, I am talking about the fact that we have restructured labor agreements, reduced labor rates for new employees. We have spent—

Ms. VELAZQUEZ. And besides that, what else would you do?

Mr. WAGONER. We are going to continue our focus on new product launches and, particularly and in line with the prior question, commitment to technology leaders like the Chevy Volt, which can raise the image of the company. We are going to continue to work on making sure that, particularly, we keep the car products on time in our portfolio and execute them to the highest standards. And we have continued work to do to make sure we have the right size distribution channel so our dealers can be profitable.

Ms. VELAZQUEZ. So, sir, what about marketing and advertising? Would you have an ad at a cost of $3 million per 30 seconds during the Super Bowl this year? Or what about rationalizing the complex web of GM's product lines and cutting bureaucracy? And what about cutting travel costs? I wasn't here, but I understand you traveled in a private jet today.

Mr. WAGONER. We are not going to do Super Bowl ads this year, frankly, because we are cutting back on everything, and we are actually shifting a huge amount of our ad budget that remains to digital marketing, which is less expensive and more efficient.

I think it is fair to say every part of our business is cutting back expenses dramatically, including travel expenses.

Ms. VELAZQUEZ. Thank you.

Mr. Nardelli, I understand that 80.1 percent of Chrysler is owned by the private equity firm Cerberus Capital Management. Is that the case?

Mr. NARDELLI. Yes, there is—

Ms. VELAZQUEZ. Okay. So I understand also that current senior executives at that firm include Former Bush Treasury Secretary John Snow and former Vice President Dan Quayle. Is that the case?

Mr. NARDELLI. Yes.

Ms. VELAZQUEZ. Both gentlemen strongly support or supported free-market policies in their government capacities. But now they are asking for, and clearly will privately benefit from, a massive Federal bailout. How do you reconcile that these men, staunch supporters of the free market, are now asking for massive amounts of taxpayers' assistance?

Mr. NARDELLI. Well, as I said in my comments, Cerberus Capital Management has made it clear that they will forgo any benefits from the upside that would be contributed from any government loan in Chrysler LLC.

Ms. VELAZQUEZ. Thank you.

Mr. Mulally, as you know, several Wall Street firms recently announced that they will forgo giving bonuses to their top executives in part due to the perception that taxpayer funds should not be used to compensate unprofitable companies. Would you agree to restrictions up front that will prevent any of the Federal funds from being used for executive bonuses?

Mr. MULALLY. Yes, we have already decided to forgo any merit increases on the base salary and also any bonuses, because when you are in a situation like this, it is just so important to conserve the cash. Now, having said that, it is just so important that we also keep a skilled and a motivated team. As you know, this is a very competitive marketplace.

Ms. VELAZQUEZ. But I understand you made that commitment.

Mr. MULALLY. We have a very motivated team.

Ms. VELAZQUEZ. Thank you.

Mr. Nardelli, we have heard you and your peers express your willingness to improve the fuel efficiency of your products, and yet all three of you have stacked your bets on different technologies. As we move forward, a more unified energy policy, are you concerned that the market may favor one technology over another, thus placing your business model at a disadvantage?

Mr. NARDELLI. May I answer, Mr. Chairman?

The CHAIRMAN. Yes, you can finish.

Mr. NARDELLI. We did select a single technology because of our financial situation. We could not afford to develop multiple technologies. We chose the technology that we had the most experience in and that we thought would have the easiest application for the consumer, and that is electric.

The CHAIRMAN. The gentleman from Michigan, Mr. McCotter, is now recognized before the committee for a combined opening statement and questions.

Mr. MCCOTTER. I thank the Chairman. Thank you for your indulgence.

I will have an opening statement and some questions. I will try not to take up too much time, and if I cover ground that you already have, please feel free to disregard it, and put in your own points.

I come from Michigan's 11th District. My district borders Detroit, heavy automotive industry, with a lot of dealers, a lot of suppliers, a lot of white-collar, and a lot of blue-collar employees.

One of the first things I would like to make clear is that I personally find offensive the implication that the domestic American auto industry has not done anything since the 1970's to restructure. If anyone believes that the Big Three were not restructuring prior to the credit crisis bringing them here today, or the CAFE mandates that have brought them here today, I invite you to my district.

I invite you to look at how the fragile fabric of people's lives has been rendered asunder by a necessary restructuring process that has involved give and take on both sides from labor and management. I will show you the white-collar workers who are out of work. I will show you the blue-collar workers who are out of work. I will show you the pensioners who are worried about their health retirement benefits being lost, and I will show you the Wixom Assembly Plant that is closed.

I bring this up not for your pity for my constituents. I bring this up to show you that the automotive companies and the UAW have been doing what they believe they possibly can to restructure and become globally competitive and ensure that American has a domestic manufacturing base for the generations to come.

The second point I wish to bring up is why they are here. Throughout the entire process of the restructuring, we would hear rumors in Washington that the Big Three were coming for a Federal assistance package for one reason or another. And yet as the white-collar workforce and the blue-collar workforce and the pensioners suffered the restructuring, they did not come. They did not come to Washington with their hands out. They were not here begging, as it has been pejoratively put in the press. They wanted to restructure without us making it harder for them to do so.

Unfortunately, the first thing we did, this Congress, was we passed a $100 billion CAFE standard mandate on the auto industry, which would have been far worse had it not been for the strenuous efforts of the Dean of the United States Congress, John Dingell.

Secondly, through no fault of their own, as they went through the restructuring process, the wiz kids on Wall Street with their computer algorithms decided to screw up the entire credit market of the United States. This was critical to the restructuring of the auto industry.

And then this Congress, in my opinion, passed a very bad piece of legislation, a $700 billion bailout of the very people on Wall Street who caused the problem.

And now you see hundreds of billions of dollars slated to go to "healthy" banks to free up the credit system that has yet to free up or they would not be here today.

So the question that the chairman puts before us, in terms of the legislation he is proposing, is to me not a matter of a bad policy that has already been imposed on the American people and has yet to work; it becomes a question of equity. If the $25 billion is appropriated for Wall Street, some of it probably targeted to healthy institutions, financial institutions, however nebulously defined, a no vote on a bridge loan to the auto industry means that that $25 billion will continue to go to Wall Street and to healthy banks. A yes vote means that it actually goes to Main Street, not just for the structure of the Big Three, the labor leaders, the auto leaders but for the very hard-working men and people whose taxes have gone into the $700 billion bailout, which has yet to free up the credit markets. So we are in the realm of equity here.

And while I did not support that bad policy, we had here yesterday Secretary Paulson who explained that he believed one of the fundamental problems that we face in stabilizing our financial system is the problem with home foreclosures. I would agree with that. I would agree that the biggest problem we have is real working peoples' abilities to pay to stay in the homes that they have. If we turn our backs on Main Street, if we continue to send all the money to Wall Street, who caused the problem, and the auto industry does have to go into bankruptcy, you will see foreclosure rates in this country skyrocket from people who have played by the rules and are currently paying their mortgage and are not part of the problem Mr. Paulson says is already big enough to be worthy of addressing.

Finally, I want to address the issue of labor costs. I have long said that one of the problems Michigan suffers is the fact that we are currently still operating under the industrial welfare's model of governance. And this is where the Big Three and the UAW get a very bad rap. They talk about, "shedding labor costs that have been duly negotiated because it makes them uncompetitive." My response to that is, where do those labor costs go? The traditional model of governance throughout the 20th Century of the United States, as we were an industrial power, was that business would pick up some of the benefits of employees and government would pick up some of the social needs of employees and there was always the tension as to which would do what. But you had two pillars to help undergird American prosperity.

As we move into what people call the new global economy, the post-industrial economy, my question is this: If the business entities in negotiation with labor entities decide that they can no longer be competitive with these labor costs, quote-unquote, where do those go? They are going to go to the Federal Government. And so we have another instance where we can be pennywise and pound foolish, and we can say we are not sending a $25 billion bridge loan to allow the auto industry to survive, and we can let real human beings about into the process of bankruptcy and watch the stresses and strains on their families as they endure that pain, and you will not have saved the American taxpayers anything because the pension costs will be picked up somewhere from the retirees who were cheated out of a lifetime of hard work. You will see the health care costs that hard-working people have enjoyed because of the fruit of their labor put into the Federal system. And you will see prosperity throughout the Midwest and the rest of the country crash, and you won't have enough worker retraining money to take care of their needs.

And finally, for some of my more conservative friends, I point this out: If America does not have a manufacturing base, a manufacturing base which some may think is not necessary in this new global world, the United States will cease to be able to defend itself. We will be reliant on other nations for the innovative technologies, not only their creation but their provision, from friendly nations such as communist China and others and the arsenal of democracy in our lifetime will have been dismantled in a time of war.

In the end, this issue is larger than the Big Three. It is in many ways larger than the economy. It is, what type of nation do we become? Do we become a nation that no longer produces wealth, that no longer has a path to middle class prosperity? Do we remain the America we inherited? Or do we just let it go and watch real people suffer in the process?

And my answer is, no. Now if you can find a question in there, my hat is off to you. Thank you.

The CHAIRMAN. No. It will be long enough without that stuff.

The gentleman from Missouri.

Mr. CLAY. Thank you, Mr. Chairman.

My comments are not as passionate as my friend from Michigan, but I represent Missouri, which houses all three factories from your companies. And the First Congressional District, which I represent, also supports this bailout. We are also big supporters of organized labor, too.

Welcome to all of you.

I do support the direction that Chairman Frank is going in in addressing this crisis. We cannot let the industry collapse.

Having said that, I do have some reservations about this endeavor and want to be assured that we are not just dropping money into a bottomless pit. Throughout the year, the numbers of automobile workers have been declining at an alarming rate. If the bailout is approved, what will be the short-term effect of addressing the rapidly declining job numbers? Are you going to stop farming out jobs overseas? And if so, when? What assurances or guarantees do we have that you are not going to go back to past practices once you are again on your feet? You know, these are U.S. taxpayer dollars. You would think we would target our efforts to keep those jobs here and to create additional jobs with those tax dollars. So what assurances do we have that the $25 billion is not just an installment on your request? And do you absolutely know that this request is the amount that is needed to do the job of helping you to retool and reorganize and get this industry back on its feet?

I will start with you, Mr. Wagoner.

Mr. WAGONER. Sure. Thank you.

I want to be candid to your comment about, can we tell you with absolute certainty that this is the total amount, that this is the exact amount needed. Could it be more? Could it be less? The honest response is, I don't think anybody knows that today because we have to assume when the U.S. economy is going to stabilize, when automotive sales will stop going down and when they will stabilize and hopefully begin to go up. We have to assume that eventually the credit markets and capital markets begin to function, which they don't today. We are here very simply because our revenue has been devastated because people can't afford to buy cars or can't get credit and the traditional sources of credit that we have relied upon are simply not available.

Mr. CLAY. Excuse me for interrupting. But on the point of the credit market and in freeing up credit, will any of this money go towards that effort as far as people getting auto loans?

Mr. WAGONER. Based on what we think are conservative estimates, we feel this amount of money would likely provide for the industry through a difficult 2009, and this is what we think we need, more or less, for the industry itself to be able to pay its bills, keep the capital spending going, our products, etc. A simultaneous effort that we are working just as hard at is to work with the Fed to enable our captive finance companies to have more access to credit and be able to make more money available to dealers and customers, too, to work on the retail demand side. So we are trying to work both sides of that.

Mr. CLAY. Okay.

Mr. Nardelli, how do we stop the bleeding of jobs in the industry? How do we save some jobs or even put people back to work?

Mr. NARDELLI. Well, sir, the first way we need to do that is to get this economy turned around and to try and avoid a further dip in the recession we are in and the downward spiraling that we are seeing in the auto industry. So I think, as Mr. Wagoner said, certainly through our affiliated—our finance companies, we have to make readily available competitive money available to our consumers to get loans, more competitive rates for our dealers who can then wholesale and floor plan, which then would put orders back into our factories, which would then generate cash. And to your other point, our request here today is based on a set of assumptions of what the industry will be, what the unemployment rate will be, and it is our best business judgment of the request. If we continue to see the downward spiral, if the trough gets deeper and longer, sir, I think not only this industry but our entire economy will continue to suffer.

The CHAIRMAN. The gentleman from Delaware is now recognized for a combined 7 minutes for an opening statement and questions.

Mr. CASTLE. Thank you, Mr. Chairman.

I will try just to summarize a bit of an opening statement. I, like many of the members here, have some frustration with all this. I spoke, not to you all, you weren't coming to Washington then, but perhaps 7 or 8 years ago to a number of your lobbyists. And I spoke about the hybrid products which were starting to be developed in Japan. Safety had pretty well been addressed, and I think you have done a good job with that. And we talked about other issues, including developing models that the people would want to buy in the United States. My impression was that they were hearing what I was saying, but they weren't being responsive to it. I thought that the hybrid development was slow in the United States. The understanding that fuel consumption was going to be a problem was not there. And that was a tremendous issue.

We, in Delaware, were the first State, I believe, to help any of you, helping Chrysler and later General Motors in the two plants there. Chrysler is now closing in Delaware. That is about 1,100 jobs. GM has a plant in Delaware. It is not closing but reducing the employment there by 400. There is an auto parts maker which is closing, which is 136 more jobs. So we are very much on the line. There are also a lot of auto dealers who are on the line as well. So I am very concerned about what we are doing here.

I will not at this point judge whether I would or would not support whatever a bailout may be or where it would come from. Those are issues we have to resolve here in Congress.

But I am concerned even beyond that. The question was raised, what happens after the $25 billion? Is this a down payment? Or is this a final number? I don't know if anybody can really answer that question or not. But I have seen the amount of money that is being consumed each month by each of the companies.

Obviously, Mr. Gettelfinger, the union has been involved in this, too. And you are all concerned about that. My concern is that we are going to give you money in some way or another, and it is going to last for a period of perhaps less than a year, and all of a sudden you are still going to be in trouble.

I still don't know if we have the fundamental questions of, do we have desirable products? Some of your products are getting better reviews. They are, I think, being rated higher by the public. But do we have desirable products that the public is going to buy? Or are they going to continue to buy Toyotas? And are you addressing all the issues of the fuel consumption, and I know about the Volt and that kind of thing, but are those being really addressed in terms of where we are going? Do your future plans include real details with respect to how we are going to work our way through this from an economic point of view? And that involves every one of you at this table as well as the actual selling of product.

I will tell you another issue that is not raised much, Jane my wife, drives a 1999 Jeep, which we talk about getting rid of from time to time, but the thing runs pretty well. It is our major car. It probably has about 150,000 miles on it, and it is still running well. Congratulations. But we are not buying a new car at this point. I am not sure we can afford it either, but that is all right.

That is an issue, as you develop these cars that are running better and better, obviously we don't go back every 3 years and buy cars. All of us are holding onto them longer. That is not necessarily a negative from a consumer point of view. But it is obviously maybe a negative from a corporate financial planning point of view that needs to be addressed as well.

So I think there are a lot of issues out there, and I am not sure there is an easy recovery. I am very concerned about just giving you money, as we have done with the banks. A great deal of equity is being obtained from those banks in terms of preferred stock. And I would hope, as we consider it here, there would be some sort of security for repayment in terms of a return to profitability at some point in the future. That should be a concern for each and every one of us. I am not going to make the argument that the union has been a problem or not. I don't think they necessarily have been. But on the other hand, there is still a differential. It may not be as great as some people will state, but there is still a differential in terms of some of the union versus nonunion plants that needs to be at least factored into the considerations of where we are going and what you are doing.

I think you have probably done a lot more than the public realizes, and I give you credit for that, all of you. On the other hand, we are in a very difficult situation now, and we need to look for whatever those ultimate steps are to bail us out from that. So those are all concerns which I have in terms of where we are going.

This planning does not end at a hearing today. It does not end at some point sort of a bailout plan which we are going to embrace. It ends when, obviously, you are able to produce cars at a price people are willing to pay and with a number of people working on them so that there is a profitability to it all, particularly when people are holding onto their cars for a longer period of time. And I hope together, we can work on this and make it all click.

I happen to be a great supporter of the automobile industry. I think it is absolutely needed in America for a whole variety of reasons. But on the other hand, I think we have to be very cautious about taxpayers' money and making sure that we have a survival plan that is in place.

I watched your hearing in the Senate yesterday. I have read your testimony from today. And I had been reading what you have been saying about this. But my concern is, are we really getting ready as far as the future steps are concerned?

If you have any comments from anything I just stated, I would be happy to hear them; anything to make me or perhaps the public feel better about it, I would be happy to hear those comments.

The CHAIRMAN. We have a minute. Go ahead.

Mr. MULALLY. I think you really hit on the key parts. And just two areas I would like to focus on in response is on the revenue side and on the product side. And then another comment about the competitiveness on the cost side. And, you know, clearly in the Ford Motor Company's case, over the last recent history we have focused on the larger vehicles, the SUVs and the trucks. And the wonderful F-150 has been the number one vehicle in the United States for 34 years. It is just a tremendous vehicle that has served a lot of customers.

But, clearly, with the way the world is changing and especially with the consciousness of fuel efficiency and sustainability, the consumer, and also with the fuel prices rising in the United States, the consumers have really moved fuel efficiency up on the purchase agenda, as you have mentioned. And if we look at the decisions that the consumers are making and what is really important to them today, quality, sustainability, fuel efficiency, safety, of course, and the very best value.

Over the last few years, we decided that it wasn't good to just have improvements in that area. We needed every new vehicle that we brought out needed to be best in class in those four areas. I am very proud to be able to say today that over these last couple of years we have moved into a leadership position equal to or better than Toyota or Honda, the best in the world on quality. We have also moved into a leadership position with every new vehicle that we are introducing on fuel efficiency, and of course, we have been the leader in safety. So from a product point of view, it has to be led with vehicles that people want and value. May I say one more thing?

The CHAIRMAN. Quickly.

Mr. MULALLY. With the agreement that we made with the UAW and our other productivity improvements, we can make cars, trucks, and utilities in the United States, and we can do it profitably now. So those two things are the most important things.

The CHAIRMAN. Thank you.

The gentleman from Massachusetts.

Mr. LYNCH. Thank you, Mr. Chairman, and Ranking Member Bachus.

I have a little bit of history with the auto industry. I actually worked at the Detroit diesel plant in Michigan back when I was an iron worker. I also worked at the General Motors plant in Framingham, Massachusetts, for a while as an worker. And I appreciate the job opportunities that has provided.

Also, Mr. Gettelfinger, I think you need to tell that story more. You described a lot of the cuts, the concessions, the work that you have been doing on your end. I know that was a surprise to a lot of the people who are listening to this hearing. And I think you just have to tell that story more about the hardship that people have taken on in trying to save the industry.

I worked at that Framingham plant in Framingham, Massachusetts, with General Motors, and I was there at a time just before GM made their decision to close down that plant, and actually they opened up a few plants in Mexico right after they closed down the U.S. plants. And I saw that devastation, you know, just the hardship on a lot of families and on that community, not only from the loss of the direct jobs but also related businesses and the tax base for the communities there. Framingham and Natick were really impacted quite heavily. And you could see it in just funding for the schools and funding for public safety. But now, so you know where my sympathies lie having seen all of that, I would not care to see that happen again anywhere in the United States.

But I also read that GM now has approximately 13,000 employees at four different plants in Mexico, and this makes GM the single largest private employer in Mexico. In addition, GM has 20,000 employees at 7 operations in China.

And on May 31st of this year, Ford announced that they would be creating a new Ford factory in Mexico City. The operations are likely to create an estimated 4,500 jobs in Mexico, where car workers earn substantially less than our American counterparts, and where Ford has approximately 4,000 assembly plant employees also in Mexico. And, at the same time, you plan on making 30,000 job cuts and 14 plant closings in North America by 2012.

Look, I want to see what is best for the American worker here, and I want to see what is best for the American taxpayer. This question has been raised a couple of times here. Number one, given the global presence that you big companies have, have you gone to the Mexican Government to ask them for a bailout? Have you gone to the Chinese Government and asked them for a bailout? I want that question answered.

But it is a two-part question. And number two, what commitments are you making that if you get this $25 billion, you just won't turn around and lay off thousands more U.S. workers? And we will have no chance through the tax base and taxation from those jobs to recover any of this money that we are loaning out to you.

A two-part question: Have you gone to Mexico? Have you gone to Mexico City and asked them for a bailout? Have you gone to Beijing and asked for a bailout? And what are you going to do to make sure that, if you get this bailout, the American worker is going to benefit from these jobs and we are not going to just see this continual drain of American jobs overseas?

Mr. Wagoner, please.

Mr. WAGONER. Thank you for the question.

As far as asking the Chinese Government, we haven't. To be honest, our business in China is still quite profitable. And, in fact, that business, I think every year for the last 9 or 10, has sent significant dividends back to the United States. So, to be honest, we appreciate the support that we can provide from our Chinese business to our operations here. It is a joint venture. But, at least as of this moment, it is still quite profitable, and so there hasn't been an approach on our part to the Chinese Government for direct funding support.

In Mexico, the business in Mexico had held up pretty well, I would say, until the last month or two. So, again, there, our financial position was okay, credit availability was okay, so we have not yet requested Mexican government support.

We have had—

Mr. LYNCH. Let me ask you—

Mr. WAGONER. Yes.

Mr. LYNCH. So—and I know, I have been to China, I have seen the Buick Regals selling big over there. Are all those cars being sold into China that are being made in China? And are all the cars in Mexico being sold into Mexico?

Mr. WAGONER. In China, basically, almost everything that we sell in China is made there. We export almost nothing from China, nothing to the United States. And we actually export some vehicles from the United States to China. Buick Enclave would be an example, that we actually export from the United States to China.

Mr. LYNCH. How about Mexico?

Mr. WAGONER. Mexico is integrated completely in our U.S.-Canadian production system. So we build many cars in the United States that we sell in Mexico and many in Mexico that we sell in the United States, most all with significant U.S. content.

The CHAIRMAN. You will have to get the rest in writing, because we are over the time.

Mr. LYNCH. Okay. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman from Michigan, by unanimous consent, wasn't able to be here for an opening statement, and he will be recognized for 2 minutes.

Mr. EHLERS. Thank you, Mr. Chairman. I appreciate that.

And, to save time, I will associate my remarks with the remarks of Mr. McCotter, who eloquently stated his position, which I agree with. But I also want to add a few other things.

Many of you who know me well, and also the gentlemen at the witness table who know me well, will be surprised that I am in support of this initiative, because I have been chastising them for over a decade about not producing fuel-efficient automobiles, not developing hybrids, to the point where I think they were refusing to talk to me for a while.

But the point is, that is not the issue. The issue is that a major American corporation is in deep trouble, and it has tremendous ramifications for the country and especially for my State of Michigan, which is already facing bankruptcy as a State. If any of these companies go belly up, bankrupt, whatever term you use, the State of Michigan will be in incredibly dire straits. The unemployment rate, which has been the highest in the country for several years now, will actually be much, much higher than anywhere else in the country.

If you have a neighbor whose house is on fire, no matter how many disagreements you have had with that neighbor, you will call the fire department, you will get the family out and try to help them put out the fire. We have an industry here that is suffering that type of calamity, and we have to throw them the life raft. We have to offer them help, not just for their salvation or the saving of their company, but rather because of the thousands and thousands of workers who will be devastated. The State of Michigan and several other States will be devastated.

This is an emergency situation. We should treat it as an emergency and recognize that, although I disagree with many of their business decisions, that is not the total cause of what is happening. The entire credit crunch, which was beyond their control, has really brought this to a head. And they simply cannot get the capital they need to recover or even to operate unless we provide the funds to get them over the hump. I urge that you approve this loan.

The CHAIRMAN. I would ask similarly for 2 minutes for the other gentleman from Michigan, from Flint, Mr. Kildee.

Mr. KILDEE. Thank you, Mr. Chairman.

I was a cosponsor, back in 1979, of the Chrysler loan guarantee, and the U.S. Government made money on that. I learned from that, really, the saying that what America drives drives America.

You know, we know it is a great buyer of steel, rubber, and computer chips. My car downstairs has more computer chips than the first vessel that landed on the moon.

But I can recall Jim Broyhill from North Carolina came up to me around that time, and he said, "When are you guys getting back to work in Michigan?" And I gave what I thought was the right answer, and I said, "Why do you ask, Jim?" He said, "Well, my carpet industry in North Carolina is really suffering. When you guys in Michigan aren't producing cars, my guys are laid off at the carpet fiber industry." It is such a broad consumer of the other parts of our economy. So, really, the saying that what America drives drives America is very true.

I didn't speak before because Fred Upton is the co-chair of the auto caucus—I am the Democratic chair—and I felt he could do an excellent job, which he did. But I wanted to speak now that this is not just the auto industry, not just Michigan. I couldn't find one district in this country that wasn't affected by the auto industry. And that was my job; Jimmy Blanchard asked me to try to find districts. I found, out west, ranchers selling their hides to Ottawa Indian, another company in my district, who, in turn, sold to Chrysler—or the company that made the seats for Chrysler. Every district somehow is touched by the auto industry.

Thank you, Mr. Chairman.

Mr. KANJORSKI. [presiding] Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

I thank the panelists for being here today, and I apologize if any of my comments or questions are redundant, but we have been in a little leadership election here.

You know, I think we could line up panelists from now until Christmas, businesses, business leaders, business CEOs, who would come in here and testify to this committee that their business is key and crucial to the economy of the United States of America. So I am really not going to debate that issue, whether this auto industry is important to America.

What I am going to say is that our Founding Fathers, 230-some-odd years ago, started to move away from a plan where the king picked who the winner was. They said they wanted to found a nation where people could be rewarded for their own merits, for their own ideas, their own entrepreneurship. They wanted to get away from where the government or the king was picking the winners and losers.

And one of the problems that this Congress faces is that we have injected ourselves, gone down a road of where we now have the government, the United States Government, picking winners and losers in various industries. And, quite honestly, it is not the role of government to pick winners and losers. Markets pick winners and losers.

I have heard testimony previously that you have given, and you know more than anybody about competing in a very competitive environment. And what we do know is that markets are very efficient. When you have a good idea, and you have a good product, and you have a good business plan, you have been rewarded for that. Where you have not had a good product or a good business plan, you have not been rewarded for that.

And, as I talk to the people in the 19th Congressional District of Texas who are sitting back home and they are saying, "You know what, we are passing out money we don't have"—if we give a $50 billion bailout to your industry, we are going to have to go borrow that money. We are going to have to go put the American taxpayers on the hook for those funds. It is difficult for me, as a United States Congressman, to be able to say, "You know what, we are going to put the taxpayers' money in there because the marketplace that you attract capital is unwilling to put additional capital in your companies."

Why is it that this body, this Congress, knows better how to invest American taxpayers' money better than themselves? Because, in fact, themselves have been reluctant to invest any more money in the current business plan and business model that your companies currently have.

And so, one of the questions I have for you is, what do we say to the people across America, the small-business people, who, quite honestly, while your industry creates a lot of jobs—and we are all, indeed, thankful and grateful for that, but, as most of us know, 95 percent of the jobs in America are created by small businesses, all across America; I was a small-business man in Texas. And you know what, small businesses every day in America fail because they just didn't make it, they didn't have the right business plan, they didn't have enough capital, they didn't have the right model, they didn't have the right product. And how do we say we are going to distinguish and treat you differently than those small businesses all across America that would like to have an opportunity to be bailed out themselves?

That is really the fundamental problem with the road we have started down in this country, that not only are we picking winners and losers, but we don't know where to cut the line off. If people who stood in line to participate in this hearing, they had to get in line and they only let a certain number of people in the room at the same time, and so the question is, is how many more people do we let in the room, and where does this stop? Where do we start really having to let the marketplace do what it does best, and that is to sort through your business plans, your products, your business models, and determine who to reward and who not to reward?

So I would ask that, in the remaining few minutes I have here, for you to respond to those people back home that say, you know, where does this stop, and why should we give you money, quite honestly, that we don't have?

Mr. WAGONER. Yes, I think the way I would respond is, the auto business has taken painful and dramatic moves to reduce its cost structure, which was high, based on a history of a program where the U.S. Government encouraged manufacturers to provide health care and retirement benefits. And it has been a hard adjustment for us to move away from that, but, after many years of working on that with the union, we are at the point where we can be fully cost-competitive.

We have products that are winning car and truck of the year regularly. We have demonstrated technology leadership in a lot of areas. And the industry as a whole has a massive footprint across the United States. As the Congressman said, we are the biggest purchasers of aluminum, of steel, of computer chips, of textiles—I mean, you name it. So it is just a huge industry.

Unfortunately, in the midst of massive plans and significant progress, we have run out of capital. And I think it is directly because—it can be traced right to the financial crisis on Wall Street. So these are extraordinary times.

I can assure you, Congressman, we don't like being here asking for this. And even through June of this year, we were cutting, cutting, cutting ourselves to not have to be here. But the fact is, the collapse of the financial markets has taken away, not just credit availability, but the ability to go to the equity markets, and dramatically diminished financing opportunities. And so, at this point, without injections of liquidity, I think it is reasonably probable that some portion of, if not all of, the domestic industry will not survive.

So it is not something we like asking for. I think that is the way I would explain it to your constituents, that bridge financing is going to prevent the United States from entering into an economic depression, in my view.

Mr. NARDELLI. Sir, I wonder if I could just offer one thought. What makes this different from the examples that you gave us is this isn't about losing a company; this is about losing an industry, an industry that has an overarching effect on literally thousands of small businesses, to your point—we call them dealers—literally thousands of suppliers; for example, the tanning company that provides the leather for our cars.

So I think this isn't about just a single company and making the decision to let it go down. This is about an entire industry whose tentacles reach broadly from east to west, north to south, and will have unbelievable impact on the entire economy and the small-business men and women in this country.

Mr. MULALLY. I think the only thing I would like to add is that it is just so important that we are a part of the solution to the economic recovery. We just cannot contribute to degrading the economy further.

Mr. KANJORSKI. Thank you.

Mr. Miller?

Mr. MILLER OF NORTH CAROLINA. Thank you, Mr. Chairman.

Much of the debate today and in the country in the last few weeks has been about whose fault is this. Many critics of your industry have said that you have been lumbering when you needed to be agile, that you have fought CAFE standards when you should have been making more fuel-efficient cars. You all have defended yourselves today, members of this committee have defended you, said that you have been agile, you have been developing more fuel-efficient cars, but have criticized other industries and other companies.

Imagine an industry or a company about whom those criticisms might be valid. How do we hold them accountable?

Americans were very unhappy with their government. And in the last two elections, they have changed their government. My party will be held accountable, too, if we do not meet the expectations of the American people.

I know we praise small business, but we have to have massive economic undertakings to perform complex manufacturing. We have to have companies of your size. And ownership of those companies necessarily is going to have to be very diffuse, you know, individual investors, mutual funds, retirement funds. But it seems that the bigger the company is and the more diffuse the ownership, the more impervious the leadership of that company is to any challenge.

There have been a lot of shareholder rights groups that have suggested there need to be changes in the way that stocks, shares of street name are handled. The principal opponent of those changes, those reforms, have been the Business Roundtable, which I assume the three of you belong to.

Do you think we have a problem with a lack of accountability by corporate leadership, by the lack of the ability of the Americans who actually own the companies?

And you all are employees. You may own a piece of your company, too, but the reason you are sitting there is you are employees, just as Mr. Gettelfinger's members are employees.

How do we hold these companies accountable? Do you agree that there is a problem?

Mr. WAGONER. We have, over the years, received a number of shareholder proposals through our annual meeting process. And while it is true that, I think, most of the time the recommendations of the board are accepted by shareholders, it is not always true. In the last 4 or 5 years, there have been at least 3 or 4 instances where the shareholders have voted for changes in bylaws or whatever. And so, when we get those kinds of directions from the shareholders, we have tried to be responsive.

So my sense is that, at least as I have observed it operating firsthand, we get a lot of input from our major shareholders and, really, from all of them. They do submit—they are quite active in submitting shareholder proposals as part of our regular meeting process. And, you know, on occasion, a shareholder proposal will be adopted by a majority of shareholders, and we try to respond to it.

So, at least in our case, I feel like we get a good voice from the shareholders, and we try to respond to it.

Mr. MILLER OF NORTH CAROLINA. Mr. Nardelli?

Mr. NARDELLI. Obviously, we are in a slightly different position, as being the first privately held auto company in 50 years. But I can tell you that our owners have been very supportive, very encouraging of change and to move quickly, to move decisively to try and save some of the iconic brands in the auto industry—Chrysler, Dodge, and Jeep.

So we are totally open. We want to be totally transparent in this process. And we believe that coming forward and asking for this support would allow Chrysler and its brands to be able to continue to be a viable entity and hopefully contribute to the recovery of the auto industry.

Mr. MULALLY. Clearly, as a publicly traded company, our number-one priority is to create value over the long term. And you only do that if you have products people want and value and you have a cost structure and a productivity that is competitive.

And I think all of the actions that we have had a chance to lay out today and the actions we have taken over the last few years to dramatically transform this company are a direct result of the principles of creating value for the long term for all of us.

Mr. MILLER OF NORTH CAROLINA. Mr. Gettelfinger, you are making common cause with management today, but many in the labor movement have been among those who criticized the accountability of corporate management. What are your thoughts on this?

Mr. GETTELFINGER. Well, I think what we do, if we look back at the conclusion of negotiations last year and, as Mr. Wagoner pointed out earlier, and look at the value of their stock then, which was over $42, it begs the question, why is the stock where it is at today? And you look at the subprime mortgages, you look at the stock market, you look at what has happened across the board to our economy, this major downturn.

I am not one right here who is focused on reflecting where the problem originated in the past. I think that we have to focus on where we are at now, look at the improvements that have been made, look at the innovation that is under way, and look at the direction that we are trying to go in.

And I am not bashful to criticize this management. Every one of them will tell you privately that our union tells them exactly what we think. And, to me, I sat here with glee at some of the comments that were made to them, because I am sure it echoes what they have already heard from us.

So I am not here focused on that. I am focused on the bigger picture, which is what happens if this industry goes down and the spiral effect.

And I just noticed here, on these companies, the number of parts that they buy compared to the foreign brands that are manufactured here, and what it would mean if it would just cut back. If they just cut back to the content of the manufacturers that are here today, it would create a loss of thousands of jobs.

So this is an important industry to our country, and that is why we are here standing with them on behalf of our membership to appeal to Congress to give this the most serious consideration possible.

Mr. KANJORSKI. The gentlelady from Illinois.

Mrs. BIGGERT. Thank you, Mr. Chairman.

Like Mr. Ehlers that just asked a question, for years many of us in Congress have been pushing for technologies in our national labs, like Argonne in my district, that can help you, I think, provide what the consumers want, which is energy-efficient cars. And I think many of us grew so weary of the lack of progress that we voted for CAFE standards, which is something I thought I would never do.

But Americans don't want to buy the expensive cars, pay for the high fuel costs, and be dependent on foreign oil. In fact, I had a Jeep for 11 years, which served me well. But when I wanted to buy a new one, I couldn't get a hybrid. No Jeeps were made for that.

So why should we be bailing you out now when you have really been dragging your feet, I think, on the kind of cars that are in the 21st Century and aren't being made? So are you not selling cars because no one wants cars that get 12 miles to the gallon or because of lack of financing?

I will start with you, Mr. Nardelli, since I talked about the Jeep.

Mr. NARDELLI. We have 6 or 7 cars that are getting over 28 miles per gallon. Our Caliber is getting 30 miles per gallon. We are working feverishly, will spend probably in excess of a billion dollars this year on technology to improve our fuel efficiency on the combustion engine.

We spent over $350 million in our efforts to develop a hybrid. We will spend almost an equal amount, as we announced in September, on three electric vehicles, one for each brand—Dodge, Chrysler, and Jeep. And one of those vehicles will be in the marketplace in 2010.

Mrs. BIGGERT. But that is still 2 years.

Mr. Wagoner?

Mr. WAGONER. Yes, we have 20 models that get more than 30 miles per gallon highway, more than twice any other manufacturer today. We have six hybrid models; we will offer three more next year. We are the global leader in biofuel vehicles. And, obviously, we have a significant commitment to the electric vehicle, with cars like the Chevy Volt, and fuel cells.

So I think we have a good story to tell, and we are going to keep trying to tell it. Many of our new cars, like the Chevy Malibu in the mid-size class, have better fuel economy than the Japanese competitors. So I think we are very much in that game now.

Mrs. BIGGERT. Mr. Mulally?

Mr. MULALLY. Yes, nothing else to add on the competitiveness. We have a terrific lineup.

And to your question, the entire industry is down. And all the manufacturers, whether they are the three Detroit companies or the Japanese, their sales are all off, along with the credit and the economy. So I think we are all—the whole industry is down.

Mrs. BIGGERT. Then would a bailout loan to your companies go to your finance or to the operations arm, just which one? We will go down the line.

Mr. WAGONER. What we are talking about now is support for the operating side of the business.

Mr. MULALLY. Same.

Mr. NARDELLI. Same.

Mrs. BIGGERT. Same, okay. What percentage of a loan would go toward financing consumer auto loans to start moving the inventory?

Mr. NARDELLI. Right now, none of the money that we are asking for today would go toward loans. We are working a very aggressive and parallel path with our affiliate finance companies to either get bank holding status, to get ILC approval, to be able to gain access to the window so that they can reach the secondary market, increase liquidity, and gain capacity.

Mrs. BIGGERT. Anybody else?

Mr. WAGONER. Same.

Mr. MULALLY. Same.

Mrs. BIGGERT. Well, I have heard that some of the loans that are being made are 9 percent loans, and somebody has to have a 750 FICO score to qualify for those loans.

Mr. WAGONER. I think it is fair to say that the requirements for consumers are much tougher today to be eligible for loans. It is absolutely true.

Mrs. BIGGERT. How are you going to sell cars if—

Mr. WAGONER. Well, that is one of the things that is contributing to the lower industry sales. As Mr. Nardelli said, our finance companies cannot access significant credit. And then their ability to take these loans, package them together, and sell them into the asset-backed security market has radically shrunk and is very dependent on only buying high credit paper.

So lower sales is part of a system-wide problem. And we are doing everything we can to try to help people be able to afford to buy cars.

Mrs. BIGGERT. Well, how would you do that, then? I mean, if you are going to take a bailout for the operations, and yet you are not going to have people who are going to be able to afford to buy the car even if you improved it.

Mr. WAGONER. What we are trying to do is work with other potential sources of credit. We talked earlier about working, for example, with credit unions, which traditionally have wanted to be bigger players in automotive financing. We have gotten some positive input from that.

But if we are successful, for example, in our case, of achieving a bank holding company status at GMAC, then GMAC will be able to take more deposits, reduce their cost of funds, and be significantly more aggressive in consumer financing.

Mrs. BIGGERT. Just one other quick question. How many of your dealers are not getting paid? Are they all being paid, or are you withholding any of the money from them?

Mr. NARDELLI. No.

Mrs. BIGGERT. They are all being paid on time?

Mr. WAGONER. Yes.

Mrs. BIGGERT. Okay. Thank you.

I yield back.

Mr. KANJORSKI. Mr. Scott?

Mr. SCOTT. Thank you very much, Mr. Chairman.

I think that we really, at this point, need to put this in perspective. This picture is much bigger than all of us, General Motors, Chrysler, and Ford. The issue before us is not whether or not we can afford to help you. The issue before us is whether we can afford not to help you.

This is a big, big issue facing the survival of America. It is an American issue. We are at a time similar to the Titanic. If you recall, it wasn't because the Titanic ran into the iceberg. The problem with the Titanic was it didn't turn in time. And on the bleached bones of many past great civilizations and nations are written those pathetic words, "too late."

Where are we now? Here we are at a time where I hope we don't move too late. What are our options? They are very few. And I think we should focus on them.

One is we have a bundle of money available that the Congress has approved, not $700 billion, but $350 billion. Now, the Treasury Secretary has seen fit to already spend and allocate $290 billion of that, and in a way that was not the way that many of us had first designed to get the troubled assets. That leaves us with $60 billion. The two most critical needs, as I see it, are to stop the drain on the housing foreclosures and to help the auto industry. And we have just enough money to do that.

Now, ladies and gentlemen, the big picture is that we are moving into the most critical time in this economy, when clearly 48 percent of the retail sales will be made during this next 6 weeks. You think we have problems now, if we come out of this period in January without consumers spending money or having confidence enough to do so, we really are going to be up the creek without a paddle.

I think the two best signals we can send—and I would hope this Congress would realize that the American people are watching us to see whether or not we will do like the Titanic and move to turn the ship too late to help the consumer.

Now, we have thrown $290 billion at the banks—they have theirs; some of them didn't even want it—to try to get them to lend it. And they are not even lending it to your dealers, many of whom are on the verge of going out of business. That is who the consumer deals with, the dealer.

So I want to take just a moment here to ask each of you if you would agree that, if we give you this money—and, by George, I hope we do, because I think—not only do I think, I know, you need it.

I represent a district in Georgia in which the Hapeville motor plant was closed, Ford—you know where that is—in my district. The Lakewood General Motors plant closed; that is in the middle of my district. And then on the north end, the Doraville General Motors plant closed. That is three. But something funny has happened: We have had several Kia plants open.

And now we are sitting on a deal in Foreign Affairs that we are fighting tooth and nail that says we want to increase our trade. And nowhere is our picture more clearly defined than in this fact: Last year, 700,000 Korean automobiles were imported into our country. You know how many American-made cars were exported from us into Korea? Less than 5,000. We have a terrible problem here.

And so I want to ask you, because we talked about the dealers, if you would agree to setting up, if we give you the $25 billion, to get assurance from the Treasury Department that we could have a billion dollars in a receiving or revolving loan fund that could range from 7 to 10 years at below-market rates—in other words, have a mechanism that will allow dealers to obtain access to critically needed capital directly through the Treasury Department. Your dealers need that. The banks are not lending the money. If we don't put some mechanism in here to help you to make sure that some of this money—$1 billion is not that much of it—to set aside to help the dealers.

And then secondly, if you would declare or help us to make sure—you take the lead. You are asking for the money. None of your dealers are suffering as are the minority dealers—the African American, the Hispanic, these guys who are just coming on. We need to make sure, if we give you this money, that you would ask that either the President or the SBA Director would declare ethnic minority disaster loans under the current SBA authority.

If we do those things, we will be helping most directly not only the overall industry—but I would like to ask if each of you would just simply—now, I know my time is out, but if you could nod your head or say, yes, we would support getting this capitalization and available capital for our dealers.

Is that yes?

Mr. WAGONER. Yes, sir.

Mr. SCOTT. Good.

Is that yes?

Mr NARDELLI. Yes.

Mr. SCOTT. Good.

Is that yes?

Mr. MULALLY. Yes.

Mr. SCOTT. Excellent.

Thank you very much.

Mr. KANJORSKI. Thank you, Mr. Scott.

Mr. Hensarling, you are allotted 7 minutes.

Mr. HENSARLING. Thank you, Mr. Chairman.

My apologies to you gentlemen. I missed most of your testimony and earlier questioning. I think you know by now that this hearing was scheduled against some leadership elections. So my comments may be redundant, my questions may be redundant. Forgive me, but it is you who are asking for the money.

You need not convince me of the tragic economic circumstances to our Nation should your three firms go belly up. I don't need to be convinced of that. But I do need to be convinced that, if you get an additional $25 billion, somehow that is actually going to make the difference.

What I haven't seen come across my desk, come across my transom, or what I have not heard is a plan that convinces me that, with the $25 billion, that you will achieve sustainability. How do I know that you will not become the next AIG—$25 billion now, $25 billion next month, $25 billion the month after that?

And I am sorry we are in this tragic circumstance. There are people in my district who will be affected by this. But you know what? It is not the fault of the taxpayer; it is not their fault. It is not the consumers' fault. If there is any fault that lies here, it is with you gentlemen before me and your predecessors.

Now, Mr. Nardelli, I drove a 1998 Jeep Cherokee here to work. I have had it for 10 years. It is a great vehicle. There is a small problem with the back hatch staying open; we can talk about that afterwards. I like the car. But clearly, a lot of Americans don't.

There is no doubt that your labor costs are substantially higher than your competitors', and there is no doubt that on most consumer satisfaction surveys, the Big Three are scoring toward the bottom. Again, it is not the consumers' fault.

And so I wonder, when I look at the $25 billion, I ask myself several questions. Number one, this is the second $25 billion. I want to help you. I may not want to help you the way you want to be helped, but I want to help you. It wasn't 60 days ago that you already received $25 billion.

Now, you have environmental goalposts that you have to negotiate. I would be more than happy to stay here with my colleagues and try to work on legislation that would give you access to that money for your immediate needs. But I haven't heard that from you. And, again, forgive me, maybe I missed that in your earlier testimony.

I would be willing to help you with your health-care costs. I would be willing to help you with your tort costs going forward. I know that we have the highest tort costs in our manufacturing of any of our competitors. We have the most expensive tort system in the world. I would be happy to introduce legislation today—frankly, I have already introduced it—to zero out the capital gains tax for 2 years to invite capital off the sidelines to invest in your firms.

But what you are doing is you are asking for $25 billion out of a pot of money that I did not support in the first place, and so I ask myself several other questions.

$25 billion and $25 billion is a lot of money. And, right now, all across America, certainly in the 5th District of Texas, the major employer is small business. The average capitalization of a small business in America is $25,000. With the amount of money that you have either received or are receiving, I mean, we could start 2 million small businesses in America today, or maybe we could save 2 million small businesses that are on the verge of going bankrupt. Now, we haven't heard of their names. They don't have representatives or lobbyists who are walking our hallways. But they are out there. This money has opportunity costs. And if we give you $25 billion, that is $25 billion that can't go to small businesses.

I hear the argument, "too big to fail." Well, I come from Dallas, Texas. American Airlines is headquartered in Dallas-Fort Worth. They have gone through some tough economic times. They may go through future tough economic times. Are they too big to fail? If we give you the money, are they next in line? And who is after that? At what point does Starbucks get in line? Who doesn't get in line for the $700 billion? These are questions that have to be answered.

I have other concerns. Again, I understand the credit crunch, but what industry hasn't been impacted by the credit crunch? And, at some point, when, as a Nation, do we decide we are going to quit borrowing money from the Chinese and send the bill to my 5-year-old son and my 6-year-old daughter and all the children and grandchildren across America?

These are questions that I have. So you can clearly tell which way I am leaning, but I hope I still have an open mind. It is not an empty mind, but it is an open mind. I still stand ready to be persuaded.

So the first question I would ask is, number one, where is the written plan? And if you have the written plan, are you willing to make a commitment to the United States Congress and the American taxpayer that, if you get this money, you will not be back?

And I will start with whomever cares to answer the question.

Mr. WAGONER. I, prior to your being here, commented on that matter. We, like all businesses, build our plans on key assumptions, the best ones we can come up with, starting with what is going to be the state of the economy, what is going to be the state of the credit market, what is going to be demand in the auto sector, for example.

So what we try to do is put together what we think is a conservative plan for the next year and figure out how much funding, based on the best guess we have today, would be required, in view of the absence of the availability of traditional funding sources we relied upon to get us through that time period. So, you know, it is through that process that we individually and then as a group have come up with this amount of $25 billion.

Congressman, I would like to guarantee you that that is, under every circumstance we imagine, enough money. I can't make that statement. I don't know. I know, based on a reasonable scenario, that I think it is enough.

Mr. HENSARLING. Well, Mr. Wagoner, maybe I missed it, but what plan have you or are you willing to put on the desk of Members of the United States Congress to convince us that at least there is a fighting chance that you will achieve sustainability? Where is that?

Mr. WAGONER. We have developed a detailed plan. I think the nature of it—traditionally, those kind of things are highly competitively sensitive and SEC disclosure matters and things of that sort. But we would be glad, with the right kind of format, just to make sure we are aligned with SEC requirements and others, be glad to review that kind of data with the appropriate people. And we have detailed plans, sir.

The CHAIRMAN. The gentleman from Texas, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. Chairman, in a metaphorical sense, I rise to speak on behalf of union workers. I speak on behalf of union workers because I understand the importance of unions and what unions have done for the quality of life and the standard of living in this country. I understand that, but for unions, we might not have a 40-hour work week. But for unions, we might not have child labor laws. But for unions, we might not have the health-care system that we have. But for unions, we might not have the pension programs that we have. But for unions, we might have wages that we relate to in terms that are unpleasant—slave wages.

Unions have made a difference in the quality of life for all of us. And I rise on behalf of unions because this debate has turned on whether or not unions have created a problem. Unions have worked to make life better. And in so doing, not only for their members, they have done it for the rest of us who may not be affiliated or associated with a union.

I am of the opinion that unions of all kinds do us a service. This is why I support the Chamber of Commerce; it is a union. I support business people having the right to organize and do what is in the best interest of business. And, by the way, they don't have to get the consent of workers to do it. They don't have to have a vote of the workers to unionize. And I support that. I also support workers having the right to unionize without the consent of management. Freedom of assembly, freedom of association is a very basic, fundamental right.

So I rise to speak on behalf of unions and working people. And I can find no fault in working people wanting to enjoy the quality of life that they create. Many people in this country work full-time and live below the poverty line. Many people in this country have multiple jobs and work many, many different places in the course of a week so that they can make ends meet.

I think unions are a blessing, and we ought to be appreciative that we have the standard of living that unions have helped to create.

I will close with this. I am deeply saddened that we are now claiming—some of us, not all—that blue-collar workers are making too much. We have CEOs who make more in 1 week than some union workers make all year. There is a gap, a disparity between the wages of the top earners and those at the bottom that is continually widening. And that has to be closed. I don't think we will close it without the help of unions.

I ask that we, as we consider these issues, that we not put the blame on the working people who have helped to produce the quality of life that they would like to enjoy.

And I yield back the balance of my time.

The CHAIRMAN. I just want to announce that I think 2:30 is a reasonable time to release this panel, so I am going to cut this off at 2:30; that will cover everybody who is in the room now.

And I would say to my colleagues who aren't here, we will not miss you greatly if you don't join us at this late date. And we won't be able to accommodate you if you do, in fairness to the staff and the witnesses and the next panel.

Ms. Bachmann, for 7 minutes. That is an opening statement, as well.

Mrs. BACHMANN. Mr. Chairman, thank you.

And thank you for—

The CHAIRMAN. I am sorry, Mr. McHenry is first, for 5 minutes.

Mr. MCHENRY. Thank you, Mr. Chairman.

Most large corporations that would be facing similar situations that the three of your companies are facing, they would be at work on a reorganization plan before they would file for bankruptcy. And this is what the discussion has been on the news, and it has been intimated here that if you don't get this money then you would file for bankruptcy.

So what is the state of your preparations for bankruptcy?

Mr. NARDELLI. I can speak for Chrysler. You know, obviously, as we are looking at this economic trough, we have looked at all aspects of whether it is a prepackaged, whether it is prenegotiated, whether it is bankruptcy. And every aspect of that, sir, I can tell you is certainly more negative and more costly than—

Mr. MCHENRY. That is not my question. So you do have plans. Yes?

Mr. NARDELLI. I would say that we have gone through and have outside advisors to help us think through the various aspects should our liquidity become an issue.

Mr. MCHENRY. All right.

Mr. Wagoner?

Mr. WAGONER. Because of our studies of the ramifications of bankruptcies on consumers, we have concluded that we should put virtually all of our effort on any actions we can take to avoid bankruptcy. Because the consequences would be devastating, we think, for the Nation and the economy.

Mr. MCHENRY. So you have no plans for how you would go through that process, either Chapter 7 or Chapter 11? You have no plans?

Mr. WAGONER. It is my view, based on the research that I have done and our experts have done, that Chapter 11 would be an unlikely outcome of a filing by one or more of the auto companies.

Mr. MCHENRY. So, therefore, you have studied it?

Mr. WAGONER. Our experts have knowledge in this area, yes, sir.

Mr. MCHENRY. Okay.

Mr. Mulally?

Mr. MULALLY. Yes, we have studied that option. We believe it is not a viable option, and so we have no plans for bankruptcy.

Mr. MCHENRY. Well, a far more positive comment from you.

So, as a potential vote on whether or not to lend you money, I believe it will be a fair assessment to say that you should turn over those plans on how you would enter bankruptcy and what your state of preparation is for Chapter 7 or Chapter 11. As somebody that you are seeking money from, I think I need to have that information in order to make a proper assessment of whether or not you are creditworthy.

Because the truth is the doom and gloom of Mr. Wagoner, he says, you know, this is not what—it would be devastating, it would go to Chapter 7. Therefore, what you are telling me and what you have said in your testimony is that you would go into liquidation. Well, that is a hell of a thing to tell somebody before you ask them for money.

Therefore, you are telling me that inherently you are not creditworthy. Therefore, we should loan you money? Explain this to me.

Mr. MULALLY. I think you are significantly misinterpreting what I said, sir.

Mr. MCHENRY. Well, you said you have plans for Chapter 7.

Mr. WAGONER. Let me be clear. I did not say that, in fact. I said that my expectation was, based on independent research which indicates that 80 percent of consumers would not buy a car from a company that was in bankruptcy, that whether one initially went into Chapter 11 or not, the likelihood would be you would end up liquidating the company, very simply because you wouldn't have revenue.

What we are doing with all of our actions, including our own $20 billion worth of cost-cutting and restructuring actions since the beginning of this year through the end of next year, is to try to do everything humanly possible to stave off the risk of bankruptcy, to avoid that dire consequence on the Nation, because we think our basic business model, based upon my opening comments, would be quite viable under a normal circumstance—

Mr. MCHENRY. Okay. Reclaiming my time, I would submit to you that there are many industries in America that are watching you now, and they are going to be next. We have retailers that employ more people than the Big Three combined. We have full-service restaurants that employ multiples of the automotive industry. We have gas stations, even, that employ more people than you representing your industry today. They are next. So you are encouraging them to come forward, because of the tough economic times, to ask for a bailout.

I would conclude by just commenting that, in my region, we lost textile and furniture industry jobs, and there was no bailout. We employed tens of thousands, in fact, hundreds of thousands of people in this country without a bailout. That industry is gone. There was no help from the government.

I would finally say to you that many in America today are watching the fact that you flew here on your jets. And I am not an opponent of private flight, by any means, but the fact that you flew in on your own private jets at tens of thousands of dollars of cost just for you to make your way to Washington is a bit arrogant before you ask the taxpayers for money.

The CHAIRMAN. The gentleman from Missouri.

Mr. CLEAVER. Thank you, Mr. Chairman.

I have six questions. I think we can get through them if you cooperate with me with very concise answers.

The first one is, why $25 billion? I mean, why not $26 billion? Why not $23 billion?

Mr. NARDELLI. From our standpoint, as I said earlier, we looked at the balance of this year, we looked at our cash position, we assumed our exit rate of this year would be the industry rate next year—

Mr. CLEAVER. Okay. Thank you. So are we going to divide 3 into 25?

Mr. NARDELLI. No, we are asking for $7 billion.

Mr. CLEAVER. So we are going to do—

Mr. NARDELLI. Chrysler.

Mr. CLEAVER. No, Chrysler, General Motors, Ford, $7 billion apiece, that is $21 billion.

Mr. NARDELLI. No, sir, we are asking, Chrysler is asking for $7 billion.

Mr. CLEAVER. Okay, what is General Motors—

Mr. WAGONER. We had indicated against a suggested package of $25 billion that, proportionate to our relative market share, would be $10 billion to $12 billion for GM.

Mr. CLEAVER. Ford?

Mr. MULALLY. It would be the rest.

Mr. CLEAVER. Sir?

Mr. MULALLY. It would be the rest, based on the market share calculation.

Mr. CLEAVER. We are just spending $25 billion loosely. I mean, this is loosey-goosey, "Whatever is left, I will take." Okay, thank you.

Now secondly, the question that is somewhat troublesome was what Jerry York, former GM board member, said this morning on one of the news talk shows. He says that Ford has more money in their coffers as a result of an investment in the market they made a few years ago than GM or Chrysler. And he goes on to say that GM turned down a deal with Nissan a few years ago that would have arguably given them a cash flow that would not have made it necessary for you to be here. And he said that Chrysler seems to be in difficulty, whether they get money in a rescue package or not.

Do any of you have a short response to what Mr. York said?

Mr. WAGONER. I speak in the case of GM. It is a completely inaccurate conclusion.

Mr. NARDELLI. I can say relative to his comments, Chrysler I think has made pretty public that we are looking for alliances, partnerships, opportunities to get further synergies across the auto industry, certainly here in the United States or on a global basis. So we are totally open to any recommendations or thoughts that would result in a more efficient, more viable, and more productive auto industry, whether it is consolidation in technology or in manufacturing or in purchasing, etc.

Mr. MULALLY. His summary was very accurate. We went to the markets very early and aggressively to be able to fund our transformation plan. The progress we made on the product and the productivity has gotten us in the position today that I think we can make it through this recession if it doesn't get worse. Or absolutely with our partners in the industry, if this gets worse, we would like to have this vehicle in place so that we can save and be part of the solution of the economy recovery going forward.

Mr. CLEAVER. GMAC receives a part of this money although they are a nondepository institution. I mean, it is a lending institution. And I was at a dealership 2 weeks ago and it is a GM dealership. And the owner told me that GMAC had sent out a letter to all of the dealers telling them not to even send them any potential customers whose credit rating was below 700. If we are putting more money into the market—we are trying to thaw a frozen credit market. What in the world is going on if we are putting money into GMAC and they are still not making loans?

Mr. WAGONER. Just to be clear, we own 49 percent of GMAC. So we don't have control at this point.

Mr. CLEAVER. But you ought to be really angry with them whether you control it or not. The point is they are not making loans.

Mr. WAGONER. Yes. The issue is they have, just as we have, been significantly unable to raise credit. The availability of credit to them in the markets has been dramatically reduced. So unfortunately, in order to manage their cash flow to be able to provide wholesale financing at dealers and be able to finance some customers' sales, they have had to severely tighten their credit conditions. They would like nothing better than to get broader access to credit, which they are working on in this case to try to perhaps become a bank holding company to expand their deposit base to enable them to provide more credit. So they would like to have access to more credit and to be more proactive in the marketplace. We are working with other lenders who have a little more availability to see if they could help our customers out.

The CHAIRMAN. The gentlewoman from Minnesota is recognized for 7 minutes.

Mrs. BACHMANN. Mr. Chairman, thank you. Once again our committee is convened to hear the pleas of yet one more industry to ask the taxpayers for a bailout. This time from our great industry of the automakers, the Big Three, Ford, GM, and Chrysler. My family and I currently own a GM and a Ford, and one of our favorite cars was the Chrysler minivan. So it is with great love for your vehicles that we want to see you succeed. But it is also appropriate that we again total the taxpayers' current bailout tab, $29 billion for Bear Stearns this year, $200 billion for Freddie and Fannie, $300 billion to expand the Federal Housing Administration, $150 billion for AIG. Who knows where that will end? $700 billion for the Paulson plan plus another $110 billion in sweeteners to pass that plan. Then you have to add on the original bailout bill, which would be the stimulus package; that was $168 billion earlier this year. And then we had also the deficit spending of this Congress in the 110th of $455 billion. That is a whopping $2 trillion. And recognize that only 40 percent of Americans even pay taxes.

Secretary Paulson and Chairman Bernanke chose to start this bailout mania over 8 months ago. But since then the American people have been told over and over that the woes of our financial markets will subside. They haven't. Yet after bailing out bad decisionmakers time and again to the tune of over $2 trillion, the financial markets seem to remain in even more turmoil than before. What we are asking now is for the American taxpayer who was never part of these initial contracts to solve the spiraling problem that is facing the City of Detroit.

We share in the grief that Detroit has had to deal with and in fact the entire State of Michigan. It is not pretty. No one would want the problems that you have to deal with. But we are looking at other problems as well. And the American people suspect that there are long-term management issues at these companies and productivity problems as well. I don't know that we want government bureaucrats, certainly I wonder if we want to have Members of Congress giving you orders for how to run your companies. It has been reported for years that CEOs at Ford, GM, and Chrysler have not made the necessary changes to rein in labor costs and have not downsized facilities to ensure the company's longer-term viability.

Again, I don't want to see Congress second guessing your business decisions, but these are concerns that the American people have. In fact the Big Three are paying out an average of $30 more per hour than your competitors. That is what we are told. And you support a large number of retirees under what are now considered outdated contracts. GM, for instance, we are told actually supports more retirees than they support current workers. The auto industry has also been criticized for failing to invest in enough competitive innovative products that American consumers want to buy. And what we are also told is that the Big Three has failed to look into the future and take steps to prepare for the rise in gas prices, although I don't know how anyone could do that.

Taxpayers are again being asked to throw their hard earned money behind a short-term unproductive investment which may perhaps only prolong your companies' failures at a cost that could even be higher down the road. I have received no assurances to date that this money will not simply go down a rabbit hole, none of us have in this committee. Plus, much of the urgency that would force the Big Three to make tough restructuring choices would be reduced if the Federal money is made available to you.

It is an interesting conundrum. Like AIG, it is easy to predict that you will be back at the taxpayer's trough in no time at the rate that money is being burned in Detroit. Some say the bailout is needed under the premise that consumers just can't get access to car loans due to the broader credit crunch and that this is causing your companies to suffer. But there are automakers that have remained profitable even through these tough times, Toyota, Honda, and Nissan. They are Japanese-owned, but they operate huge manufacturing firms here in the United States, in Kentucky, Tennessee, and Ohio. These companies also employ thousands of American workers who are paying their taxes and struggling to put food on their families' tables. When we take money from this group of taxpayers to save the three ailing companies before us, it is not only unproductive, it is just plain wrong.

This Congress has already spent $2 trillion in bailouts this year, and if we move forward with this proposal I don't know where or when this bailout bonanza will end. I think there are other alternatives that we can consider. For instance, if the Big Three would restructure and reorganize under bankruptcy courts, it is possible that you could be saved without a taxpayer bailout and that you could fix your long-term management and labor problems. If you file for Chapter 11 bankruptcy, it doesn't mean that your company has to go belly up and that all jobs will be lost. It would mean that the company actually might have the ability to make structural changes to keep itself afloat without the threat of outside lawsuits, enter a comprehensive payment plan. The taxpayers just want to know.

My question that I would have, Mr. Chairman, would be for Mr. Wagoner from GM, and it would be two things. One, I noticed today you wrote an editorial in the Wall Street Journal on why GM deserves support and you said that we know we can't just slash our way to prosperity. And my question for you would be this: Isn't that just a Draconian way of stating the realities of supply and demand in the marketplace, that your company needs to adjust in good times and in bad? If you are smart and looking for the future, shouldn't your companies be treated the same as other separate companies who have to make those vagaries of life decisions?

And also in your testimony, sir, you reference that what exposes us to failure now is the global financial crisis. Well, if the global financial crisis is the sole cause of your current troubles, then why aren't we seeing the other car manufacturers in other countries reaching out to their respective governments with similar requests for cash? And similarly, why aren't we seeing Toyota, Honda and Nissan here at the table today?

The CHAIRMAN. There are 7 seconds left for the response.

Mr. WAGONER. Many other countries are discussing whether automakers' funding support would be the first answer. It is happening in countries all around the world that are being affected. And virtually every manufacturer in the world has slashed their earnings forecast and cash generation forecasts in view of the plummeting demand in the auto sector globally. Frankly, we came into this with a very weak balance sheet because we had over the period of 75 years accumulated a huge retiree and health care benefit commitment that was part of the policy of this country at that time, not the policy of most of the countries that we compete against by the way. Those benefits are paid publicly. So we paid $103 billion over the last 15 years to fund health and pension benefits. Thus, our balance sheet is weaker than it would have been. People say well, why didn't you stiff the retirees? We didn't think it was the right thing to do. We thought we had an obligation.

The CHAIRMAN. The gentleman from Colorado.

Mr. PERLMUTTER. Thanks, Mr. Chairman. And, gentlemen, thank you for your time today. We have had a lot of questions and you have heard a lot of comments. And we appreciate your perseverance. First, there are a couple of places where I differ with the chairman. One, just as full disclosure, I am a Chapter 11 lawyer. So I don't see that as the absolute end of the world, that there are plenty of ways through an 11, through prepackaged, as you said, Mr. Nardelli, kinds of approaches to deal with this.

The second thing is I do see a difference between manufacturing and underwriting or supporting the manufacturing industry as opposed to trying to keep the banking industry in some kind of shape that would facilitate our economy.

So I do look at this a little bit differently. These are my questions. But I did want to say and I do want to applaud all three companies for really having moved into this century with your Volts and your Escapes and all your different cars that are much more fuel efficient, and I know you put a lot of money into that R&D and that development. So thank you.

The first question. And this goes to you, Mr. Wagoner. What was—in the third quarter of last year, did you make money or lose money, 2007, and what was it?

Mr. WAGONER. Third quarter of 2007, I don't remember the specific quarters but I believe that is the quarter where we had to reverse the deferred tax assets. So I think we had a significant loss is my recollection.

Mr. PERLMUTTER. What about the third quarter this year?

Mr. WAGONER. We also recorded a loss.

Mr. PERLMUTTER. How big?

Mr. WAGONER. The total was, as I recall, about $2.9 billion, net-net.

Mr. PERLMUTTER. What is your forecast for this quarter?

Mr. WAGONER. We don't provide financial guidance in earnings.

Mr. PERLMUTTER. This is an interesting way to negotiate a loan, wouldn't you say? You are asking us to be your lender. You are asking the United States of America to be your lender. And I am just saying, do you have a forecast based on—let me ask you this: How do your sales in November compare to your sales in October?

Mr. WAGONER. I would say it looks like at this point industry sales are running about the same level.

Mr. PERLMUTTER. So still down steeply, 50 percent or—

Mr. WAGONER. Ours aren't down quite as much. We had a strong prior September, so we had a little weaker October. We are not down quite that much. But we think the industry is still going to be running in the 11-ish range. Maybe a little less, maybe a little more. So very weak by any standard.

Mr. PERLMUTTER. Okay. Mr. Nardelli, what was your quarter like this past third quarter?

Mr. NARDELLI. We lost money in the third quarter.

Mr. PERLMUTTER. How much?

Mr. NARDELLI. We burned about $3 billion in cash.

Mr. PERLMUTTER. What is your break-even on a monthly basis?

Mr. NARDELLI. On a monthly basis relative to—

Mr. PERLMUTTER. What are your operating expenses? How much do you have to do to pay your salaries, no bonuses, everybody gets paid?

Mr. NARDELLI. We have about a $4- to $5 billion obligation.

Mr. PERLMUTTER. So $4- to $5 billion per month. And, Mr. Wagoner, I meant to ask you that.

Mr. WAGONER. Well, our total expenses in let us say North America maybe in a normal industry would run around $80 billion. So divide that by 12 would be, you know, maybe $6- or $7 billion a month would be a rough guess.

Mr. PERLMUTTER. And, Mr. Mulally, how did you do last quarter?

Mr. MULALLY. We lost $4 billion.

Mr. PERLMUTTER. Okay. And what is your monthly nut?

Mr. MULALLY. In the third quarter, we had a run rate of 7.7, but we think that going forward it will be substantially less than that because we brought down the production of a number of our vehicles. So it was kind of an extraordinary quarter.

Mr. PERLMUTTER. Okay. I think somebody mentioned—and it may have been you, Mr. Wagoner—that taking a conservative look going forward you need to sell 11,700,000 units or—to—next year is something you are projecting?

Mr. WAGONER. That was an industry forecast, U.S. industry forecast, light vehicles, yes.

Mr. PERLMUTTER. Okay.

Mr. WAGONER. I hope it is better than that, but—

Mr. PERLMUTTER. Because what I saw or at least as of October, the annualized rate was 10 million or something other units.

Mr. WAGONER. It was 10.8 in October, right, which is significantly the worst month of the year, but obviously very concerning to us.

Mr. PERLMUTTER. If there were a bankruptcy—and this goes to you, Mr. Gettelfinger. One of the things I have been thinking, do we put the money in up front and allow things to go forward and hope that the economy improves and we don't have to come back, you don't have to come back for more money or do you take a Chapter 11, set the legacy benefits on the side and then we underwrite that through PBGC?

Mr. GETTELFINGER. I think if there is a Chapter 11, first of all, one of the companies—it will drag at least one other with them if not all of them. And I do not believe Chapter 11 is where it will end. It will go to liquidation. I firmly believe that. I would not be sitting here with these executives today because again I want to stress we brought in Steven Girsky, who is or was the top auto analyst in this country for 17 years. He is now at Center Bridge. He had worked at GM at one time and we asked him to come in and assist us. And that is why I am here today because of the urgency of this crisis that we are in.

And again, I firmly believe Chapter 11 leads to Chapter 7, which is liquidation.

Mr. PERLMUTTER. Thank you.

The CHAIRMAN. The gentleman from Illinois, for 5 minutes.

Mr. FOSTER. Thank you, Mr. Chairman. Can you tell me, gentlemen, the three of you, what the terms of the loan are that you are suggesting? Is it in perpetuity? Is there a date certain and is it with interest, without interest? Just sort of in a nutshell. Just sort of choose one among you.

Mr. WAGONER. We had talked about an interest bearing loan, 5 percent for the first 4 years, I think, and then 5 percent for the next 5 years, and then 9 percent after that. And, you know, warrants, things of that nature, additional compensation opportunities for taxpayers if we are successful.

Mr. FOSTER. Thank you. What is it that animates the hope in you that sales are going to be robust enough to put you in a position to repay the loan?

Mr. WAGONER. Well, I think, while things are difficult today, it is the lowest level that the industry has run in the United States alone on a sales per capita basis in over 50 years, in the post-World War II period. So I would say this is an extraordinarily difficult period. What we have tried to do is say let us assume we don't stay at the bottom forever but assume after a year or so we begin to see some gradual improvements. And we have assumed a rather slow improvement from, let us say, roughly 12 million units, 13, 14. The industry was running about 17 million units—17 to 18 for 6 or 7 years in a row. We think that was actually probably in retrospect higher than a normal trend because of the low energy cost and the cheap credit. So we have assumed the industry will gradually return and we believe we can generate positive cash flow and be a profitable business under an assumption—

Mr. FOSTER. So you are assuming we are essentially at the bottom of that?

Mr. WAGONER. We expect to say there for a while, yes.

Mr. NARDELLI. We are taking within Chrysler a more conservative approach. We took out $2.2 billion of fixed costs to change our break-even point. We are planning for a much flatter, more of a bathtub curve relative to the economy coming back. And as I said before, we are not only trying to restructure ourselves for a leaner period, but we are certainly open to any kind of collaboration, consolidation, sharing facilities, sharing synergies to make sure we do get through this economic trough.

Mr. FOSTER. One of the things that essentially the three of you opened yourself up to is incredible public scrutiny of yourself when you are here. You get the joke, right? You are here and it is not a pleasant experience for you, but it is not a pleasant experience for a Member of Congress to contemplate authorizing a loan for people who are highly compensated.

So it is my understanding, and I wasn't here earlier, but it is my understanding that Mr. Nardelli has made a commitment that he is essentially willing to walk away from compensation for a year or something, and not to demagogue, but I just want to have really clearly what you are offering at a personal level and just as an aside, the symbolism of the private jets is difficult, you know. You are talking to people who are schlepping back and forth, going through all the drama in the airports every day along with the American public. My suggestion is that those set a tone.

So, Mr. Wagoner, could you tell us what, if anything, you are personally willing to do in terms of your compensation?

Mr. WAGONER. I am willing to continue to do what I have been doing. I have had no cash bonuses for 3 of the last 4 years. Basically, I have a significant amount of General Motors stock, including a lot which I bought myself, which basically is valueless. I voluntarily reduced my own salary a few years ago by 50 percent. So in the spirit of sacrifice, I will be glad to participate in that as well.

Mr. FOSTER. Okay. Are you willing to go the other 50 percent, down to a dollar?

Mr. WAGONER. I don't have a position on that today.

Mr. FOSTER. Okay. Mr. Mulally?

Mr. MULALLY. We have eliminated all of our bonuses also and also any salary increases. We think that is absolutely appropriate. Plus on the other assets—on all of our assets we have reduced and consolidated all of our assets on the travel, too.

Mr. FOSTER. Are you willing to go down to the dollar?

Mr. MULALLY. I understand your point about the symbol and clearly the intent of what you are asking. But I think not just for me, but we are trying to fill a skilled and motivated team also. And it is so important that as we do this plan that we have the team that we need. So I understand the intent, but I think where we are is okay.

Mr. FOSTER. Just so I am clear, I am not asking about the team. I am just asking about you.

Mr. MULALLY. I understand.

Mr. FOSTER. And the answer is no?

Mr. MULALLY. I think I am okay where I am.

The CHAIRMAN. Time is up. The gentleman from Indiana. We have three more gentlemen.

Mr. DONNELLY. Thank you, Mr. Chairman. Sometimes the toughest time to see that there is headway being made is in the middle of a storm and we have had all sources or many of the sources of credit collapse for you, extraordinary difficulties from end to end. But I don't want the American people to think that you haven't been working on this, and that is the point I think that has been made, that in fact when we have heard everybody say, you know, why are we not cost competitive and it has been said time after time that was addressed in the last contract, including the retiree benefits which have been mentioned by many. And my question to the folks from Chrysler, who came to my office the other day because they are such a big employer in my district was how are you going to be cost competitive with Honda and Toyota and that is what Americans want to know and the fact is that this contract should do that. Additionally, what you hear so many times is why don't GM and Chrysler and Ford make fuel-efficient vehicles? I think that has been laid out.

So what I am hopeful and what these things have indicated is that we are a lot closer towards the other side of the shore, toward completion of this than we are from the start. And so we are in extraordinarily stormy waters right now, but I am hopeful as the volume picks up, that we are in a position to succeed because in my State of Indiana and in my congressional district, we have 15,000 people just in my district who work in automotive-related products. It would be an extraordinary calamity for this country, not only my State, but this country to see our manufacturing base be destroyed.

And when we look at the TARP funds of $700 billion, what you are asking for, which is hard working taxpayer funds, this is 4 percent of that. And I think our manufacturing base, which has been the heart and soul of much of this country, is worth 4 percent of what we have allocated to get through difficult economic times.

And so things have been done. Work has been made to create this progress, and I guess the question I would ask you is, $25 billion has been allocated already under section 136. If those funds were used by you now for these purposes, to get to January or February, if an additional $25 billion were allocated in January or February for the 136 purposes, in effect a swap, is that something that can help you get there and continue in operations to achieve success?

Mr. WAGONER. I am not sure I exactly understood what you meant.

Mr. DONNELLY. There is $25 billion in the section 136 funds, the retooling funds. If you use that now for the operational purpose, if we gave authority to do that, the things we wanted to do in retooling and other, could that wait until February as—in effect a swap of the funds?

Mr. WAGONER. Well, you know, the legislation written for 136 doesn't permit that.

Mr. DONNELLY. That is what I am saying, if an adjustment was made. Is that the kind of thing that could work? You mentioned before it is interchangeable to you. Is that across the board?

Mr. WAGONER. I think it could, yes. A lot of the spending we will do under 136, you know, we are sort of starting right now. So it is not a huge amount of money that we would otherwise be spending under 136 under that relatively short timeframe.

Mr. DONNELLY. And then the next thing is in my district, and we are really proud to make Chrysler transmissions in my district, and they have worked hard to meet the China prices, as Mr. Gettelfinger and Mr. Nardelli know. But we sure don't want to see these funds used and then a month from now hear that there has been a merger, that these funds were in effect used to help merge two of the three companies. Can you give us an assurance that is not on the horizon?

Mr. WAGONER. I can tell you what we have said when we had a chance to talk to the Speaker and her leadership group recently was that because of the urgency of the funding crisis we have sort of set aside any consideration of that, and as we have looked at an opportunity to merge without naming potentially with whom, we identified that there were significant potential cost savings that could conceivably make the business more viable. So I guess what I would say is, if we think in the future it makes sense to do it, we would be glad to come back and review the rationale with any super oversight board or other group and let them provide counsel as to whether that is acceptable or not.

Mr. DONNELLY. Mr. Nardelli?

Mr. NARDELLI. Yes, sir. I would say that the $25 billion we are asking for is to meet the immediacy of liquidity needs. I would hope that this committee and Congress certainly wouldn't restrict us from looking at opportunities to make our companies in this industry even more competitive by sharing resources, sharing technologies, and sharing our purchasing power in a collective way. So I can assure you this is not funds for restructuring and mergers, but I would not want to misrepresent that those—those are certainly opportunities we should have an open mind to strengthen the auto industry.

Mr. DONNELLY. But as of right now, your plans are to move forward as individual companies and achieve success as such?

Mr. NARDELLI. We are doing everything humanly possible to survive this current period.

Mr. CLEAVER. [presiding] Thank you. Ms. Speier, you have 5 minutes.

Ms. SPEIER. Thank you, Mr. Chairman. I want to thank you all for being here and for weathering an almost 3½ hour hearing. I sat through most of it and I am going to just give you what I think the public is seeing right now.

The public is seeing that basically, Mr. Wagoner, GM is on the ropes. Mr. Nardelli, Chrysler is on the ropes. Mr. Mulally, you somehow have made it work. And for those of us here as Members of Congress now, a twisted set of circumstances have become the people's bank of the United States and you are asking us as bankers to assess your viability as credit risks.

Now, let me just share with you a couple of things that have been said about you. This is from Deutsche Bank, and it is about GM: "A government bailout is not likely to help shares. Even if GM succeeds in averting a bankruptcy, we believe that the company's future path is likely to be bankruptcy-like. We believe that the United States may ultimately need to provide GM with at least $10 billion in loans to keep the company afloat to 2010 and potentially as much as $25 billion to fund GM's cash burn and restructuring." And then J.P. Morgan says the following: "Absent liability reform, the GM bailout alone could easily reach $30 billion. D.C. should not be fooled into believing GM simply needs enough to get to 2010. Its 2010 operating cash burn will be $5- to $7 billion by our estimates. All said, the GM bailout will be as much as 30 billion absent liability reform."

So my questions to you are the following. The people of this country need to get something out of this. I am not absolutely convinced we should give it to you. But if we do give it to you, we are a bank and you need to think of us as a bank and we need to have some level of security and knowing that this loan is going to be paid back. This is—you reference it as a bridge loan. If you read some of the investment banks and what they are saying, it is more like a life raft.

So my question to you is the following: In 2007, the Congress passed new CAFE standards. They were watered down because of what was going on in Detroit for the most part. I for one want to see those standards met by 2015. And my question to you is, if we give you this loan, will you make a commitment to meet those standards by 2015?

Mr. WAGONER. Just to be clear, you are talking about moving the 2020 standards to 2015? To be honest, I would love to be able to tell you yes, but I have to be honest in saying our teams are working right now to meet the standards as they are laid out. And, frankly, they are requiring all of our technologies, massive amounts of retooling. And I think, at this point, we commit that we are going to do our best to meet them as stated. It would be very difficult, in my view, to advance them a full 5 years.

Ms. SPEIER. Mr. Nardelli?

Mr. NARDELLI. I would say, in a similar fashion, the only thing that would allow us to advance those is a major breakthrough, as we are trying to do right now with our electric vehicles. And what we are trying to do is put that technology into existing platforms so that we aren't spending money for new top hats but we are able to put our precious few dollars into the technology. If that is successful, obviously we are going to continue to go as fast as we can in retrofitting what we have.

We also have the hybrid that is coming out in a truck. We have the new diesel coming out in a truck.

So we are doing everything we can. We aren't pacing ourselves to the 2020 guidelines. Obviously, it would be in our best interest to produce the most fuel-efficient, most environmentally friendly vehicle, assuming the consumer is going to buy that. We would be foolish not to do it.

Ms. SPEIER. I understand that. What I am saying to you is, if we linked the 2015 date to this bailout, would you accept the money?

Mr. NARDELLI. I really don't know that—again, sitting here today, I can tell you we are open, we will look at it and we would be happy to come back and give you our real point of view on that, our technical capability of doing that.

Ms. SPEIER. Thank you.

Mr. Mulally?

Mr. MULALLY. Well, as a technologist, I would like to offer you a thought on that. I thought that what we did together on the 2007 Energy Independence and Security Act was phenomenal work that included all of the industry, not just GM and Chrysler and Ford, but also Toyota and Honda and the entire industry. And where we ended up was a very, very aggressive plan to use every bit of enabling technology to meet the standards that we committed to. I don't think it is technically possible to move that ahead.

The CHAIRMAN. The gentleman from Massachusetts will be the final questioner.

Mr. CAPUANO. Thank you, Mr. Chairman.

Gentlemen, thank you for doing this. But I figure, for 3½ hours, $25 billion is not a bad deal.

Gentlemen, I am inclined to want to help. But I will tell you, I don't want to help for almost any of the reasons I have heard you say. I am really not interested in which companies survive. I mean, the last car made in my town was an Edsel, so, you know, it didn't go over too well that time. And I am not really worried about that. I am worried about one thing, and that is the gentlemen at the end. I am worried about jobs—American jobs.

And up until now, I really haven't heard any of the Big Three talk about jobs in America. Look, I am all for international stuff and all—I love all that stuff. But the truth is, if there aren't things being built in America, I am not really terribly interested in helping.

It is interesting to me that you are being criticized by the very people that we just gave $700 billion to; I kind of figure that is a little strange. You know, why don't they open up their wallets and help you out, if they are so smart, if they are so caring about society.

But I want to tell you very clearly, the people on Wall Street that we just gave the money to—I did it, I voted for it, hesitatingly like most of us, because we all know we have a problem. We know we have a problem in the auto industry. And it is really not even the industry; again, it is the jobs that you represent that I am interested in.

I understand that. I want to save those jobs. I am not interested in a race to the bottom by taking wages away. Anybody here who said today or any other day that the problem is that we pay our workers too much, well, then, you know, my answer is then why don't they individually leave the middle class? Because, as far as I am concerned, the auto industry was one of the leaders in creating the middle class by negotiating good wages. I am not interested in a race to the bottom.

I am very interested in my constituents, who basically do not trust you. They really don't trust me all that much, but they really don't trust you. And they don't trust you for lots of different reasons. I have only been here 10 years, and in that 10 years all you did, the industry—and that includes the union, as well—you fought me on CAFE standards. You said, no, we can't do it. Yet you just said we need more fuel-efficient vehicles, we want to sell them. Well, if you had listened to us, you would have had them. All you did was ask us for tax cuts for gas-guzzlers. For all intents and purposes, you were giving away vehicles that got 3 miles to a gallon because we stupidly—not this side, mostly the other side of the aisle—allowed tax incentives that gave away trucks for nothing. And you didn't say a word. You said, thank you, shh, quiet, don't talk about it. You should have been here.

I need some assurances, my constituents need some assurances, that you are not going to just blow this again, that you really did get the message. And the truth is, all the things you talked about today so far of what you have cut, we are not sure we trust you. I am not sure it really matters all that much. My fear is that you are going to take this money and continue the same stupid decisions you have made for 25 years. That may not be you, it may be your predecessors. I don't know who it is; I don't care. It is the industry.

I want to want to buy an American-made vehicle again. I want that. I don't trust, necessarily, that you will provide that. I am afraid we are going to do this, it will be a short-term bailout, and you didn't get the message. Give us the cars that we want that other companies have been able to give us. If you can do that, maybe some people in the Senate will actually listen to you.

I think over here you will probably end up with people who want to help, but damn it, I don't want to help again and get it stuffed back in our ear at home that you took and money and you blew it. How can you reassure me and, more importantly, my constituents that you won't do it again, that you really did, honest to God, this time you got the message?

Go right ahead, any one of you, just jump right in.

Mr. MULALLY. Well, I, personally, I couldn't be more aligned with you. I have dedicated my professional life to fuel efficiency in airplane design for 37 years. And the most compelling thing to me when I was invited by Bill Ford and the Ford Motor Company to join Ford to help was a vision of sustainability in fuel efficiency and high-quality cars based on safety, to get people where they wanted to go safely and efficiently. And I also was attracted by an American icon and a global icon.

And it is about America; it is about jobs in America. I can remember when we sat down in the negotiations with Ron, and I can remember the day, and we agreed that we were going to work together to do whatever it took to increase our competitiveness so that we could make cars of all sizes—small, medium, and large—the most fuel-efficient, the highest quality, the safest vehicles, all sizes in the United States for Americans.

And the agreement that we did absolutely is going to deliver on that promise. And, as we talked about earlier, we put that plan in place. We have now probably the best lineup of small- and medium-sized vehicles to match our wonderful SUVs and trucks that we had before. But we have a terrific, balanced portfolio. They are competitive with the best in the world. And we are doing it with the productivity to be competitive.

So I am very, very positive about the future of the automobile industry. The fact that we are in the worst downturn that we have ever been in, as far as the economy and the credit, is something we are all dealing with. But when it comes to us having a vision of a viable and exciting and a sustainable automobile industry, I think you can look at our past performance and say we are absolutely going to continue to deliver that vision.

The CHAIRMAN. The hearing is now ready to move on to the next phase. The witnesses are excused. And we will call up the next panel.

Let's move out quickly, please. Please let the witnesses move out quickly. You can be nice outside. I want people to—let's move out quickly so the next panel can sit down. We have been here long enough.

We will now move on to the next panel, with my thanks for their willingness to testify and for their patience in our reaching that.

Let's break up the conservation over there on the left side of the room.

And let me begin by recognizing my colleague, the vice chair of the committee, Mr. Neugebauer, to make an introduction.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

It is my honor to introduce Annette Sykora from Slaton, Texas. She is the first woman to ever chair the National Automobile Association, and we are very proud of her. What an interesting year she picked to be chairwoman.

Annette is a third-generation car dealer. Her family has been in the Slaton area for a number of years. She and her husband, Pat, actually operate two dealerships, which were represented at this table earlier. She is not only an industry leader, she is a community leader. And it is a delight to have her testify today.

The CHAIRMAN. In addition, we have: Mr. James McElya, who is chairman and chief executive officer of the Cooper-Standard Automotive and a return witness to this committee, although he previously has been here on a lot of international matters; Professor

Jeffrey Sachs, who is director of The Earth Institute; and another individual with whom we work, Dr. Matthew Slaughter, now professor of international economics at the Tuck School, and a former member of the Council of Economic Advisors.

I did want to note, I wrote a note of the presence of our colleague, Ms. Jackson-Lee from Texas. I should note that Mr. Pascrell of New Jersey—very interested, I believe has drawn up some legislation involving dealers—today is also here.

With that, Ms. Sykora, we will begin with you, 5 minutes.

STATEMENT OF ANNETTE SYKORA, CHAIRMAN, NATIONAL AUTOMOBILE DEALERS ASSOCIATION

Ms. SYKORA. Thank you, Chairman Frank, Ranking Member Bachus, and Congressman Neugebauer. Members of the committee, on behalf of the Nation's 20,000 franchise automobile dealers, thank you for this chance to put a different face on the legislation we are discussing today.

Maybe it is a face familiar to you. Dealers are the public and local face of the industry in communities across our country. Our fate is directly connected to our manufacturers, and the success of our automakers is directly connected to the success of our dealerships.

I am a Ford and Chrysler dealer from Slaton in Levelland, Texas, and the third generation of my family to carry on this small business. My dealership and thousands like mine are going through very difficult times.

For decades, the Nation's automobile dealerships have been a true indicator for the state of our economy. Typically, car sales go up in good times and down in bad times, but this is not a normal economic downturn. The meltdown on Wall Street and the real estate crisis have all but destroyed consumer confidence. Auto sales have fallen off a cliff, and they are at a 15-year low.

The sales slump is not only affecting the current bottom line but the future of my dealership and others. I have spoken with dealerships across the country that have had to cut costs, they have reduced their advertising budgets, support for the town's little league team, and, unfortunately, many of them have had to make the difficult cuts in staff. In my two dealerships, I reduced my staff by 20 percent.

Additionally, we are considering closing my dealerships earlier on Saturdays to cut costly overtime. Many of my employees count on this overtime to put money in their pockets to spend on their homes, at the grocery store, and on their children's college education.

Mr. Chairman, some members are considering voting against this legislation, suggesting that bankruptcy is a viable alternative for the auto industry, as it was for the airline industry several years ago. I would like to explain how I see the difference.

We don't simply take a person from point A to point B for a few hundred dollars. A vehicle is one of the largest purchases a family will make. And customers depend on our local presence for warranty work, maintenance, and repairs.

Like Mabel—she is a customer who has done business with my family for more than 50 years. And although she probably only buys a vehicle about once every 10 years, she counts on us for her warranty work, to keep that car running good, to perform the safety recalls and the front-end alignments that keep her safe. It doesn't make sense for Mabel to have to drive 40 miles to get this done.

We have also done business with four generations of another family. They have bought 70 vehicles from us, the same family over the years. And, although we have this tremendous relationship with this family, they are not likely to buy a vehicle from a company that has gone bankrupt. Would you? Well, neither would most Americans.

Auto dealers are also feeling the pain of the credit crisis in their operations. We finance the inventories you see on our lots. These loans are usually in the millions of dollars, even for a small dealership. Many banks have already eliminated what we call "floor planning," loans to any domestic dealers. And this is just because of the uncertainty that their manufacturers are currently facing. Imagine how banks would react to a dealer who has asked for millions of dollars to finance new and used inventories from an automaker going through reorganization.

Let me give you another example. Just yesterday, one of our used-car dealers who buys some of the vehicles that we don't keep on our lot, a wholesale dealer, had to return a vehicle to us because his bank had tightened his floor plan credit and he was not able to keep it. So now I have to keep this truck, find a way to finance it, and that impairs my ability to make other purchases. Furthermore, a bankrupt automaker could lose many of its dealers.

I recently sat down with Jim Toliver, Slaton superintendent of schools. We started discussing what would happen if one or more of the dealerships in my hometown were to close. The loss of tax revenue would force them to cut programs and teachers. Many displaced dealership families would most likely leave town in search of work in other places, compounding this loss. And I found out, while I was sitting here in this hearing, that this is a real possibility for one of the GMC stores in my town. This same scenario would play out in hundreds of communities across the United States. Time truly is of the essence.

Well, according to NADA, 660 dealerships have closed in 2008. But I want you to remember that dealerships are not company stores. As independent businesses, we make significant investments in land, buildings, equipment, and personnel that provide manufacturers a retail presence in hundreds of communities. We don't take vehicles or parts on consignment. We assume the risk of financing this inventory. We have heard this morning no manufacturer has the resources to internalize the cost that dealers bear. We even pay for the company sign on our dealership lot.

To get the economy back on track, we must restore consumer demand, and the only way to do that is restore consumer confidence. We need to give consumers the motivation and confidence to visit their local dealership and see what is possible. And consumer tax incentives are a great way to boost sales.

Representative Pascrell from New Jersey introduced legislation, H.R. 7273, that makes interest payments on car loans and sales tax deductible from a family's income tax. Senators Mikulski and

Bond introduced this measure in the Senate earlier this week. This will help get people in dealerships.

We need immediate access—

The CHAIRMAN. Ms. Sykora, we really need you to wind up. We don't have jurisdiction over taxes, so there is not a lot to be said more about that.

Ms. SYKORA. Well, we just urge you to move quickly.

I thank you for your time, and I will be happy to answer questions.

[The prepared statement of Ms. Sykora can be found on page 212 of the appendix.]

The CHAIRMAN. Thank you.

Next, Mr. James McElya. I am sorry if I mispronounced the name, but I mispronounce a lot of things.

STATEMENT OF JAMES S. MCELYA, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, COOPER-STANDARD AUTOMOTIVE, INC.

Mr. MCELYA. It is "McElya."

Good afternoon, Mr. Chairman, and members of the committee. I am the executive chairman of Cooper-Standard Automotive. And Cooper manufactures a variety of products for the auto industry and employs over 5,000 people across the United States.

I am also the chairman of the Motor and Equipment Manufacturers Association, which represents almost 700 companies that manufacture motor vehicle parts for the light vehicle and heavy-duty original equipment and aftermarket industries.

Today's auto industry is interdependent, such that it is economically impossible to separate the economic success of the suppliers from their manufacturer or customers. A potential bankruptcy by a major vehicle manufacturer will cause serious disruptions and will directly impact the ability of the entire industry to function.

MEMA urges Congress to immediately pass legislation providing direct financial assistance to the automotive industry, including auto manufacturers and suppliers.

Motor vehicle suppliers are the Nation's largest manufacturing employer. Our high-skilled jobs are critical to the industrial base of the country and are located throughout the United States. Every supplier job contributes an additional 5.7 jobs to the local economy, with a total of 4.5 million private industry jobs depending on the supplier industry.

We hear sentiments from people all across the country, and today, that the government should just let them fail. But just exactly who are they referring to when they say "them?" Well, let me clarify. The group that comprises "them" is a whole lot larger than the Detroit Three that were just here at the table. It starts with the manufacturers, of course, the Big Three and others, but it also rolls down to the suppliers, our sub-suppliers, followed by the many professional services that serve the industry. After that, it hits the local level in the small towns across the country where all these manufacturing plants are located. It will affect the owner of the diner across the street from the plant, the barber, and even the schools, as school tax revenues diminish or even go away.

Motor vehicle manufacturers and the supplier industry are leaders in the development of safety and energy technology critical to today's vehicles and those of the next generation. Suppliers account for over 40 percent of the total automotive investment in research and development and continue to take on a greater role in the design, the testing, the engineering of new vehicle parts and systems, a role that is expected to grow significantly over the next 5 years.

Some analysts have indicated that as much as half of the supply base is in financial distress. The U.S. light vehicle sales dropped to 12.8 million units this year, far below the 16.15 million average over the last decade. It is critical to resolve the financial crisis and return credit availability to the consumers and turn the economy around.

The dramatic and sudden contraction of the auto industry will directly impact the supply base, but the failure of the supply base will impact the wide range of car manufacturers. Vehicle manufacturers, including Toyota, Honda, and Nissan will likely have to close or limit production while awaiting for new sources of supply.

It is the inability to get credit that has pushed these seemingly unrelated factors into a crisis. There have been recent and serious repercussions. On November 13, 2008, Standard & Poor's rating service took an unprecedented step of placing 15 North American auto suppliers on CreditWatch based on their significant exposure to Ford, General Motors, and Chrysler.

The bottom line is that all automakers, not just the Detroit Three, will be dramatically impacted if consumers cannot access credit to purchase new vehicles. Without sales, even the healthiest vehicle manufacturer cannot survive a prolonged sales slump like the one we are currently experiencing.

The country is faced with two interwoven dire conditions in the auto industry. First, a potential bankruptcy of a major automobile manufacturer will cause a chain reaction of unpaid payables with subsequent additional bankruptcies that will severely and negatively impact the entire sector. And, secondly, on a parallel course, the inability of automotive suppliers to get sufficient working capital from its traditional sources will have a similar impact.

Congress must pass the legislation that addresses both of these challenges.

Thank you.

[The prepared statement of Mr. McElya can be found on page 146 of the appendix.]

The CHAIRMAN. Professor Sachs?

STATEMENT OF JEFFREY D. SACHS, DIRECTOR, THE EARTH INSTITUTE, AND QUETELET PROFESSOR OF SUSTAINABLE DEVELOPMENT AND PROFESSOR OF HEALTH POLICY AND MANAGEMENT, COLUMBIA UNIVERSITY

Mr. SACHS. Thank you, Mr. Chairman. This is the 4th financial crisis that I have dealt with, with this committee, over the last 25 years, starting in Latin America, Eastern Europe, East Asia, and now it is our turn.

The CHAIRMAN. One of us may be a jinx.

Mr. SACHS. No doubt we are—right. Bad luck.

But we are facing something that we have not faced since the Great Depression, as this committee knows better than any other committee of this Congress. And so, the normal business of this committee is not to be a bank. No one here wants to be a bank. No one here wants to think like a bank or grill the Big Three CEOs like a bank. But we have no functioning banks right now. That is why we are here.

This is the most intense financial crisis we have had since the Great Depression. If there were capital markets, they would much prefer to go to the capital markets than to go to you, I am sure of it. It was no fun doing a loan request this morning for them. The only reason they are here is that we have no financial markets for the moment.

All of the rhetoric we heard about "let the markets work" would be fine if we had markets right now. We have no financial markets; this is the essence of the moment.

In a year, we are going to have financial markets working again. TARP will be working. We will have a President; they will have a strategy. The markets will be working again. When they need more money, which they will, they will go to the markets, they won't come to you, because there will be financing available. So this, I think, is the essence of it.

Believe me, this is not the only Congress or parliament that the auto industry is going to. It is all over the world right now. This is a global contraction the likes of which we have not seen since the Great Depression, and you are going to see bailouts necessary everywhere.

The industry is a long-term viable industry. They would not have been here but for September 15th. Had Lehman Brothers been handled differently, not by the textbook of Chapter 11 but differently, we would not be with the $700 billion TARP and they would not be here today asking for 3.7 percent of that from the TARP. But Lehman was Lehman; panic worldwide ensued. Now the idea of using 3.7 percent of what you voted is absolutely the right thing to do. In fact, it is, to me, unthinkable not to do it. I can't even imagine it not being done.

Let me say that Chapter 11 is completely unworkable in this context. The New York Times had one of those "duh" stories today where it says, "Advantage of Corporate Bankruptcy Shrinks." You can't do Chapter 11 and survive when there are no financial markets. Section 364, debtor in possession financing, is a fantasy of my free-market ideologue colleagues in the economics profession. There is no financing even for non-Section 364, much less for bankrupt companies.

It is a fantasy, this idea, put it through bankruptcy, let them do that. And when you probe just a little bit, they say, oh, no, no, no, under bankruptcy, the government is going to have to do it anyway. So try explaining to your constituents that you are not going to do it now—only when they go bankrupt—then you are going to give them $25 billion. I like that explanation. That is absurd, in my view, frankly.

The only thing I would add is whether you want to have, in the board that you are setting up, some more public representation in addition to the Cabinet. That would be my only question. For the Congress to represent you, to represent the broader interests, to bring the National Academy of Engineering in, somehow to have a couple more voices than only the Executive Branch when this gets deliberated so that you just are able to get the rounded issues.

Other than that, I think you are on exactly the right track. I can't imagine, frankly, even a little bit, why we are here, because you already voted on the money. This would only be using 3.7 percent of it, for what happens to be the leading industry of the United States. Other than that, you know, it just is a little bit hard to figure out.

So, please, do this before we turn a recession into a depression. That is my request. You know, it is for all of us. There is nobody who will not be affected. And this idea of let markets work when there are no markets is the idea of how Lehman Brothers triggered the biggest worldwide crisis in generations. Don't do it again with this industry. Two in a row, we are really into depression.

Thank you very much.

The CHAIRMAN. Professor Slaughter.

STATEMENT OF DR. MATTHEW J. SLAUGHTER, PROFESSOR OF INTERNATIONAL ECONOMICS, TUCK SCHOOL OF BUSINESS, DARTMOUTH COLLEGE

Mr. SLAUGHTER. Committee Chairman Frank, Ranking Member Bachus, and fellow members, thank you for inviting me to testify on these important and timely issues. Let me start by saying that the Big Three automobile companies have very dedicated and hard-working executives and fellow workers, and that they have a lot of collective talents and strengths. I base my testimony to you today on two deeply held convictions.

One is that, although the dynamic forces of globalization and technological change have generated and has the potential to continue generating very large gains for the United States overall, these gains do not flow to every single worker, company and community. The other, given its first, is that one of the paramount policy challenges facing America today is how to share these gains more broadly across the full spectrum of American workers.

Despite these convictions, or rather as I will explain in my testimony largely because of them, I do not believe that automobile companies merit any new bailout assistance from the Federal Government. Any such assistance would actually incur large costs to the American economy in different ways.

Let me list three such costs. First, and perhaps most importantly in the long run, would be the economy-wide cost of substituting product market competition with resource allocation set by political rather than economic forces. A bailout of automobile companies could set a precedent to be followed for many years by many other companies in many other industries.

These bailouts would displace productive investments from firms elsewhere in the economy and thereby impede economic growth and rising standards of living. I acknowledge that this is indeed a long-term cost. But that does not make it any less important. If anything, it makes the cost all the more important given the many long-term challenges facing our country such as a slowdown in educational attainment and the unsustainable growth of entitlement spending.

A second important cost of any bailout would be damage to America's engagement with the global economy. Here let me highlight the cost that would fall on U.S. headquarter multinationals of all kind, key U.S. companies which employ over 22 million Americans and account for a remarkable 78 percent of all private sector R&D. The success of these companies depends critically on their ability to access foreign customers. It is unlikely that U.S. Government bailouts will go ignored by policymakers abroad. Instead, U.S. bailouts will likely entrench and expand the protectionist practices already underway in many countries that we have already been discussing here. This would erode the foreign sales and competitiveness of U.S. multinationals and would thereby reduce their U.S. employment and other activities.

And a third and more important direct cost would be the likelihood that any new taxpayer assistance would go largely or entirely unpaid.

So the relevant question I would like to pose in my remaining time for taxpayers becomes whether a different deployment of any public funds could support the workers and communities affected by the struggling Big Three. Here I would point out in response to Professor Sachs' comments, I think it is fair to say there is a more diversity of opinion among at least academic economists and finance folks on the viability of various bankruptcy schemes that could go forward for one or more of these companies.

That said, let me in my closing time comment on what are three important areas where I believe the Federal Government could offer assistance to the struggles to the American economy that are presented by the Big Three automakers.

First, the Federal Government could help expedite any bankruptcy proceedings. One important role that has been discussed in this committee already could be ensuring warranties on new and or existing cars to help maintain demand for the products of the Big Three.

Second, the Federal Government could extend targeted aid to workers in communities deemed to be adversely affected by a bankruptcy filing or other industrial restructurings. The Big Three are geographically concentrated in certain Midwest communities and States. Many of these areas already face hardships from the national economic slowdown in general and from falling home prices in particular. Plans could be laid now for extending supplemental benefits beyond standard unemployment insurance amounts. In light of the size of the bailout funds currently being proposed, the potential pro-worker supports are extremely large. This could be allocated per worker across several years of unemployment income benefits, of wage loss insurance upon reemployment, of retraining and relocation expenses, whatever combination we as a country might deem appropriate for these and perhaps other affected workers.

And third and perhaps most importantly, the Federal Government could use this auto industry crisis as an impetus for meaningfully expanding the economy-wide social contract that I mentioned at the outset to better distribute the gains of our dynamic economy. We as a country could do this in many ways: Through a more progressive tax code, through a fundamental overall of our unemployment insurance and trade adjustment assistance programs and through new insurance mechanisms that would allow communities to smooth out their tax revenues. There is no time like the present to begin deliberating and hopefully implementing such policies.

Let me close by thanking you again for inviting me to testify today, and I look forward to answering any questions you may have.

[The prepared statement of Dr. Slaughter can be found on page 207 of the appendix.]

The CHAIRMAN. Thank you. Professor, one side point, on putting other members on the board, we run into the problem of the appointments clause. You cannot give a board that has any power any membership other than a presidential appointee. We could add a presidential appointee who was not in the Cabinet but it couldn't be a congressional appointee. That is why in the TARP we have two boards, one that is congressionally appointed that is oversight but no power and then one with power but it is all the Administration. So it doesn't do as much good.

But beyond that, part of your mandate at Columbia, in which you have done such a good job, is on the whole question of sustainability. And one of the criticisms we have in the auto industries has come understandably from people concerned about the environment because of their past record. One proposal we got—in fact it is the Bush Administration's approach, which is to take away from the $25 billion that was already voted the conditions on that that were—that said it had to be used to promote energy efficiency; that is, their view is all right. We gave them $25 billion for the specific purpose of retooling credit deficiency. Let's just take those conditions off. What would your response be to that?

Mr. SACHS. First, before getting to the specifics of section 136, we should not ease the conditions. We should see this as an opportunity to enforce the conditions. I actually am more optimistic than the three CEOs that we heard that they could be accelerated even more because when you consider the Chevy Volt promises to be a leapfrog technology, in fact because we will go from hybrid to plug-in hybrid, we are on the verge in my opinion of getting back to U.S. technological leadership. GM also has invested more than $1 billion in hydrogen fuel cells. And Chrysler, I think very impressively, is looking at extended range electric vehicles. Don't ease the conditions, that is for sure.

My only question would be, you know, section 136 could be a bridge. We could see the money as a bridge to the Chevy Volt, to the EREV, and so forth. So it doesn't seem to me to be contradictory in that way. I think the approach this committee has taken is the right one though. The TARP really fits, in my opinion. This is a financial crisis. The money is there, adjust it in a modest way and get a very pragmatic result.

Section 136, if it had to be a fallback position, seems to me to be a viable one but not by easing the conditions at all. Indeed, by seeing the money is precisely to get us to that Chevy Volt. It is to get us to the EREV. Please don't ease the conditions. That would send every wrong message for the country.

The CHAIRMAN. On page 3 of the bill, we in fact have a section that says, no provision of this title shall be construed as altering, affecting or superseding the provisions of the environmental one. Professor Slaughter, I appreciated your testimony as I have admired much of your work. And I have to say, in your closing comments about the need for a safety net, you immediately qualified as my favorite witness that the Republicans ever suggested that we have. I wish they would send us more like you. But I do have one question, and I would like to do that.

There is no question. I think you make a good point. Had we in the past done that on the social sector, this would be an easy decision to make, if people weren't faced with the loss of their health care and if indeed health care had been built into the costs of the car. But I do want to say, there is one argument you made, with all due respect, it seemed to be a little bit of a make waste. That was, that if we do this, other countries will get indignant and be more protectionist. It is not my impression that they have a morally superior position to us today in the automobile industry on the whole with regard to openness to automobiles. That is, I think— no, I don't think anyone—we have about as open an automobile market as you can have. A number of other countries, Korea, China, we have already heard have less of one. I am skeptical that this would be any basis for them being any tougher on our automobile industry than they already are.

Mr. SLAUGHTER. It may not be a matter of morals. I think of it as a matter of first and foremost dollars and cents.

The CHAIRMAN. But you really think this would motivate—what country is now open without—is better than us in access in automobiles that would suddenly tighten up? It is also the case, by the way, we would hardly be unique in the world in subsidizing our automobile industry in some way.

Mr. SLAUGHTER. I fully agree. I think, Mr. Chairman, that many other countries have become more closed and inward FDI policies— U.S. companies to establish and expand operations there. And the likelihood that the response of our policies that we take will be to further make it more difficult for our United States—

The CHAIRMAN. There I disagree. You might argue that it won't get them to change but they haven't been changing anyway. It seems to me that the argument that this would motivate them to get tighter, as I said—just to be honest with you, it smells like a make waste to me. There are better arguments to be made.

Mr. SLAUGHTER. If I could get a two-hander on that. When you look at U.S. headquarter multinationals overall, for every dollar in exports that the parent operations send abroad in terms of servicing foreign markets, they in 2000—

The CHAIRMAN. You are making a different point than mine. I am not contesting the economic value of multinationals. What I am suggesting is that there are very few countries that I can think of that can say, oh, you stopped your Big Three autos from failing. Therefore, we are going to stop being so open to you. I just don't think that is a likely reaction.

Mr. SLAUGHTER. If I may, CEO Wagoner earlier commented on the important role China plays for General Motors. They have been the largest share of the Chinese market for several years running. Last year they sold over 1 million units.

The CHAIRMAN. And he noted he has to do a joint venture in China, which the Chinese do not have to do here. The only point I am making is there is already a lack of reciprocity to our disadvantage. So I am not prepared to be told that we can't do anything that is in our own legitimate economic interest if you think it is. If you don't think it is, it is different because they will get mad at us.

The gentleman from Texas.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. Annette, I want to go back to your testimony about the financing piece of it because there are so many pieces to this, and I think what our committee has to look at is those pieces where we probably have some jurisdiction. In the financing piece, how many—do you have a handle on how many people are coming to your dealership and would like to buy a car but you are not able to arrange financing for them? Is that 100 percent of the time, 90 percent of the time, 20 percent? Can you give me a handle on what you are facing on a retail financing contract?

Ms. SYKORA. Well, Congressman, the first problem we have is getting the people to come to the showroom because there is a lack of consumer confidence and they begin with the feeling that there is no credit available. So even if they come to the showroom, they are already feeling that credit might not be available.

Now, retail credit is available. You have to have a stable job and you have to have good credit. But because they are in many—and we heard that earlier today. There are many banks and credit unions that do have money to lend on the retail side. The problem is there are kind of three pieces here. You have working capital for the dealers, you have the inventory financing, or what we call floor plan, and then there is retail. And we are working with Treasury because of the tightening and elimination of the securitization on the lines, and that is what is impacting the availability of retail credit.

So, you know, I think that is where we need immediate and urgent help, is access.

Mr. NEUGEBAUER. See, my concern is that when you look at the burn rate of these three companies that were testifying here today, I mean they are losing billions per quarter. And they are asking for $25 billion. At the current rate they are losing money, that is basically maybe a quarter or two. I don't know see how that fixes your problem. That may somehow prop them up. But the question—the concern I have is, if we are going into, as some economists say, into an economic slowdown where consumer spending is going to be down, then this request that the auto industry is making is really not a fix. It is a postponement. I think from a congressional standpoint, I am interested in, you know, fixing things and not necessarily, you know, postponing things. So I think we have to—and I think certainly I know that the financing arms of the three captive finance companies are trying to—and we had Chairman Bernanke and Secretary Paulson here yesterday. I think they have been working with the industry to be able to allow them to come to the Fed window, which would hopefully work on the retail side, maybe also help some on the floor plan side as well.

Ms. SYKORA. Can I address that? I think you are asking me, are we delaying the inevitable? And I wouldn't be here. I wouldn't be sitting here today if that is what I believed. And I kind of like to make my point that dealers are independent businesses. Because you can see I am sitting here by myself. The manufacturers, they are not here. So I am representing the dealers. And I am giving you the opinion that, you know, I do think it is viable and we need this help.

Mr. NEUGEBAUER. Mr. Sachs.

Mr. SACHS. Congressman, we are in a downturn for sure, and it is going to be a very bad one. And even with all the emergencies, this will be the steepest recession that we have had in decades. And the fight is to keep it from turning into a depression right now. So your question is a very good one. But as I have heard all three of the CEOs testifying, what they are doing is assuming a burn rate based on sales at about 11 million units all through 2009. That is a collapse. We have gone from 17 million units down to 11 like that because this is a free fall. We have not seen this, Congressman, for decades. What they are assuming in their assumptions is not a further collapse but what is a collapse. And so I don't think that it is a wildly optimistic assumption.

But the main point that I would stress is the following: We will have a deep recession, and then the question is, are we coming out of something or was this just an industry in decline? Now first, I don't believe it was an industry in decline. And I don't think the evidence suggests that it was an industry in decline.

Second, I think they have a bridge to actually a whole new set of technologies and a post-SUV era. Everybody loved their SUVs, but now everyone is reconsidering. And it takes a lot of retooling and that is what is happening right now. So I think we are—in terms of make and model and technology, we are actually going somewhere.

But there is a third point for Congress that I think is very important. They are going to come back to banks, not to you because we are going to have a banking system working again in this country and that is going to be very important. They do not want to come back to you for the next round. They will go back to the bond markets. They will go back to the banks. And they will have a viable business.

Mr. NEUGEBAUER. My time is up.

Mr. WATT. [presiding] The gentleman's time has expired. I recognize myself for 5 minutes.

Ms. Sykora, are there any banks out there that are still providing the floor planning financing or is all of that now being done by the industry?

Ms. SYKORA. Only a handful of banks were providing this type of inventory financing in the beginning.

Mr. WATT. I got a call from one of the dealers actually from Florida. I am not even from Florida. And I got a call earlier this week saying the Bank of America had pulled out of that market, pulled out of loaning anything to any automobile dealer, not customers to buy cars. They want out of that too, he said. But they just wanted out of the automobile industry altogether. Is that what you are experiencing? Or is it different than that?

Ms. SYKORA. No, we have heard from dealers across the country that have experienced the same thing. Where one dealer who had been with the same bank for 40 years, they had never had a problem, weren't having a problem. Their balance sheet is fine. No more. No more floor plan inventory financing with that bank. And yet this is a GM dealer. So he didn't have the alternative to go to GM.

Mr. WATT. Okay. Professor Sachs, I notice you nodding your head and I want you to weigh in on that. What I am really more interested in is having your assessment of is a world without a domestic U.S. automobile manufacturer where all of our product comes from other—from manufacturers in other countries or based in other countries, even though some of them may be making their automobile. I am just trying to imagine the implications of that. And I think you are probably—maybe Dr. Slaughter would want to comment on that, too, as the two economists on this panel. Talk about that world for me. It just seems like it would be so alien to everything we have experienced and have so many dramatic consequences on not only the existing manufacturing base, but our whole concept of who we are in the world.

Mr. SACHS. Let me just talk first about the transition if we went there. If there is a major failure, if GM goes down and it is busted apart, the cascade effects, as Mr. McElya said, are absolutely real. Cascading failures will run through thousands of enterprises because this is a big business, many percent of GNP. And what is interesting about it also is because of the machining in this industry, if you lose a supplier, you could actually interrupt production not even of the failing companies but of all the companies. There are real risks of cascading bankruptcy and then supply-side seizures. If one says, well, that is a worst-case scenario, you are just frightening us, that is what they said about Lehman Brothers on September 15th. We will show how markets work. Let's close them down. Then you add cascading failures that have shocked the world like we have not seen for 75 years.

Now, with our economy absolutely on its back, that is one of those things that I would not try at home. I have spent a career watching financial crises. We do not want to let a major company go bankrupt right now like this. This would be a disaster. Just a disaster. We would end up with certainly double digit unemployment rates in this country. We would end up with 15 to 20 percent unemployment rates throughout the Midwest. I never thought I would live to see us approaching a depression. I was trained for and I have taught for 30 years at Harvard and Columbia that we have learned all the tricks. You know, that doesn't have to happen. We are flirting with that right now.

I thank you for voting for the TARP legislation, as painful as it was politically, because we are going to need that, and it is going to get designed better and done better over the next few months, that is for sure. It had to be done in a panic because of the way that the panic was set off on September 15th. But don't do this one on top of that mistake of Lehman because we will trigger things we don't even know right now.

So I know your question, Congressman, is about the long-term sense of the United States. But I am worried about the next year, 2 years, 3 years, or 4 years. I don't want to have a depression in this country. And I want us to take minimum responsibility to use 3.7 percent of what you voted to avoid a depression. It is a no-brainer, in my view. This is not a hard one. It is hard for you to be a bank, but you already voted for the $700 billion. Get the Treasury to be the bank. And get on to avoid a disaster.

This is not an industry, by the way, that is in collapse. We are not saving the buggy whip industry. This is an industry where world production rose from 60 to 70 million units per year in the last 8 years, 62 to 70 million units. This is an expanding global industry.

Mr. WATT. Dr. Slaughter, briefly because I am way out of my time. So—

Mr. SLAUGHTER. Very briefly, Congressman. Just to echo what Professor Sachs said, this industry is already becoming very global. It was the Big Two for a while in the sense that—if you recall, Daimler owned Chrysler for some number of years. The other thing I would emphasize comes back to what Congressman Green talked about, the importance of jobs. The industry is continuing to grow in part because of the stunning productivity growth that is realized in large part because of the global engagement, meaning the Big Three today in the United States, they directly employ a little over 200,000 workers. That number is likely to continue to go down in terms of the number of the people who work for them. One of the big public policy challenges we all face again is thinking about where the good jobs and good wages are going to come from in the future, because one of the things productivity growth does in those companies is it takes it away from those firms itself.

Mr. WATT. That is another discussion for another day of where they are coming from.

The gentleman from California.

Mr. CAMPBELL. Thank you, Mr. Chairman. I wanted to make first just a comment, a little bit on something you mentioned Mr. Sachs about the CAFE regulations and so forth. Let's remember the Chevy Volt may be a great car but they are not going to make any money with it, at least not right away. Toyota has not made any money off of Prius. In fact, they have lost money on every single copy in spite of its enormous success in the marketplace. Toyota is having a profitability problem now because the Sequoia and the Tundra, the big trucks and the big SUVs where they make all their money, too, aren't selling. Now eventually maybe these higher technology mileage cars will become profitable. But they are not now. And maybe the model of the Mini Cooper which is a small but expensive car, which is very profitable for BMW, can be adopted by other automakers. But that also is not going to happen in the next 2 months or 3 months or 6 months or a year because of the lead times in the auto industry.

So I just hope that as we all are looking at this thing that we don't give with one hand to the auto industry and take with the other. And let's remember, we can't get out of this thing unless car companies make money, and right now they can't make money on hybrid vehicles. They may be able to eventually but right now they can't do it. Let's not—I hope we don't make them sell something that they can't make money on and not sell something that they can and have some transition involved in this as this whole thing goes forward.

That is just a comment I wanted to make. But then I wanted to ask, Ms. Sykora, I remember after 9/11, remember the after effects here. Nobody bought cars, nobody bought houses, nobody went on airplanes, nobody went to restaurants. Everything was shut down. I still think that we don't give enough credit to, but that General Motors actually pulled us out of that when in December of 2001 they came out with their 0 percent financing on every car and truck they offered for 60 months and everything. That people were afraid at that time. They had fear. It was security fear. Different than the fear now. Now it is financial fear. It was a security fear. And people said, well, I am scared but that is a heck of a deal. I had better go check that out. Ford matched it, Chrysler matched it. And we went from there. And in my 25 years in the car business, nobody had ever offered a deal like that, anywhere close to that, and it got people up.

Obviously, we wouldn't be here today if it weren't for the fact that General Motors is not strong enough to do that anymore. But the Federal Government may be. I think in your testimony that you didn't get to, you talked about a refundable tax credit or some other things. What can we do or what should we be doing because eventually for anything to work, we do have to have consumers back in showrooms at least looking at cars? And then hopefully we can get them financed and they can buy them.

Ms. SYKORA. I think the point you make about an economic stimulus to get consumers in the showroom is very important. And the legislation that was introduced today, H.R. 7273, that is making the interest payments on car loans and sales tax deductible, is a great way to start that. Senators Mikulski and Bond have that same measure in the Senate.

The other thing that Congress could do would be to fund State programs, cash for clunker type programs like the ones in Texas and California that encourage vehicles to trade their older vehicles in for more fuel efficient models. And I think there was a Representative earlier here today who said his 1999 Jeep might qualify for something like that. But these types of programs, that is what stimulates the economy, and yet they still provide that environmental benefit as well.

Mr. CAMPBELL. You talked about the sales tax. My concern is that it is not immediate enough, that it is not—as you well know, people, you know, cash in their pocket. When you are selling a car, you need to put all the numbers together, the down payment and the payment and make sure it works for the customer or they don't buy the car. And to say that—and tax deductibility, that is great. But to say that you might get some money back on your tax return 12 months from now doesn't help somebody buy a car today.

Ms. SYKORA. You are right. We are seeing consumer confidence at a record low. And failure to act to restore confidence, failure to do anything is going to have severe consequences. I don't think we can take the chance of further eroding consumer confidence.

Mr. CAMPBELL. Okay. Thank you very much. I yield back my time.

Mr. WATT. The gentleman from Texas, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. Mr. Slaughter and everyone, welcome. I would like to visit with you for just a moment if I may. I have a summary of the draft of the rescue bill before me, and I am interested in knowing what part of it do you find deficient.

Mr. SLAUGHTER. Congressman, I don't have any particular comments on the bill per se. I guess it is the idea of whatever Federal taxpayer dollars we are going to allocate to supporting the automobile industry broadly defined, thinking about whether we want to use it to support the companies themselves or use it to support their workers in their communities in whatever eventuality is going to play out in the product market in terms of mergers—

Mr. GREEN. Let me ask you this if I may, because time is of the essence. This is a loan, so it is not a bailout. It may be considered a means of helping them out. But it is a loan. The bill specifically indicates this, and it indicates that there are terms, 7 years, 5 percent the first 5 years, 9 percent thereafter, no prepayment penalty. We have a superior position with the obligations that are accorded us. What part of this loan creates a problem? We did lend to Chrysler before. They did repay. We did make money. What part of the loan is a problem?

Mr. SLAUGHTER. I would point out, Congressman, that the operating losses of the companies this would be extended to have been large and accelerating in the past—recent times. So if you would looked at calendar year 2007 and the first 9 months of 2008, for Ford and General Motors, between the two of them their total operating losses were $76.1 billion over that 21-month period.

Mr. GREEN. Did you support the loans to AIG?

Mr. SLAUGHTER. I am sorry. Could you repeat the question?

Mr. GREEN. AIG has received loans from the government.

Mr. SLAUGHTER. I do support the extension of loans made—

Mr. GREEN. You support $85 billion, September 16th, to AIG. Do you support $37.8 billion, October 9th, to AIG?

Mr. SLAUGHTER. I do.

Mr. GREEN. Do you support an additional $40 billion on November 10, 2008, all of this in 2008, to AIG?

Mr. SLAUGHTER. I do.

Mr. GREEN. Why would we assume that AIG is more deserving than the Big Three? AIG, Big Three, all in need. Why AIG and not the Big Three? Why an entire industry? Why would we neglect that entire industry? AIG is a privately held company. This was the largest bailout of a privately held company in U.S. history. Why would we bail out AIG and not the Big Three?

Mr. SLAUGHTER. In principle, Congressman, it is because of the systemic risk that firms and capital markets face and present to the whole economy when they—

Mr. GREEN. I think that is a fair comment. What about the systemic risk that people who are working for the Big Three face if they lose their jobs to a Chapter 11 that becomes a Chapter 7 by virtue of a lack of credit?

Mr. SLAUGHTER. I agree that the Big Three have linkages to the other firms in the economy, the suppliers and the dealers that we have talked about. However, it is my belief that the degree of systemic risk and the magnitude of that to the overall economy is less than what is presented by the trouble we have seen in our capital market companies in recent times.

Mr. GREEN. And one final comment. We have allowed AIG to go to the coffer, the public trough, if you will, one, two, three times. If the auto industry does not succeed with this first offer of help as opposed to a bailout because it is a loan, and we are talking about saving an industry, is it abhorrent to think that there may be some additional help needed to save an industry?

It was indicated earlier—and some things bear repeating. The Japanese are not going to allow their industry to fail. The Germans are not going to allow their industry to fail. And by the way, I salute them. This is not saying it in a demeaning fashion. This is just a matter of fact. We don't know the consequences of allowing this industry to fail. It may take historians looking through the vista of time to properly comprehend what happened and what will happen to us as a result. If we must err, maybe it is on the side of trying to save an American industry that has an impact on every life in the United States of America.

Thank you, Mr. Chairman. I yield back.

Mr. WATT. Mr. Manzullo is recognized.

Mr. MANZULLO. Thank you, Mr. Chairman. I appreciate you folks coming today. As I go down the list of people who want money, we start with the banks. And I find it interesting that Bank of America would get $25 billion and then cut off somebody's credit.

Mr. WATT. Just $15 billion.

Mr. MANZULLO. Just $15 billion. And Mr. Chairman, I would like to see us have another hearing to bring in the chairman of the Bank of America and ask him what he is doing with that $15 billion. But that is the problem. Your problem is lack of sales. If you had sales, you wouldn't be here. You would be back home selling cars and taking care of the manufacturers. But if you think that the Federal Government could be successful in helping you out, you can start first with the Bank of America on getting $15 billion and then, Ms. Sykora, cutting out one of your own on a line of credit. That is how government programs work. They stink. They don't work. And then what you are proposing is that the dealers be included in that. So then some big guru in charge of dealers will make a decision on which ones get the money, and the ones that have worked all their lives and paid off most of their debt will probably be the least likely to get some type of a loan. And then if you go down the line to the folks at MEMA, you have 700 suppliers but tens of thousands of subcontractors. Where do you draw the line? And who determines who gets the money there?

And sitting in the audience here, we have people from cities, States, counties, the universities are here. California wants $5 billion a year for the next 3 years. The money is not there. It is not there. If it were there—I mean, after a while, we are going to be like the old German republic and to buy a car, you are going to go with a wheelbarrow full of currency and the people who work at the dealership would get paid every hour because of inflation. That is why I voted against the bailout because of the fact that people like yourselves would look to Washington to say, we want part of this, but it is really not going to help. If you want to get something to help, the easiest thing to do is for Congress to pass a law—we could do it today. The President would sign it—which would to say if you buy a new or a used car, because if you have a tax credit that applies to used cars, what is going to happen to your used car inventory? And that is where you guys make your money, is on the cars that are traded in. But if you have a tax credit that applies just to—that applies if you buy a new or used automobile, then the intended source is immediate. In other words, if you buy a $20,000 automobile but you know you are going to get a $5,000 tax credit, that is quite a discount on the car. That infuses the money into it directly.

But I have a question. Is it "Sykora?"

Ms. SYKORA. Yes.

Mr. MANZULLO. Who does your floor financing?

Ms. SYKORA. I finance mine with Ford Motor Credit.

Mr. MANZULLO. Did they cut you off?

Ms. SYKORA. No. But they have taken a look at what they call rate of travel, how quickly you are moving their vehicles and giving us boundaries that we must stay within.

Mr. MANZULLO. Could you pull the microphone a little bit closer? You are very soft spoken. Thank you.

Ms. SYKORA. They have restricted what we are allowed to finance, how much money we can have on that floor plan line by our rate of travel, how often we are selling those vehicles. So they have taken us from unused from a 60-day to a 45-day, trying to get us to a 30-day rate of travel. So that restricts my abilities.

Mr. MANZULLO. Has that restricted your ability to sell automobiles to prospective buyers?

Ms. SYKORA. What is restricting our ability to sell vehicles right now is the consumer confidence.

Mr. MANZULLO. Right. Right. So even if you qualified for the bailout and somehow this money found its way to—how many dealerships are there across the country? Is it 5,000?

Ms. SYKORA. 20,000.

Mr. MANZULLO. Even if funds made it to 20,000, you have the problem of who among them gets the money, how much, who determines that, who metes it out. Then you go down the line to MEMA, the subs, the subs' subs, and then the cities and the villages. I don't think that is going to work.

Ms. SYKORA. Well, point of clarification, we aren't asking for any of the money. Now some of the Representatives have proposed that as questions to the automakers if they would be opposed to having some of that for the dealers. But as dealers, we are not here asking for that.

Mr. MANZULLO. Okay. MEMA is?

Ms. SYKORA. MEMA.

Mr. MANZULLO. All right, thank you. I think—I guess, Mr. Chairman, if you want to let him answer the question, but that is up to you.

Mr. MCELYA. First of all, we have heard a lot from the supply—or from the car companies over the last 2 days. One of the big concerns that the supplier industry had was if one of these car companies go bankrupt and all the receivables that the suppliers have, it would be just a huge collapse in the supplier industry. We are on thin edge as far as our financing and liquidity. What we heard—I think I heard—hopefully it is in the record—was that the car company said that if they get the bailout, the one thing they will do is pay their suppliers. That is how they are going to use the money. That is the main concern for the supply base. This is a huge, huge problem. Once one of these companies go, statistically, of the top 100 suppliers to Chrysler, 96 of those 100 are common to Ford and General Motors.

Mr. MANZULLO. I understand that. But Bank of America was supposed to take the money and infuse it into the line of credit and help people out and they took the money and they went through the line of credit and you have no guarantee—

The CHAIRMAN. Time has expired.

Mr. MANZULLO. Thank you, Mr. Chairman.

The CHAIRMAN. The gentleman from Colorado.

Mr. PERLMUTTER. Thanks, Mr. Chairman. And Ms. Sykora, listening to you and then also talking to some of my friends from Colorado, it is sort of a twofold problem that you see at your dealership. One, your demand is down and, two, people who come into the stores, many who may have qualified at some point in the past don't really qualify now. So it is a credit and a demand, is that what you are seeing?

Ms. SYKORA. Yes, especially in some certain regions where credit is already constrained because of other problems. In some regions, that is not the case. So that is why we are wanting customers to, you know, go to their local dealership because if they have a good job, good credit, we are probably going to find credit available. It is one of the reasons that dealers have multiple sources of financing available for customers. It is obviously a good thing we do.

Mr. PERLMUTTER. Well, and this maybe goes more to the economists on the panel. But it is almost as if demand for just about everything has fallen off the table in the course of the last 45, 60, maybe 90 days. I mean, I was trying to ask a question. I don't think I asked it right of the prior panel. How much are they going to need? What is it per month? Is $25 billion going to get us there? Is there some other way to approach this?

So gentlemen, look into your crystal ball and tell me, you know, you heard their numbers as to what they lost last quarter. This quarter is probably going to be about the same I would imagine, or worse. I don't know. What do you think?

Mr. SACHS. I think there are two endpoints to this process, successful endpoints. One is that there is a recovery. 2010. Next year is not going to be a good year. It is going to be a very tough year. 2010 we should, if things are not in calamitous shape—of which a GM bankruptcy, for example, would make a calamity—have a recovery. The second thing that should happen, and not just normatively but I expect to happen, is that the banks start working again. And that means that when they go for more, they will go back to banks and they will go back to the bond markets. We are having risk spreads that have never been seen in history right now. So they can't borrow in—they can't even borrow 7-day or 30-

day much less for 5-year or 10-year notes, which would be a normal way for them to fund through a recession.

Recessions are not extraordinary. What is extraordinary is no banking sector. We are a $15 trillion cash and carry economy right now. And TARP has not yet worked really—it has done for overnights and it has brought LIBOR down a little bit and it has things starting to unstick. And it will work, especially with a new government, with coherent vision and so forth. But we don't have that yet. And there is no bond market for them to turn to either.

So the two ways out of this are economic recovery and financial market functioning again, because they will go back to financial markets. And I would say to the Congressman's question, it is not only the consumer demand. It is actually financing the new models. It is financing their several programs that they have in place, which is quite expensive, a tremendous amount of tooling that needs to be done. And that is billions of dollars of spending.

Mr. PERLMUTTER. Okay. So my question and then—what do you think in terms of how long is the $25 billion going to last?

Mr. SACHS. I think you will get through 2009, and I think that you will start to use section 136 for some of this also. And I expect that they won't come back to you. I expect that they will go back to the financial markets. At least, that is what I would hope.

Mr. PERLMUTTER. Dr. Slaughter?

Mr. SLAUGHTER. If you think of the $25 billion being applied to cover the operating losses the companies seem to be realizing in realtime and across the three companies, given what information they have put in the public domain and what information they have provided about the future, I would think something in the neighborhood of 3 to 6 months. As Dr. Sachs said, there are a number of other intangibles that feed into what is going to be the performance of these companies. I will come back to, for a lot of these companies, it is their foreign sales and profits in certain foreign markets that have really been balancing out the sharp decline in the U.S. market that they have seen in recent times.

So part of the answer to that question depends on what happens with economic growth all over the planet literally.

Mr. PERLMUTTER. Are you optimistic on the dethawing of the financial markets so that there will be a place for them to borrow money if necessary?

Mr. SLAUGHTER. I am optimistic in the sense that it is thawing. I mean some of the spreads that Dr. Sachs referred to have been coming down in the past several days and a few weeks relative to the levels they hit in mid-September. I, like many other people, don't have great visibility about when we might get back to the type of lending activity we had 12 to 18 months ago.

The CHAIRMAN. I would ask indulgence from the two economists who just said what they said. Would it be fair for us to say that the passage of the $700 billion bill is some part of the reason why we are seeing the credit markets improve?

Mr. SACHS. Absolutely. Without that, we would be in a disaster.

The CHAIRMAN. Professor Slaughter?

Mr. SLAUGHTER. Yes. Yes. I fully agree.

The CHAIRMAN. Thank you. You have justified for me a very long day.

The gentleman from Illinois.

Mr. FOSTER. Thank you. First, I was wondering if you could give us some estimate of what you consider the aggregate overcapacity of the automobile industry and just in normal economic times right now in terms of the—the aggregate overcapacity. I think there is a general consensus that even if things are maintained, you know, relatively normal economic conditions, there was an overcapacity both in terms of the number of vehicles built per year, the number of dealerships, the number of brands supported by the manufacturers and so on. And so you could talk about those in optimistic scenarios in which things return to normal or pessimistic ones in which they continue. And I was wondering if you have any numbers on that.

Mr. SACHS. Let me say, first of all, at a global scale, this is an expanding industry and a pretty rapidly expanding industry, actually. Because the car penetration in places like China and India remain very low. But that is not inconsequential for American built automobiles because if we have open markets we can also export from here. So I would not discount that possibility. Of course we have to break through trade barriers. But in terms of capacity, as you ask, Congressman, it is a growing global industry. Domestically I think it is quite interesting. We have 240 million vehicles more or less on the road right now in the United States. And if you just look at the replacement rates at a 15-year cycle for those vehicles, you are already up to 15, 16 million units a year, at least, not even taking into account further growth.

So I don't view this as an industry in significant decline where we are trying to break the decline. I don't view it that way. I view it as an industry in significant technological change because we can't go on with the kinds of cars that we had before. The physical environment and our energy security won't permit it anymore. So we are in a transformation. But I don't think we are in a terrible downward consolidation. That is my own assessment.

Mr. FOSTER. Are any of the Big Three net exporters or importers? Are they all net importers?

Mr. SACHS. Well, some models they are exporting, other models they are importing. Net, I don't know the most recent data.

Mr. SLAUGHTER. Two things, just to build on what Professor Sachs said. One, it is very hard to answer that question, particularly in the North American region. We have had integration between the automobile markets in Canada, the United States, and Mexico dating back to the auto pact in 1965, and it was extended further with the North American Free Trade Agreement. That speaks to one of the fine points Dr. Sachs made, which is it is hard—another factor in trying to answer your question is the productivity gains that the Big Three, like the foreign auto producers in the United States, have made that the CEOs discussed earlier, part of what that means is how much overcapacity there is is really a moving target in the productivity gains that they are making and what seems to be happening with demand not just in the United States but in a lot of these foreign markets as well.

Mr. FOSTER. And then the issue of dealerships, which you can see mentioned in the press, the disparity and then dealerships per car sold for the Detroit Three versus the imports. I was wondering if there were any numbers worth talking about on that.

Ms. SYKORA. Because I am from Texas, I talk a little slow, and I didn't get to some of that point in my oral testimony, but in the 1950's, we had 50,000 dealerships and there has been an orderly decline in the number of dealerships through market conditions. But it has always come at a cost. It comes at a cost of convenience to the consumer and competition that keeps prices low for consumers. But I think what is really important to realize here is that dealers aren't a cost problem to the manufacturer. We bear the external costs of providing the distribution network, something that they don't have the resources to do, and that our dealer network actually does increase convenience and competition.

Mr. FOSTER. I guess Professor Slaughter, there is the sort of floor workouts that people talk about. There is the direct loan to avoid a bankruptcy, which I take it you are not a fan of. And then there are workouts that are comparable to Chapter 11 but actually have no bankruptcy filings. It is sort of similar, I guess, to what happened to Chrysler. Then there is a Chapter 11 but with the government-backed debtor in possession financing to ensure that no liquidation takes place and then finally a full Chapter 11 with no guarantee of not liquidating. I was wondering if you see that the medium—the middle two things, the government, sort of a government supervised and guarantee of the—to make sure no liquidation takes place but a bankruptcy filing or some government organized—something that is a virtual Chapter 11 where you get everyone in the room and say, okay, everyone, all the concerned parties do the same sort of negotiation as a Chapter 11 but not actually having that for all the market reasons that people are talking about.

Mr. SLAUGHTER. I would briefly respond by saying I think all those scenarios you lay out are possible. I can imagine another scenario, which is a firm being in Chapter 11 and the government guaranteeing some of the debt that someone might step up to provide in the same way that Treasury and to some extent the Federal Reserve have been putting guarantees on certain debt instruments in recent times.

Mr. SACHS. Congressman, we are quite overwhelmed right now in our economy and management to be able to manage a very delicate operation with thousands of firms and suppliers and a catastrophic headline of a bankruptcy of one of these companies. My view is it would be an unbelievable gamble under normal times and unthinkable right now. So I just wouldn't go that way at all for this under the conditions of recession verging on collapse. We don't have the bandwidth right now to handle another crisis of that magnitude and to negotiate that. If in 6 months or 9 months the situation is spiraling downward, and the $25 billion was not enough, you are going to come to one of those. But this is not the time to come to it right now.

The CHAIRMAN. The gentleman from Missouri. And I apologize for overlooking him.

Mr. CLEAVER. Thank you, Mr. Chairman. I have three questions and I will do it quickly. I know you have been here all day.

First, Ms. Sykora, I raised this question earlier with the CEO from General Motors. But I am very concerned that even with an injection of cash, GMAC has not increased the number of loans to potential auto buyers. I mean, it is making me nervous because how much money do we have to put in to see that the credit is unfreezing? Will your association have some indication of when a thawing is taking place? And are you seeing anything right now? I am going to support this rescue package because I think God gave us a neck for a purpose and that is to stick it out. So I am going to do that. But I have concerns.

Ms. SYKORA. Well, you bring up a good point. And no, we are not seeing that thaw for working capital financing for dealerships or the inventory financing for dealerships. But I think what you heard also the GM execs say is that the Treasury funds haven't been used. The TARP funds haven't been used for the finance companies yet or they are not experiencing that yet. And we are working with Treasury on proposals to help free that up so that it makes retail credit more available, which is I think what your intent was.

Mr. CLEAVER. Yes. But they are not doing it.

Mr. SACHS. Not yet.

Ms. SYKORA. Not yet. We feel very encouraged.

Mr. CLEAVER. I mean you can't answer the question about when, but—

The CHAIRMAN. If the gentleman would yield, as the Secretary sort of indicated to us yesterday, he doesn't plan to use any of the additional money except if we were able to push him into mortgages. He is talking about doing something, the credit facility he has been talking about. That would ultimately be helpful there. But that is apparently not until the next Administration. So there does not appear to be anything that would be responsive to this need on the horizon until late January at the earliest.

Mr. CLEAVER. Professor Sachs, this may be more philosophical than scientific. But you had mentioned the hydrogen car earlier, which was what Chevy had been experimenting with, and which also troubles me a little because hydrogen is the most gregarious animal on the planet. It likes to have a lot of other things around it. And so therefore, a great amount of electricity is needed if we are going to produce these hydrogen automobiles. And the amount of electricity may exceed the cost of using fossil fuel. So is this a worthwhile venture for Chevy? Since we are going to probably end up giving some money, we need to have some comfort with the first $25 billion.

Mr. SACHS. Yes. Let me be clear. What GM is going to bring out in 2010 is a plug-in hybrid, not a hydrogen. So the Chevy Volt is a hybrid technology plus a lithium ion battery. And its specs are to get 100 miles per gallon for a daily 80-mile drive. It is quite exciting. Now, what they are also doing is investing on a time horizon that they think is a decade to look into so-called fuel cell technology, which is hydrogen fuel cells. That is for something maybe in 2020. That is not the current but they are investing a lot of money, and I am glad they are.

I wish our government—well, in fact, President-elect Obama talked a lot about $150 billion research and development program for technology over the next 10 years. One of the things of that will be fuel cells to look into it. Your concern is a lot of engineers' concerns. Is this the right way to go or not? Now how would you produce the hydrogen in that scenario? It would be produced in the Mojave Desert with solar power. It would be produced in North Dakota with wind power. It would not make sense to burn coal to produce hydrogen to put it into a fuel cell. So the model of it is an effective fuel cell combined with a renewable energy source to hydrolyze water or to get hydrogen some other way.

Mr. CLEAVER. Thank you for spending the day with us. Thank you.

The CHAIRMAN. Since all Members have completed questions, we do have our colleague from New Jersey who is the author of the bill. I will recognize him for 2 minutes, if there is no objection.

Mr. PASCRELL. Thank you, Mr. Chairman. It is refreshing to have a panel talking about Main Street issues. And I must say, although the two professors are coming down different paths, they have been absolutely nonideological. That is very refreshing. And I am sure it is a salute to both you and the ranking member.

Mr. Chairman, I know that this committee does not have the authority to amend the Internal Revenue Code of 1986, but I think Ms. Sykora has made a very, very compelling argument that she feels—and I am not putting words in your mouth so you correct me if I am—to allow an above-the-line deduction against individual income tax for interest on indebtedness and for State and local taxes, sales and excise with respect to the purchase of certain automobiles.

Myself, and Senator Mikulski, have calculated that, on a $25,000 car, that would be a savings of around $2,300 or $2,400. Do you personally feel, with all the data that is surrounding us, that that would be an incentive enough for people—and that, by the way, the bill only calls for 1 year for this to happen—will that be incentive to get traffic back at the places that you are interested in so that people can stay in business and people can buy cars?

Ms. SYKORA. First of all, let me thank you for introducing that legislation, because we do feel like that is very beneficial. Since I don't have a crystal ball, I will just kind of take a look back in history and tell you that, you know, when that was phased out in 1986, it was over a 5-year period of time. And in those final months of 1991, we did experience a significant increase in traffic in consumers who wanted to take final advantage of that deductibility.

So it was something they were aware of. Many of the consumers that I have talked to remember it, and so I think it could be an important stimulus.

Mr. PASCRELL. Mr. Chairman, in conclusion, I hope that you will communicate this. I think this is good data.

The CHAIRMAN. Excuse me, but are you no longer on the Ways and Means Committee?

Mr. PASCRELL. Yes, sir.

The CHAIRMAN. So who am I supposed to call, you?

Mr. PASCRELL. Being here today, they might throw me off. I don't know.

The CHAIRMAN. Members will have the appropriate time to submit any further material for the record.

The hearing is now adjourned.

[Whereupon, at 4:03 p.m., the hearing was adjourned.]

A P P E N D I X

November 19, 2008

Statement of Congressman Michael N. Castle
House Financial Services Committee
Hearing on the Financial Condition of the American Automobile Industry
November 19, 2008

MR. CASTLE. Thank you, Chairman Frank and Ranking Member Bachus, for holding this very important hearing. I would also like to thank our panel of distinguished witnesses for their presence here today.

In Delaware last month, Chrysler and GM announced plans to cut nearly 2,000 jobs, or six percent of my state's entire manufacturing workforce, lost in a matter of a few months.

Now we are facing a threat of hundreds of thousands job losses, if not a few million, if Congress doesn't act. What I do not understand is if the auto industry has recognized what brought us to this point. I would like to think that the culture of this US industry has learned from its competitors around the world and is both willing and capable of building fuel efficient vehicles that Americans want to buy. To many of us, necessary innovation means going even farther than the current fuel economy standards, especially for fleet vehicles, and embracing the states which are working to enact higher standards of efficiency than the federal government.

The simple fact is that Americans are confronted with fluctuating energy prices and environmental concerns are demanding clean, fuel-efficient, and affordable vehicles. I have personally delivered this message to automakers repeatedly, as I know many lawmakers have, but many believe we have been ignored. While I recognize some of the steps that have been taken to produce higher-mileage automobiles, the root of the problem is far from solved. I am not convinced that this industry fully recognizes the path to long-term viability.

I would ask each of the CEOs before us today-- before any federal assistance is even considered, to describe their short-term business model and plan for long-term viability, including plans for how it will adapt to a market that demands greater innovation and fuel efficiency. Most importantly, I would like to hear what you each see as the major failures of the American auto industry and what will be done to change that course. Can you outline what others in the industry have done to avoid your same fate? Also-- realizing that it is likely very easy for you to spend $25 billion, can you each present specific costs associated with fixing your current model and what are the prospects for success if you are to receive federal assistance?

I also want to thoroughly explore the role that your financing businesses had in offering consumer loans. It seems to me that your financing business model has suffered a fate not unlike other lenders. So, I need the witnesses to differentiate between these problems -- vehicle manufacturing and finance -- and detail exactly what they would fix with billions of dollars that they are requesting. Finally, Mr. Chairman, I wonder if we are working our way into WTO issues if our actions are challenged?

It is vital that this process is transparent and accountable to those paying this bill, the American taxpayers. Any assistance should be tied to a guarantee of warrants from each participating company and a ban on corporate bonuses, golden parachutes, or other payouts for executives and stockholders. I find it completely reprehensible that troubled companies asking for assistance may be planning on awarding multi-million dollar bonuses to executives. We continue to see some in the financial industry acting carelessly, even after receiving federal assistance and I think we should consider restitution for this lack of judgement.

Finally, I am not convinced that federal assistance, in any form, can sustain the American automobile industry at this time. However, as this Committee continues to review the request of protecting these companies, and more importantly, millions of American jobs, I urge us to make certain that any assistance is strongly guarded to ensure taxpayer dollars are only spent if we can ensure this industry is capable of thriving on its own.

Thank you, I yield back my time.

SENIOR WHIP

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The Honorable Carolyn C. Kilpatrick

Member of Congress

Testimony before the

House Financial Services Committee

"Stabilizing the Financial Future

of the American

Automobile Industry"

November 18, 2008

Giving thanks to God, who is the power, force and director of my life, I thank Chairman Barney Frank, Ranking Minority Member Spencer Bachus and all Members of the Committee for their continued hard work, objective analysis and hard questions for both automobile manufacturers and taxpayers. As an enthusiastic supporter of the automotive industry, I, along with the unanimous agreement of the Michigan delegation, seek a balanced, fair solution for American tax payers, manufacturers, dealers, and suppliers to the automobile industry. A large part of that solution is the legislation crafted by Chairman Frank and Members of this Committee. This bill will provide $25 billion in bridge loans, issued under the recently enacted Troubled Asset Relief Program (TARP), to help struggling automakers survive while they prepare plans to restructure their companies to build more competitive, fuel-efficient, and technologically-advanced vehicles. This assistance will not only help manufacturers, but it will help the workers, the dealers, the suppliers and the 13 million jobs that are directly and indirectly affected by the largest industry in our nation – the automobile industry.

In addition, this bill, which would amend current law, demands taxpayer protections such as limits to executive compensation, including a ban on so-called "golden parachute" payments, a prohibition on dividend payments over the life of the loans, rigorous independent oversight, and provisions for the government taking warrants and allowing the taxpayer to profit in any upside of the restructuring. This is a fair balance for both the manufacturers and American tax payers. If the Big Three were to collapse, there would be a loss of personal income of close to $400 billion, with a combined loss of tax receipts of $156 billion, over three years, according to the Center for Automotive Research. With the interdependence of Mexico, Canada and the United States because of the North American Free Trade Agreement (NAFTA), this vastly underestimates the ultimate impact if the Big Three were to go bankrupt.

The universe of consideration for today's hearing is significant. Federal assistance to the automotive industry is needed immediately for our economic, military, and energy security and safety. A government-supported restructuring of the auto industry is urgently needed for our economic, military and energy security. General Wesley Clark recently wrote that "some economists question the wisdom of Washington's intervening to help the Big Three, arguing that the automakers should pay the price for their own mistakes or that the market will correct itself. But we must act: aiding the American automobile industry is not only an economic imperative, but also a national security imperative."

This is an opportunity for Congress to do four things. One, it is an opportunity to get our country to energy security or energy independence. Two, it is a chance to ensure that, unlike our textile and electronics industry, to preserve and protect our manufacturing base, the last industry in which America still holds a slight but precarious lead. Three, it can be a way in which we get the manufacturers toward building the vehicles that Congress mandated that they build. Four, we can preserve the jobs and businesses of dealers and suppliers, many of whom have reaped very, very little in the money through TARP so far. In all of the discussions of saving the manufacturers, there has been little, if any, discussion to save the thousands of automobile dealers and suppliers to the automotive industry.

Congress has been advocating that our country become either energy independent or have energy security. Indeed, President Richard Nixon challenged that our nation become independent on foreign oil in the early 1970s. Although the automotive industry is in a crisis, this is truly an opportunity to start a major reorganization and reprogramming of the entire automotive industry. In less than two years, General Motors will produce the first practical all-electric motor vehicle. This is a welcome opportunity, and is a development that all Americans should embrace. By being the first to produce a battery that can get hundreds of miles per charge, the United States can be the first in this manufacturing technology. This will create thousands of green jobs, clean up the air, and make us less dependent on foreign sources of fuel. This achievement is right around the corner, as GM is set to bring the Chevy Volt to market in less than two years. In less than ten years, these batteries and fuel cells can be, and should be, built in the United States.

Second, we need to preserve the automotive industry as it is the base of manufacturing in the United States. Second only to the strong faith that Americans have in one another is the strength of our economy. Our modern economy was built by companies like General Motors, Ford, and Chrysler. These are the companies that essentially built this country to victory in World War II and every military conflict we have had ever since. These companies not only built the tanks, the Jeeps, the trucks that support the women and men in our military, they often created the technologies that allow us to have navigational systems in our cars, brakes that last for thousands of miles, and protect our bodies in accidents. We cannot afford to lose this innovative intellectual property.

The auto industry has come to the rescue, once again, for our women and men in the military. The Humvee, the Stryker, and the mine-resistant ambush vehicles, and the like are built primarily in Michigan but entirely in the United States. As General Wesley Clark said, "the lives of hundreds of soldiers and marines have been saved, and their tasks made more achievable, by the efforts of the American automotive industry. And unlike in World War II, America didn't have to divert much civilian capacity to meet these military needs. Without a vigorous automotive sector, those needs could not have been quickly met." Our economy and our troops cannot survive the loss of the automotive industry.

Third, the manufacturers know what is at stake today. It is not only their individual survival, but whether our country suffers a recession or a depression. We cannot afford, at this perilous time in our economy, the shut down of any company. Any form of bankruptcy would tear what little confidence consumers have in the auto industry to shreds by decimating consumer demand and forcing thousands of suppliers who need the cash flow from the auto manufacturers into immediate default. This legislation would allow time and cash for the manufacturers to make the necessary and needed change in their vehicles, again mandated by Congress, for the long-term energy self-sufficiency and environmental protection we seek. This legislation does just that.

One in every ten jobs in the United States is somehow linked to the automotive industry. After the purchase of a home, the purchase of an automobile is the largest purchase for the overwhelming majority of America's consumers. Michigan, specifically my home city of Detroit, has been the home of the automotive industry for decades. More than thirteen million jobs are directly or indirectly rely on the automotive industry. Here is a break down of those jobs:

(Sources: Bureau of Labor Statistics; Center for Automotive Research; National Automobile Dealers Association)

Manufacturing Jobs	1,436,500
Non-manufacturing	3,024,200
New car dealers	1,114,500
Professional and Business services	179,800
Government	224,390
Non-farm Employment	1,376,990
Construction	72,420
Retail trade	153,370
Leisure and Hospitality	136,830
Service	1,161,340
Goods producing	215,650
Pension plan Management	1,400,000
Insurance	436,000
General auto repair	655,000
Other services *	2,100,000

TOTAL **13,687,020 jobs related to the automotive industry**

*Includes auto mechanical and electrical repair; auto exhaust repair; auto body, interior and glass repair; other automotive repair and maintenance; car washes; auto oil change shops and other maintenance.

The losses of the automotive industry have been massive. In 2005, General Motors, which is headquartered in my Congressional District, lost more than $5.6 billion on its North America operations alone, with Ford losing $5.5 billion during the same period of time. GM's share of the market, which used to be 36% in 1990, had shrunk to 26% in 2005. Ford's 1990 share of the market, which was 24%, was 17% two years ago. Production for Ford and GM has dropped 26% since 1999.

In the wake of these losses, Michigan and our country has lost a significant number of jobs. Both GM and Ford announced a series of plant closings in North America, with an estimated loss of 60,000 jobs through layoffs and early retirement buy-outs. According to the Bureau of Labor Statistics, in 2005 the automotive industry lost a total of 215,000 jobs, and stated that "industry employment is headed downward and is not likely to recover for several years." This situation does not get any better for those related industries supplying automobile parts, providing insurance for automobiles, or selling vehicles wholesale or retail.

While domestic manufacturers are not entirely blameless for these losses, a significant factor has been the way in which China has done business with the Big Three. One of the U.S./China Commission's conclusions, to which I testified two years ago, was "the many subsidies provided by the Chinese government to the auto industry will quickly distort the nature of the market. This will be true especially in the United States, where markets are most open. The Chinese challenge to the U.S. auto industry is a significant assault on

American manufacturing, and that assault is increasing in magnitude and in pace." Are we willing to concede to other countries, perhaps China, our manufacturing base?

Finally, I am worried about the health of automobile dealers and suppliers, specifically ethnic minority automobile dealers and suppliers. It is my understanding from experts in the field that up to 75 percent of ethnic minority new car dealers, if they do not receive financial assistance within 60 days, will fail. In a meeting two weeks ago with the Speaker and the House Democratic leadership, the manufacturers estimated that more than 700 dealers are expected to close their doors before the end of the year. In all of this discussion about helping the manufacturers, it is only fair that some of this help go directly to the ethnic minority dealers and suppliers who are the backbone of their communities and of the automotive industry. Ethnic dealers and suppliers are first generation dealers and suppliers and simply do not have the economy of scale of their majority counter parts. As we move forward with this legislation, it is my hope that we provide immediate assistance to those who most need it.

We face tough times. The automotive industry can succeed, with the help of Congress, once again. The automotive industry has made mistakes, and all of the manufacturers present will tell you that I have worked with them to improve their product, outreach, and business model. Here, in Washington D.C., it is often hard for legislators to truly appreciate how difficult life is for the rest of America. In Michigan, we face record foreclosures, unemployment and job loss from manufacturing. We must save the automobile industry for the future of not only the industry but for the state of Michigan and our country. We must not repeat the mistakes we made in giving away our textile and electronics industry to other countries. We must do all us can to retain this vital segment of America.

United States House of Representatives
Committee on Financial Services

Committee Hearing

Stabilizing the Financial Condition of the American Automobile Industry

November 19, 2008

The Honorable Sander M. Levin

Member of Congress

Testimony

Chairman Frank, Ranking Member Bachus and Members of the Committee, thank you for this hearing today about the current financial crisis and the damage it is doing to the backbone of our manufacturing and industrial base.

The rippling effect of the Lehman failure on the financial system would pale in comparison to the economic consequences that would result from the demise of even one of our domestic automakers. The supply and dealer chains are all economically interconnected.

General Motors, Ford and Chrysler account for roughly 70 percent of U.S. auto production and support five million jobs across all 50 states. The U.S. auto industry represents almost four percent of U.S. gross domestic product and 20% of all U.S. retail sales.

According to the Center for Automotive Research (CAR), should one or more of the Big 3 fail in 2009, 2.5 million jobs in the U.S. economy could be lost in that first year. In economic terms, CAR estimates a 50 percent cut in Big 3 U.S. operations would reduce personal income by $275.7 billion over the course of three years and result in a total government tax loss of at least $108 billion over three years.

The domestic automobile industry is absolutely nothing like the one I worked in as a young student. It is nothing like the one of even ten years ago. It must be in a far different place five or ten years from not than it is today. To have a chance to get there, there is an urgent need for action this week, so it is vital to dispel the myths and misconceptions that are clouding that need and to separate fact from fiction.

The Companies are Cutting Costs and Restructuring

These last years have seen the domestic automakers and their workers pursue an unprecedented restructuring and cost-cutting.

In the last three years, General Motors has reduced structural costs in North America by 23% or $9 billion, reduced production capacity by 24% or 1.3 million units, and has reduced its headcount by 84,000 workers, a 47% reduction.

Since becoming a privately held company, Chrysler has discontinued four vehicle models, reduced production capacity by 30% or 1.2 million vehicles annually, reduced fixed costs by $2.2 billion and furloughed 32,000 employees.

In the last three years, Ford has closed 17 plants in North America, reduced its workforce by 51,000 employees and cut costs by $5 billion.

The Companies Are Producing High Quality, Fuel Efficient and Advanced Technology Vehicles

- Ford has tied Toyota and Honda in quality according to Consumer Reports
- GM had more segment leaders in quality than Toyota or Honda according to J.D. Power
- Chrysler has seen warranty claims drop 29% and offers lifetime powertrain warranties
- GM offers 20 models that get 30 MPG, twice their nearest competitor
- GM's Chevy Volt is a game-changing pure electric and zero emissions vehicle
- Chrysler has unveiled three advanced technology electric-drive vehicles for 2010
- Ford will double its hybrid models and its hybrid production capacity in the next year.

Even as the Big Three work to bring the vehicles of tomorrow to the market, they are aggressively boosting the fuel economy and lowering the emissions of current models. Ford's F –Series Super Duty truck employs an advanced clean diesel engine that runs on ultra-low sulfur fuel that dramatically lowers emissions and improves fuel economy. All three companies are developing advanced engine technologies for consumers that will squeeze more miles per gallon of gas and reduce emissions.

Workers Have Made Concessions

Recent UAW contract negotiations have resulted in wage and benefit cuts and the transfer of health care obligations from the companies to an independent fund. Specifically, since 2005, these negotiations have resulted in:

- A 50% wage reduction for new workers, to $14 or $15 per hour in addition to wage reductions for current employees
- No guaranteed retiree health care or defined benefit pensions for new workers
- A court-approved transfer of existing retiree health benefits to an independent VEBA managed by the UAW
- A 50% reduction of the Big Three's retiree health care liabilities

Even Toyota thinks their cost advantage could disappear by 2011. "I think [the Detroit automakers] could easily equal us or even exceed us in terms of having lower labor costs," says Pete Gritton, human resources chief for Toyota in North America.

Bankruptcy is Not an Option

Those who counsel inaction point to past mistakes by the Big Three and claim that bankruptcy is a better option. Studies are clear that consumers will not buy cars (a family's second largest purchase) from a bankrupt company. Chapter 11 would likely lead directly to Chapter 7 liquidation and the profoundly negative impact on our economy that would come with it.

We are here Today because the Progress of Recent Years and Programs for the Future have been Overtaken by the Current Global Financial Crisis

This Committee knows better than any of us the deep financial crisis we are facing and the economic distress that is felt throughout our nation. We are spending a trillion dollars to try to stabilize our financial system. The mortgage industry is in shambles. So is it any wonder that the industry that represents the second largest purchase a family makes is the next in line to be devastated by this global financial crisis?

Consumers can't get credit to purchase vehicles. Dealers can't get credit to move cars through their lots, and the car companies can't access the private credit market. U.S. auto sales in the month of October plummeted 23.4% from 2007 to an annualized rate of 10.5 million units. The significant slowdown in sales is industry-wide. For example, Toyota sales were down 23%, Honda was down 25% and Nissan was down 33% compared to October 2007.

This current problem is not unique to the U.S. Governments throughout Europe are faced with the same crisis in their automotive sectors and they are moving to provide loans during this global financial crisis. The Wall Street Journal reported yesterday that the European Union is crafting a plan to lend European automakers "tens of billions of dollars."

We Would Lose More than the Production of Cars and Automotive Supplies

Maintaining a domestic technological and industrial capacity is not only vital for our economic prosperity, but also for our national security. As retired general and former NATO Supreme Allied Commander Wesley Clark pointed out this week in the *New York Times*, "What's Good for GM is Good for the Army." General Clark notes that hundreds of lives have been saved in Iraq because the Army has been able to quickly procure more than a thousand mine-resistant vehicles. Further, the loss of even one of the auto companies would have a huge impact on the supplier base that serves both the commercial and military vehicle markets, driving up costs for the Army and reducing the availability of critical vehicle components.

My congressional district is home to the National Automotive Center (NAC) located at the Tank Automotive and Armaments Command. The NAC serves as a catalyst to leverage government, industry and academia R&D investment with the goal of incorporating commercial technology into Army vehicles. The most recent DoD Base Closure Report sums up the relationship between the military and the auto industry quite well. The reports states: "the synergies from having a critical mass located in southeast Michigan and being able to leverage the world's capital for automotive ground vehicle research and development and acquisitions will ensure the Department of Defense is prepared to meet its future demands." I would point out that the Detroit Arsenal is located *next door* to the GM Technical Center and that these synergies assume the continued existence of a healthy auto industry.

The engineers at TARDEC and the National Automotive Center are working with the auto industry on critical research and development to reduce fuel consumption in the Army's ground vehicles through electric propulsion and fuel cells, to create a mobile electrical grid, and to develop the use of advanced batteries, artificial intelligence and nanotechnology for the next generation of military vehicles. The partnership between industry and the military has put us in the forefront of research and development of future military vehicles that are substantially lighter, more fuel efficient, and more lethal than current vehicles.

A Bridge to the Future

The Big Three don't need a bailout; they need a bridge loan so they can weather this global financial crisis and accelerate implementation of plans for restructuring and technological advancements. The draft legislation prepared by Chairman Frank is hardly a handout. It contains tough taxpayer protections and oversight to ensure that the federal government is repaid and that the auto industry completes the restructuring that is already underway. It places limits on executive compensation beyond those in Emergency Economic Stabilization Act (EESA), bans dividends, provides for the Treasury to take warrants equal to 20% of the loan, and distributes loan proceeds gradually as the companies need them to ensure that the funds are also used to build the long term health of the industry.

The Backbone of Our Manufacturing Base

I come from Michigan. My brother, Carl, and I like to say we have the auto industry in our blood. But this is not a Michigan problem, this is a national, indeed, an international problem. I hope today the Members of this Committee and of the Congress will listen anew to each of the CEOS and the President of the UAW and ask tough questions. We are not afraid of the facts, and I would not be here today if I did not think that these companies and their workers represented the future of automobiles, advanced technology and energy independence.

But they have to be able to survive in order to thrive.

To throw the bankruptcy of one or more of the Big 3 on top of a once-in-century financial crisis would be a terrible, potentially catastrophic blow to the U.S. economy.

President-elect Barack Obama called the domestic auto industry the "backbone of American manufacturing" and President Bush's chief spokeswoman said the administration "does not want U.S. automakers to fail" and "the auto industry is an important part of our manufacturing base, and we want the industry to succeed and compete in the global economy."

The Congress must find common ground this week to provide the domestic automotive industry a bridge to the future.

Thank you for your attention, and thank you Chairman Frank for all the work you and your staff have put into this urgent effort.

Testimony of
Congresswoman Candice S. Miller (MI-10)

On the
Stabilization of the Financial Condition of the American Automobile Industry

Before The
Committee on Financial Services

November 19, 2008

Congresswoman Candice Miller
Remarks on the auto industry to the Financial Services Committee

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Chairman Frank, Ranking Member Baucus and members of the Committee, thank you for allowing us to come here today to make **our case** for **protecting millions** of American jobs.

Critics have said that our domestic auto industry is a "dinosaur" that it is too fat to survive. But, the truth is, over the last number of years, America's domestic auto manufacturers have made tough decisions to make their operations **leaner** and **more competitive**.

In Michigan we have seen the loss of over 400,000 manufacturing jobs as the auto companies have restructured. If those critics think there is too much fat in the industry I invite them to come to Detroit, to come to Macomb County which I am proud to represent along with Sandy and Carl Levin and visit with those who have been laid off.

To **visit** with those whose homes are now in foreclosure.

To **visit** with those who have worked hard all of their lives and now are fearful that their jobs are going away.

To visit with the retirees who worked hard to earn their pension and now face the loss of substantial portions of their income if their pensions are thrown onto the PBGC.

Tell those people that they are part of an unsustainable business model and must be sacrificed.

The fact of the matter is that this industry, for all of its faults, has made the tough decisions.

It has cut to the bone and dealt with crisis after crisis to return to profitability.

It has been handed new government regulatory mandates that experts say will cost the industry $86 billion to comply with at a time of an economic downturn.

It has dealt with skyrocketing health care costs and worked with its employees who have made major concessions to help the companies survive.

But the final blow was an economy in a meltdown situation brought on not by the mistakes of the auto industry but by those on Wall Street.

Many have said that the problem with the domestic auto industry is that they don't make products that anyone wants to buy.

That is simply untrue.

Do you know what car company makes the most models that get over 30 miles per gallon?

No it is General Motors.

Do you know what car company makes the highest mileage SUV in the world?

No it is Ford and I am proud to drive the Ford Escape Hybrid.

It is General Motors that is working to bring the next great innovation to the auto market. The Chevy Volt extended range electric vehicle could revolutionize the industry and will do it with American designed and American built technology.

The domestic auto industry's problem is not a lack of product, the product gets better and better every day. The problem is a lack of customers brought on by the economic melt down.

The actions of Wall Street have stifled consumer confidence. They have frozen credit and made auto loans unavailable to too many consumers.

And it is not just Detroit feeling the pinch of slumping demand, that is being felt across the industry.

Last year over 16 million vehicles were sold in this country and in October the annualized rate of vehicle sales was at 11 million.

That is not a result of the product, that is a result of consumer confidence and the availability of financing.

This Congress just 7 or 8 weeks ago passed a $700 billion bailout of the banking industry to help Wall Street to better times and to free up credit.

$700 billion sent to those who caused the problem in the first place.

And what have they done with the money?

Well AIG got $85 billion and then promptly sent executives on lavish junkets.

Then they got another $30 billion and then even more after that.

Fannie Mae and Freddie Mac have gotten over $200 billion and now we are told they need more.

Other big banks on Wall Street have gotten tens of billions of dollars and have used the money to acquire other banks and paid bonuses to executives instead of freeing up credit to consumers.

Is that what the $700 billion was for?

I thought the proponents of that bailout termed it as a rescue package for the economy.

Well today all we are asking is that $25 billion of that money be targeted as a bridge loan to support the domestic auto industry.

And let's talk for a minute about how the domestic auto industry impacts the broader economy.

Experts have stated that if the auto industry were to fail as many as three million jobs could be lost in the first year sending our national unemployment rate from 6.5% to nearly 10%.

Parts suppliers to the both the Big 3 and the foreign manufacturers could fail which would have a devastating effect across the entire industry not just the domestic manufacturers.

Pensions would be dumped on the PBGC which would cost the taxpayers far more than $25 billion.

Unemployment benefit costs to the federal government would skyrocket.

Health care costs would be borne by federal taxpayers instead of the workers and companies.

And many who now pay federal taxes would be out of work at an additional cost to our national treasury.

Many who oppose these loans because of their desire to protect the taxpayers could at the end of the day be forcing the taxpayers to a far greater burden than the $25 billion we are asking for today.

And the other burden we would be subjecting this nation to is a loss of our manufacturing capability that would severely impact our national security.

During World War II Detroit was known as the Arsenal of Democracy because we had the manufacturing capability to build the weapons that led the world to peace.

In fact it was said at that time that any weapon needed by the federal government to win that war could be designed, tooled and built on Gratiot Avenue in Macomb County, Michigan.

If we allow that ability to die who will defend in America if that ability is needed in the future?

You should also remember that on September 11, 2001 the terrorists attacked America with the hope of destroying our economy.

In response to those attacks it was the domestic auto industry led by General Motors that started the Keep America Rolling program. They instituted innovative zero interest financing that kept customers in the showrooms and workers on the factory floors and they did indeed keep America rolling.

Time after time the auto industry has stepped up to defend our nation and our economy.

Most importantly, let us remember it was the auto industry who created the middle class in America- not Bear Stearns, or AIG, or Lehman Brothers- they helped create the upper class.

The auto industry, and the people who work in it, deserve better than to be called dinosaurs and irrelevant in this economy.

They need help right now through this tough economy and this Congress should step up to help provide that bridge to better times.

I thank you for the opportunity to come here today and give our case.

Testimony for House Financial Services Committee

Hearing on Extending TARP to the Auto Industry

November 19, 2008
Congressman Bill Pascrell, Jr.

Thank you, Mr. Chairman for calling the Financial Service Committee together to address the pressing issues facing our nation's auto industry. Thank you also for allowing me to present my testimony before the Committee this morning.

I want to commend you for inviting Mrs. Annette Sykora, Chairman of the National Automobile Dealers Association, to testify before the committee because we need to hear from the dealerships as well as the automaker. Any government intervention to help automakers will not work unless auto dealers are part of the fix. Congress must work to ensure that assistance to automakers stabilizes dealers as well and does not create adverse effects on them. Therefore, we must include dealer representatives in the current discussions.

It is our responsibility to help our struggling auto dealers and retailers which are a vital part of our economy. Already this year, 700 dealerships have closed or are on the brink of shutting down which would mean an additional 37,000 jobs will be lost. The impact of these small business loses will be felt across the country.

Congress must help preserve dealer viability as we consider requests for government intervention to support the ailing auto industry. Specifically, any aid given to the auto industry should accompany specific tax proposals to drive consumer activity at the retail level. I thank Chairman Frank for his bill that seeks to provide bridge funds to get our national automotive industry through this financial credit crisis. The auto industry plays a central role in our economic health and auto sales constitute 20 percent of all retail spending in the United States. Millions of Americans rely on this industry for their livelihood and financial security.

However, we need to go beyond providing direct assistance to the auto industry. We need to offer incentives to get consumers back into dealerships. More needs to done to boost sale in this industry, otherwise this effort will prove unsuccessful.

This week I plan on introducing the Auto Ownership Tax Assistance bill, bipartisan and bicameral legislation along with Senator Mikulski and Senator Bond, which will help boost ailing car dealerships throughout our nation. This measure will allow new car purchasers to deduct sales tax and interest payments from their purchase through the end of 2009, the same way they can deduct home mortgage interest from their taxes.

Legislation of this sort is of the kind which we have to develop and build support for as part of a larger recovery of our auto industry and economy. This issue is not separate from the current economic crisis – dealerships are located nationwide in all of our cities and townships.

Car dealerships, located throughout the country, currently employ 1.1 million people nationwide. This year alone the auto industry has lost 110,000 jobs.

Also, given that auto sales account for one-fifth of the retail economy, I believe we have to act swiftly to prevent any further decline.

The Auto Ownership Tax Assistance bill helps our economy by both saving jobs and providing relief to consumers. Car dealerships currently employ 1.1 million people nationwide. Already this year, 700 dealerships have closed or are on the brink of shutting down which means an additional 37,000 jobs will be lost immediately.

The Auto Ownership Tax Assistance bill will help consumers as vehicle purchases are most families' biggest investment after their homes. This bill will help American families save about $1,320 on a $25,000 car (Dodge Minivan). This legislation will also provide support for state and local governments which is an important measure especially when we consider that states rely on car excise taxes for their infrastructure projects. More car sales mean greater revenue for struggling state and local governments. Moreover, automotive sales generate enormous amounts of tax revenue for state and local governments, many of which are currently facing budgetary shortfalls.

The Auto Ownership Tax Assistance bill is a good stimulus policy particularly because auto sales account for one-fifth of the retail economy. This bill is targeted to loans of up to $49,500 and is phased out for families making over $250,000. It also comes at the busiest time of the year for car sales, which is the month of December.

We cannot stand idly by while our unemployment rate continues to escalate. Congress must work to provide imperative assistance and protection to the livelihood of Americans working in the auto industry.

I would like to thank the Chairman and the Financial Service Committee for their diligent attention to this matter and hard work on this urgent issue.

TESTIMONY OF

RON GETTELFINGER
PRESIDENT

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE & AGRICULTURAL IMPLEMENT WORKERS OF AMERICA (UAW)

on the subject of

STABILIZING THE FINANCIAL CONDITION OF THE AMERICAN AUTOMOBILE INDUSTRY

before the

COMMITTEE ON FINANCIAL SERVICES

UNITED STATES HOUSE OF REPRESENTATIVES

November 19, 2008

Introduction

Mr. Chairman, my name is Ron Gettelfinger. I am President of the International Union, United Automobile, Aerospace & Agricultural Implement Workers of America (UAW). The UAW represents 1 million active and retired workers, most of whom work or receive retirement benefits from the Detroit-based auto companies or auto parts suppliers around the country. We appreciate the opportunity to testify today on the subject of stabilizing the financial condition of the American automobile industry.

The UAW strongly supports legislation to amend the Emergency Economic Stabilization Act (EESA) to clarify that the Treasury Department should use the existing financial rescue program to quickly provide a $25 billion emergency bridge loan to GM, Ford and Chrysler to enable these companies to weather the current credit and economic crises that have had such a devastating impact on our entire country. This bridge loan would be paid from the funds that Congress has already provided under the financial rescue program; there would not be any new federal funds. As with other rescue efforts under this program, the bridge loan to the automakers would be conditioned on stringent limits relating to executive compensation, as well as provisions granting the federal government an equity stake in the auto companies in order to protect the investment by taxpayers.

The UAW believes that the Treasury Department already has the authority under existing law to make the bridge loan to the auto companies. But because there is disagreement on this point, we believe Congress should act quickly to approve legislation to make it clear that the Treasury Department should act now to provide this urgently needed relief.

The Detroit-based Auto Companies Are Facing a Crisis

The situation now facing GM, Ford and Chrysler is extremely dire. Because of the credit and financial crises that have engulfed our nation, overall vehicle sales have plummeted to the lowest level in 25 years. In October, sales were at an annualized level of 10.8 million vehicles, far below the normal level of 16-18 million vehicles.

There is no great mystery as to why this enormous decline in sales has occurred. Buying a vehicle is the second biggest purchase that families make. Because of the overall credit crunch, most families cannot get credit on reasonable terms to finance the purchase of a vehicle. And because of the general economic uncertainty, many families are simply deferring any major expenditures.

The net result is that all auto companies, not just the Detroit-based automakers, have seen a sharp drop in their sales. This means that the revenues received by the companies have declined drastically. As a result, GM, Ford and Chrysler are burning through their cash reserves at an unprecedented rate. As the recent earnings reports indicate, this scenario is not sustainable. If the government does not act to provide immediate assistance, GM, Ford and Chrysler could be forced to liquidate.

The UAW wants to underscore that this would not be a painless, "prepackaged" bankruptcy reorganization as some columnists have suggested. Consumers will not purchase vehicles from a company that has filed for bankruptcy. And bankrupt auto companies would not be able to obtain "debtor-in-possession" financing to enable them to continue operations. Thus, the stark reality is that these companies would be forced into a Chapter 7 liquidation, with their operations ceasing entirely and their assets sold for pennies on dollar.

Devastating Consequences if the Detroit-Based Auto Companies Collapse

If the Detroit-based auto companies are forced into liquidation, the consequences would be truly devastating, not only for UAW members, but also for millions of other workers and retirees across this nation, and for the entire economy of the United States. In addition to the hundreds of thousands of workers who would directly lose their jobs at the Detroit-based auto companies, according to the Center for Automotive Research a total of almost 3 million workers would see their jobs eliminated. This includes persons who work for auto dealers, suppliers of components and materials, and thousands of other businesses that depend on the auto industry. In addition, because the auto manufacturers depend on many of the same suppliers, a disruption in the supply chain would have serious negative consequences for the remaining auto manufacturers.

The liquidation of the Detroit-based auto companies would also have devastating consequences for millions of retirees. The retirees from these companies and their spouses and dependents – about one million persons – could suffer sharp reductions in their pension benefits. And they would face the loss of their health insurance coverage – an especially devastating blow to the roughly 40 percent who are younger than 65 and thus not yet eligible for Medicare. In addition, if the automakers' pension plans are terminated, the Pension Benefit Guarantee Corporation (PBGC) would be saddled with unprecedented liabilities. To prevent the collapse of the PBGC, which would jeopardize the retirement security of millions of workers and retirees, the federal government would have to provide a huge bailout for the pension guarantee program. Furthermore, under existing law, the federal government would be liable for a 65% tax credit to cover the health care costs of pre-Medicare auto retirees costing about $3 billion per year.

The liquidation of the Detroit-based auto companies would have serious negative repercussions for the entire U.S. economy. Almost 4 percent of our nation's GDP is related to the auto industry, and almost 10 percent of our industrial production by value. The collapse of the auto sector would severely aggravate the current economic downturn, sending production and consumer spending into a deeper tailspin while unemployment spirals higher. Federal, state and local government revenues would shrink even further, forcing harmful cuts in a wide range of social services at precisely the time they are most urgently needed.

The UAW submits that it would be far better for the auto industry and its workers and retirees, and for the nation as a whole, for the federal government to take prompt action now to prevent the imminent collapse of the Detroit-based auto companies. The human toll will be far less. And the ultimate cost to the government will be far cheaper.

Myths About the Auto Industry

A number of objections have been raised by various commentators against this type of government assistance to the Detroit-based auto companies. These objections are largely based on myths about the auto industry that do not stand up on closer scrutiny.

A). The Current Problems Facings the Detroit-based Companies Are Not Due to "Overly Rich Union Contracts"

Some commentators have asserted that "overly rich contracts" negotiated by the UAW are to blame for the companies' current situation, and have suggested that workers and retirees should be required to take deep cuts in their wages and benefits. This totally ignores the recent history in the auto industry and the facts regarding wages and benefits at the Detroit-based auto companies.

The truth is that in 2005 the UAW agreed to reopen the contracts mid-term, and accepted cuts in workers' wages and in health care benefits for retirees. Then, in the general 2007 collective bargaining negotiations, the UAW agreed to what industry analysts have called a "transformational" contract that fundamentally altered labor costs for the Detroit-based auto companies. This contract slashed wages for new hires by 50%. Furthermore, new hires will not be covered under the traditional retiree health care and defined benefit pension plans. In addition, this contract stipulated that beginning January 1, 2010 the liability for health care benefits for existing retirees would be transferred from the companies to an independent fund (a Voluntary Employee Beneficiary Association, or VEBA). This agreement has subsequently been approved by federal courts, which have appointed a majority of the trustees who will be independent of the UAW and responsible for managing the VEBA. Taken together, the changes made by the 2005 and 2007 contracts reduced the companies' retiree health care liabilities by fifty percent.

As a result of all these painful concessions, the gap in labor costs that had previously existed between the Detroit-based auto companies and the foreign transplant operations **will be largely or completely eliminated by the end of the contracts.** Indeed, one industry analyst has indicated that labor costs for the Detroit-based auto companies will actually be lower than those for Toyota's U.S. operations. Thus, the truth is the UAW and our active and retired members have already stepped up to the plate and made the hard changes that were necessary to make our companies competitive in terms of their labor costs.

It is also important to note that union negotiated work rules cannot be blamed for the current problems facing the Detroit-based companies. According to the Harbour Report, the industry benchmark for productivity, union-represented workers are actually **more** efficient than their counterparts at non-union auto plants. And union-made vehicles built by the Detroit-based auto companies are winning quality awards from Consumer Reports, J.D. Power, and other industry analysts.

The current plight of GM, Ford and Chrysler is simply not attributable to "overly rich union contracts." Instead, it is the result of the larger credit and economic crises that have engulfed our nation, and the unprecedented drop in auto sales that has affected all automakers.

Because the recent contracts negotiated by the UAW are now competitive with the rest of auto industry in the U.S., we do not believe there is any justification for conditioning assistance to the Detroit-based auto companies on further deep cuts in wages and benefits for active and retired workers. We would also note that in the cases where the Treasury Department has acted to rescue financial institutions, it has only imposed restrictions on executive compensation. It has never mandated cuts in wages or benefits for rank-and-file workers and retirees. Thus, there is no basis for singling out the auto industry for different treatment.

B). The Current Crisis Cannot Be Blamed on the Detroit-based Companies Producing Gas Guzzling Vehicles

Some pundits also have asserted that the Detroit-based auto companies are to blame for their current predicament because they insisted on producing gas guzzling vehicles, rather than more fuel efficient vehicles that consumers wanted. According to this point of view, GM, Ford and Chrysler simply were not producing vehicles that consumers wanted to buy.

Unfortunately, this argument ignores the fact that the current credit and economic crises have resulted in a sharp drop in sales by **all** auto manufacturers, including the Japanese companies. The immediate problem is not just that consumers aren't buying the vehicles produced by the Detroit-based auto companies. The problem is they aren't buying vehicles from any company!

It is true that earlier this year the sharp spike in gas prices resulted in a sudden shift in the product mix demanded by consumers, with sales of more fuel efficient vehicles increasing, and sales of pickups, minivans and other larger vehicles dropping. This shift in product mix hit the Detroit-based companies the hardest, because their product mix was more oriented towards these larger vehicles. But it also caught Toyota and Nissan by surprise. Because these companies had been aggressively expanding production of larger vehicles, they also experienced significant dislocations.

The Detroit-based auto companies have been investing massive amounts of money to change their product mix and to provide consumers with a wide range of more fuel efficient vehicles. They are aggressively moving ahead with advanced fuel saving technologies. For example, GM plans to introduce the Volt plug in hybrid in 2010.

The landmark energy legislation that was enacted by Congress in 2007, with the support of the UAW and the auto companies, will require substantial improvements in fuel economy until the entire fleet of autos and light trucks sold in the U.S. by all companies achieves at least 35 mpg by 2020. In addition, the Advanced Technology Vehicles Manufacturing Incentive Program (ATVMIP), which was authorized by this legislation and subsequently funded by Congress in the fall of this year, will provide assistance to all automakers – the Detroit-based companies and the foreign transplants – to retool facilities in this country to produce the advanced, fuel efficient vehicles of the future and their key components. This will help to accelerate the introduction of these more fuel efficient vehicles, while ensuring that they are produced by American workers.

Some commentators have questioned why this advanced vehicle retooling program doesn't provide sufficient assistance for the auto companies. The answer is the ATVMIP is part of a long term energy policy that will provide assistance to the auto companies and parts suppliers over a ten year period, tied specifically to the production of very high mileage vehicles. This program was not designed to address the type of immediate cash flow crisis that the Detroit-based auto companies are now facing as a result of the sudden drop in overall auto sales. Even if the ATVMIP is implemented quickly – which is by no means clear – at most it will only provide modest assistance to the Detroit based auto companies in the coming years.

Other observers have questioned whether the ATVMIP could simply be expanded to allow the Detroit-based auto companies immediate access to the entire $25 billion that was authorized and appropriated for this program. The UAW believes this would not make sense because it would undermine the fuel economy objectives of this program. Furthermore, there simply are not enough retooling projects in the short term – for advanced vehicles or more conventional ones – to make this approach feasible.

Some commentators and groups have suggested that any new assistance to the Detroit-based auto companies should be conditioned on even greater improvements in fuel economy. We recognize that President-elect Obama campaigned on a platform that included increases in fuel economy and the production of plug in hybrids, as well as assistance to the auto industry to ensure that the vehicles of the future are produced in this country. The UAW is looking forward to working with the Obama administration and the next Congress to help achieve these objectives.

But we firmly believe it would be an enormous mistake to rush to include these important new initiatives in the current emergency bridge loan for the Detroit-based auto companies. To begin with, we do not believe there is adequate time to develop thoughtful proposals that are workable and effective. In addition, given the desperate situation facing the Detroit-based auto companies, and the devastating consequences their collapse would have for millions of workers and retirees and the entire U.S. economy, the UAW does not believe it is appropriate to hold emergency assistance hostage to broader fuel economy/environmental initiatives.

The Detroit-based auto companies need an immediate bridge loan from the Treasury Department in order to have sufficient cash to be able to continue their operations. These companies will not be able to continue on the path to producing the greener vehicles of the future if they are forced to liquidate in the coming months.

Conclusion

The UAW appreciates the opportunity to testify before this Committee on the subject of stabilizing the financial condition of the American automobile industry. We strongly urge Congress to act this week to approve legislation that will provide immediate assistance to GM, Ford and Chrysler to enable them to continue in business, and to avoid the devastating consequences that a collapse of these companies would have for millions of workers and retirees across our country. Thank you.

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Testimony before Committee on Financial Services

November 19, 2008

Congressman Pete Hoekstra, MI-02

Thank you Chairman Frank and Ranking Member Bachus for the privilege of testifying before you on the importance of the auto industry to the state of Michigan.

The Big 3 auto manufacturers are a significant component of the Michigan and American economy. The current crisis should provide the stimulus, the opportunity to fundamentally reform the automobile industry in America to ensure its long term success. We are all aware of the long-term challenges that the industry has been facing. Now is the time to act.

Now that the industry is in the position of requesting significant assistance from Congress and the American taxpayer, everyone needs to recognize that all the rules have changed. Workers, management, and shareholders now have a new accountability: an accountability to the taxpayer. The agreements that were in place before are interesting, but they need to be reviewed through the lens of this new accountability. I encourage you to keep this in perspective as you craft legislation and as you review the testimony of those who follow.

A broad range of alternatives need to be considered to address this crisis in the automotive industry. There is no single fix.

Let me outline some of the steps I believe we need to consider:

We should encourage driving demand for new vehicle purchases. At the federal level we should consider a six- to nine-month incentive of up to a $3,000 tax credit for the purchase of new U.S.-produced automobiles. It would clear dealer inventories and help to modernize the America fleet with new cars with better efficiency and fewer emissions.

States should follow the federal government lead and provide incentives at the state level. For example, Michigan has an illogical sales tax for new car purchases. Michigan charges the full 6 percent sales tax on a new car purchase even when a car is traded in toward the purchase price. Michigan should for the next 12 months only charge the sales tax on the differential cost, the value of the new car less the trade-in value.

Let's allow consumers to lead the recovery effort.

Government should reexamine the policies that we have or are considering implementing. Should they be delayed or reconsidered? For example, should the new Corporate Average Fuel Economy standards currently scheduled to be implemented in 2011 be postponed until the economic health of the country and the auto industry have recovered? How much would that benefit the current cash flow problems of the Big 3?

There is serious consideration about allowing states to establish their own CAFE and emissions standards. Should that be reconsidered? Would it be wise at this point to assure the Big 3 that there will continue to be a uniform set of safety, CAFE and emissions standards for U.S. sales?

These alternatives would require no direct investment of taxpayer funds into these companies. However, if this committee crafts legislation that would result in either direct or indirect investment of taxpayer dollars into the companies, we know that the rules change, the accountability changes. These companies are now accountable to the taxpayer. Yes, they are now accountable to Joe the Plumber and others, average everyday taxpayers.

The average salary of an American working in manufacturing is $31.50 per hour, in transplant auto manufacturers it is roughly $45 per hour and for the Big 3 it is $73 per hour. Most people who are laid off receive up to 39 weeks of unemployment benefits. Workers laid off from the Big 3 receive almost three years of benefits ranging from 85 percent to 95 percent of their base wages. These statistics should be factored in as the Big 3 ask for assistance from the American people through the federal government.

Let me outline some thoughts about what I mean by all the rules changes. Let me reinforce that these changes only apply as taxpayer dollars are part of the equation. Once those dollars are repaid, these companies are free of the restrictions.

First, everybody needs to sacrifice. If the taxpayer antes up so should management and the employees of the company.

Both blue and white collar workers might need to make additional temporary concessions. No executive should receive a pay package that would enable them to earn more than the president of the United States when American taxpayers are funding it. Golden parachutes, lucrative fringes all need to be suspended. Mr. Chairman, I'm pleased to see that you have strengthened the pay package restrictions in your bill versus the Troubled Assets Relief Program. Keep it up.

Job Banks also need to be re-evaluated. While workers all across the industry who are facing difficult employment prospects, facing a lay-off or having their jobs eliminated they cannot be expected to subsidize policies at the Big 3 that provide workers with almost three years of benefits when they are laid off or downsized.

These are just a few examples of policies that need to be seriously evaluated before taxpayer dollars start to flow.

We know that auto manufacturers in America can be successful, and I hope that this process will allow the Big 3 to be part of the future. We need them to be successful.

Regardless I would also suggest that the ability of Federal Prison Industries, Inc. (FPI) to simply take Federal contract business opportunities be curtailed during periods of high unemployment and that FPI's ability to offer inmate labor to firms in the commercial market be suspended.

Today, we have heard the affects of the economic downturn on the Big Three and their long chain of suppliers. In sharp contrast, FPI's revenues for Fiscal Year 2007 were $852.7 million, $135.2 million for than in Fiscal Year 2006 ($717.5). Based on the mid-year report for Fiscal Year 2008, FPI is likely to have revenues well in excess of $900 million. Recently, representatives of FPI's new auditors, KMPG, told the FPI Board of Directors that FPI was on a path to becoming a "$1 billion entity." During the same meeting FPI's comptroller told the Board that FPI had $173 million in cash reserves, and could easily pay-off its $20 million interest-free loan from the US Treasury.

One of FPI's newest business groups, established in FY 2001, is the Vehicular Components and Fleet Management Business Group. It has done quite well. In FY 2007, it had $156.4 million? in revenues, and provided jobs to 2,396 of FPI's total of 23,152 inmate workers. FPI's mid-year report for Fiscal Year 2008 reflects that this automotive business group should have substantial increases in both revenues and employment, at time when non inmate workers are losing their jobs, and the firms that employ them, are worrying about their very existence.

Inmate workers are remanufacturing vehicle components for DOD and other Federal users as well as for resale in the commercial market. Inmate workers in Beaumont, Texas, rather than non-inmate workers in Muskegon, Michigan, are rebuilding engines and transmissions for military vehicles. Inmate workers, rather than non-inmate workers both private sector and Government workers, rebuild virtually the entire line of HMMWV (Humvee) for Federal Government.

For many years, we have tried to enact legislation to enact fundamental, comprehensive, and balanced reform of FPI. In that enterprise, I have been fortunate to have the Chairman (Mr. Frank) as the lead Democratic cosponsor and Rep. Carolyn Maloney, as another lead cosponsor. Our effort has had the strong support of Rep. John Conyers, the Chairman of the Committee on the Judiciary, after the bill was modified to provide enhanced educational opportunities and alternative work opportunities.

Our bill which passed the House twice by votes of 350-65 and 362-57, has enjoyed strong support from organized labor, including the UAW. In the Senate our effort has been lead by Michigan's Senators, Levin and Stabenow with the able assistance of Senator Shelby.

Thank you again Chairman Frank and Ranking Member Bachus for the privilege of testifying before you on the importance of the auto industry to the state of Michigan.

Statement
of the
Motor & Equipment Manufacturers Association

ABOUT:	Oversight of Implementation of the Emergency Economic Stabilization Act of 2008 and of Government Lending and Insurance Facilities; Impact on Economy and Credit Availability
TO:	United States House of Representatives Committee on Financial Services
BY:	James McElya, Executive Chairman Cooper Standard Automotive
DATE:	November 19, 2008

BEFORE THE UNITED STATES OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES

"OVERSIGHT OF IMPLEMENTATION OF THE EMERGENCY ECONOMIC STABILIZATION ACT OF 2008 AND OF GOVERNMENT LENDING AND INSURANCE FACILITIES; IMPACT ON ECONOMY AND CREDIT AVAILABILITY"

TESTIMONY OF JAMES McELYA
EXECUTIVE CHAIRMAN, COOPER STANDARD AUTOMOTIVE
REPRESENTING
MOTOR & EQUIPMENT MANUFACTURERS ASSOCIATION

NOVEMBER 19, 2008

The Motor & Equipment Manufacturers Association (MEMA) represents almost 700 companies that manufacture motor vehicle parts for use in the light vehicle and heavy duty original equipment and aftermarket industries. MEMA represents its members through three market segment associations: Automotive Aftermarket Suppliers Association (AASA), Heavy Duty Manufacturers Association (HDMA), and Original Equipment Suppliers Association (OESA).

Today's auto industry is interdependent such that it is economically impossible to separate the economic success of the suppliers from their manufacturer customers. Congress must include suppliers in any auto industry financial assistance package or the country will be faced with massive job losses and the eventual breakdown of this vital sector of our economy.

A recent study by the Center for Automotive Research (CAR) shows that the collapse of any single vehicle manufacturer will cause over 2 million jobs lost and will have an impact over $100 billion on the nation's economy.[1] When faced with those facts, Congress may be tempted to deal only with the challenges of the vehicle manufacturers. However, the automotive industry is so interdependent that we must address the needs of the automobile manufacturers *and* suppliers to forestall an immediate crisis and future shut-downs of the entire auto industry. A potential bankruptcy by a major vehicle manufacturer will cause serious disruptions and will directly impact the ability of the entire industry to function. At the same time, suppliers must have an infusion of working capital to continue to operate.

[1] CAR Research Memorandum: *The Impact on the U.S. Economy of a Major Contraction of the Detroit Three Automakers*, by David Cole, Ph.D, *et al.*, Center for Automotive Research. November 2008.

MEMA urges Congress to immediately pass legislation providing direct financial assistance to the automotive industry, including suppliers. This could be accomplished through the establishment of a loan program for the auto industry through the Troubled Asset Relief Program (TARP) or other funding. Use of the TARP is appropriate since it was designed and structured to assist the economy and improve both credit and economic measures. It will also provide a back-stop from further employment reductions and future bankruptcies.

Quite simply –

- Motor vehicle suppliers are leaders in innovation in the auto industry.
- Motor vehicle suppliers are the nation's largest manufacturing employer. Our high wage, high skill jobs are critical to the industrial base of the country, and are located throughout the United States. Suppliers are the largest manufacturing sector in seven states: Ohio, Indiana, Kentucky, Michigan, Missouri, South Carolina, and Tennessee.
- Motor vehicle suppliers are restructuring to meet the demands of the 21st century.
- Motor vehicle suppliers account for 40 percent of total automotive investment in research and development.
- Motor vehicle suppliers provide a growing amount of content of all vehicles manufactured in the U.S.
- The current economic challenges, particularly the virtual elimination of banking credit, have developed into a crisis for the entire automotive industry.

Industry Overview

The motor vehicle manufacturer and supplier industry are leaders in the development of safety and energy technology critical to creating today's vehicles and those of the next generation. The members of MEMA have long worked with their customers to develop technologies that improve vehicle performance, safety, and fuel economy through a variety of components. A recent study found that suppliers now account for as much as 70 percent of the value-added in the manufacture of motor vehicles[2]. Suppliers account for over 40 percent of total automotive investment in research and development and continue to take on a greater role in the design, testing, and engineering of new vehicle parts and systems – a role that is expected to grow significantly over the next five years. Supplier companies are not only becoming increasingly responsible for producing significant segments of motor vehicles but also are more likely to solely design and engineer those parts.

The employment base of the supplier industry reaches far beyond Michigan across all 50 states. (See *Appendix 1*) In fact, the collective direct employment in the other six states where suppliers are the largest manufacturing sector far exceeds the employment in Michigan: Ohio (97,323); Indiana (86,934); Kentucky (35,102); Missouri (18,888); South Carolina (20,943); and, Tennessee (45,749). Every supplier job contributes an

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[2] *Who Really Made Your Car? Restructuring and Geographic Change in the Auto Industry* by Thomas Klier and James Rubenstein; Published by W.E. Upjohn Institute for Employment Research, 2008.

additional 5.7 jobs to the local economy with a total of 4.5 million private industry jobs dependent on the motor vehicle supplier industry.

While supplier employment is contracting, it remains the largest manufacturing sector in the United States. The 2007 CAR study found that suppliers to the automotive industry directly employed 722,600 U.S. workers. As of June 2008, that domestic industry employment fell to 590,000 workers. That is a loss of more than 130,000 good paying American jobs in less than two years. These figures do not take into account recent workforce reductions or impact of job losses in the aftermarket and heavy duty sectors.

Some analysts have indicated that as much as half of the supply base is in distress. The U.S. light vehicles sales dropped 14.6 percent year-to-date by October 2008 with a projection of 13.2 million sales this year, far below the 16.15 million in 2007. North American light vehicle production – including all manufacturers – has fallen 16 percent year-to-date and production schedules remain tenuous through the remainder of the year. These are levels we have not seen since 1980 and the additional pressure of unprecedented frozen consumer and commercial credit exacerbates the financial distress. It is critical to resolve the financial crisis and return credit availability to consumers to turn vehicle sales and production around.

Role of Suppliers in Light Vehicle Market

Original equipment suppliers to the passenger car market interact directly with motor vehicle manufacturers. Each of the more than 300 different new light vehicle models sold every year in the U.S. has 8,000 to 10,000 components. Original equipment suppliers design and manufacture the parts needed by the automakers to assemble motor vehicles.

Although most vehicle purchasers recognize only the nameplate on a car, in reality the industry is composed of two types of manufacturers: car manufacturers and parts manufacturers. More and more responsibility for new technology innovation and development derives from the parts manufacturers or suppliers. (See *Appendix 2*)

"The supply base of today's carmakers is structured like a pyramid. On top of the pyramid is the carmaker. Below the carmakers are ... Tier 1 suppliers that sell parts directly to carmakers. Tier 1 suppliers in turn purchase materials from Tier 2 suppliers, who purchase from Tier 3 suppliers, and so on down the supply chain." *Who Really Made Your Car at 109.*

Until the last decade, U.S. carmakers generally produced a majority of their own parts. This role has changed dramatically with the responsibility for the manufacture of most parts falling to suppliers. These suppliers, in turn, depend less on any single car manufacturer as a customer. Ford, General Motors, and Chrysler controlled 84 percent of the North American production in 1992 versus an estimated 59 percent in 2008. The suppliers are also completely engaged on the logistics side providing the car manufacturers with just-in-time (JIT) delivery of parts with neither party having a significant stock pile of unused supplier inventory. Less vertical integration and customer concentration, along with greater JIT deliveries, makes the industry completely interdependent.

According to the authors of *Who Really Made Your Car*, "... carmakers are offering large contracts to only a handful of suppliers, which are consolidating into fewer larger firms ..." *Who Really Made Your Car at 19*. The authors go on to note:

> "Productivity improvements and the declining market share of domestic OEMs have led to considerable consolidation among motor vehicle parts suppliers" (Hill, Menk, and Szakaly 2007, p.10). "Since the early 1990s ... the largest 20-30 suppliers in the industry have taken on a much larger role in the areas of design, production, and foreign investment, shifting the balance of power in some small measure away from lead firm towards suppliers" (Sturgeon, Van Biesebroech, and Gereffi 2007, p. 3). As a result, "(w)hile the total number of vehicles produced in North America grew by 40 percent between 1991 and 2005 ... the combined sales of the largest 150 suppliers in North America almost tripled over the same period ..." (Hill, Menk, and Szakaly 2007, p. 24).

The dramatic and sudden contraction of the auto industry will directly impact the supply base but the failure of any single, critical supplier will impact a wide range of car manufacturers. The collapse of a relatively small number of suppliers will directly and negatively impact vehicle production and sales beyond General Motors, Ford, and Chrysler. Other vehicle manufacturers including Toyota, Honda, and Nissan will likely have to close or limit production for months while waiting for new sources of supply to be developed.

Innovation and Change in the Industry

Suppliers are working daily on a wide variety of fuel efficiency and safety technologies. The new corporate average fuel economy (CAFE) requirements provide both opportunities and challenges for the supplier industry. In March 2006, the National Highway Traffic Safety Administration (NHTSA) announced the Final Rule on Light Truck Average Fuel Economy standards, increasing the miles-per-gallon (mpg) truck target to an average of 24 mpg in model year (MY) 2011. This was the first change to the CAFE program in over two and a half decades. The Energy Independence and Security Act of 2007 (EISA) mandated changing fuel economy standards for all U.S. cars, light trucks and SUVs raising CAFE to an average of 35 mpg – a 40 percent increase over current levels – for MYs 2011 and 2020. By year's end, it is expected that NHTSA will publish the new CAFE Standards Final Rule for MYs 2011-2015.

Many suppliers are ready for these new challenges. The fuel efficiency initiatives give an overview of the scope of tasks undertaken by the supply industry. These include key enablers for hybrids, plug-in hybrids, electric, and fuel cell vehicles and to the development of components required for and compatible with the use of cellulosic and non-carbon fuel sources. The attached technology roadmap (See *Appendix 3*) provides a visual overview of the new technologies on which suppliers are currently working to bring to market on a wide scale.

MEMA supported the passage of EISA and the appropriations of $25 billion in funding for the Advanced Technology Vehicle Manufacturing Incentive (Section 136) loan program. The industry believes this funding will provide a necessary infusion of capital to bring many of the new and important technologies to market. This funding should not be repositioned to address the broader financial needs of the automotive industry.

The industry is reorganizing at a rapid pace while at the same time developing new initiatives to meet the demands of the 21st century. According to Grant Thornton (See *Appendix 4*) a significant amount of restructuring through merger, acquisition, and bankruptcy has taken place in 2008. Grant Thornton cites 20 major mergers and acquisitions in 2008, while AlixPartners (See *Appendix 5*) cites 22 major bankruptcy filings since 2001 equaling sales of almost $75 billion[3]. Despite the stresses of restructuring, this industry continues to reinvent itself and to be innovative.

A Crisis of Liquidity

The U.S. auto industry is facing significant issues including –

- Plummeting consumer confidence in the overall economy
- A continued nationwide and systematic lack of credit availability
- Decrease in volume of vehicles built and sold

It is the inability to get credit that has pushed these seemingly unrelated factors into a crisis. According to Fitch Ratings in an October 27, 2008 report on the Liquidity of U.S. Auto Suppliers:

> "The primary risk for the Detroit Three and the auto supply base is the widening effect of the credit crisis further restricts the ability and willingness to extend credit to and within the industry, leading to the withdrawal of trade credit. Trade credit is a critical part of the industry's financial structure and, as is the case in the retail segment, the curtailment of trade credit is typically the catalyst for a bankruptcy filing. The risk of this occurring in the auto sector remains high repercussions." *Fitch at p.7*

There have been recent and serious repercussions. On November 13, 2008, Standard & Poor's Rating Service took an unprecedented step of placing 15 North American auto suppliers on Credit Watch based on their significant exposure to General Motors, Ford, and Chrysler. The report stated in part, "The suppliers placed on Credit Watch span a wide range of credit quality and have varying degrees of exposure to the Michigan-based

[3] Based on reports from Summer 2008.

automakers. We believe certain companies would be able to withstand the liquidity shock of a sudden bankruptcy filing by one or more of the manufacturers, but they may not be able to do so and remain at current rating levels." (See *Appendix 6*)

The automotive industry requires capital to manufacture the innovative products required by consumers. The U.S. industry is now placed in the position of competing with manufacturers from other countries who have been provided with a wide range of financial support. Support has been provided in countries as far-flung as France and China. In order for our industry to stabilize and to continue to innovate, assistance must be provided within our borders.

Conclusion

The future of U.S. economy is directly tied to the success of the automobile industry. According to Dr. David Cole, Chairman of the Center for Automotive Research, success of the industry will require improvements in cost, revenue, agility and innovation. MEMA is not advocating for a blank check against these forces. The proposed $25 billion bridge loan through the TARP will permit the automotive industry sufficient time to right size without further damaging other portions of the industry in current distress but not in crisis.

The country is faced with two interwoven and dire conditions in the auto industry. First, a potential bankruptcy of a major automobile manufacturer will cause a chain reaction of unpaid payables with subsequent additional bankruptcies that will severely and negatively impact the entire sector. Secondly, on a parallel course, is the inability of the automotive supplier industry to get sufficient working capital from its traditional sources to function. Congress must pass legislation that addresses both of these challenges. Due to the indubitable interdependency in the auto industry, any funding made available to the carmakers must also be made available to automotive suppliers.

Addressing these issues with funding is not a bail-out; rather it provides companies the urgently needed access to capital so that they can reinvest in our nation's communities. We are faced with a difficult time, but suppliers will continue to provide good jobs for American families, build cutting-edge technologies for tomorrow's vehicles, and support a strong manufacturing sector. We look forward to working with you on these urgent matters. The health of the U.S. automotive and supplier industry and the jobs they create for millions of Americans depend on the success of our efforts.

# # #

APPENDIX 1

Automotive Supplier Industry
Employment Data

Source:
Center for Automotive Research
(2007 Study)

Appendix 1
Automotive Supplier Industry Employment Data
Page 1

State	Direct Employment
TOTAL	**783,061**
Michigan	145,818
Ohio	97,323
Indiana	86,934
Tennessee	45,749
Illinois	40,063
Kentucky	35,102
New York	31,017
California	28,596
North Carolina	27,589
Pennsylvania	22,917
Georgia	22,701
Wisconsin	21,502
South Carolina	20,943
Texas	20,175
Missouri	18,888
Alabama	15,965
Mississippi	13,179
Florida	9,273
Arkansas	7,922
Virginia	7,796
Kansas	7,508
Oklahoma	6,986
Iowa	6,680
Minnesota	6,671
Connecticut	4,109
Utah	4,047
Nebraska	4,041
Arizona	3,369
New Jersey	3,356
Maryland	2,413
Washington	1,918
Louisiana	1,868
Oregon	1,783
Colorado	1,756
Massachusetts	1,589
West Virginia	912
Rhode Island	822
Nevada	747
New Hampshire	747
South Dakota	378
Vermont	370
North Dakota	363
Delaware	313
Maine	290
Wyoming	150
Hawaii	125
New Mexico	100
District of Columbia	70
Idaho	68
Montana	50
Alaska	9

There are 16 states with direct supplier employment in excess of 15,000 jobs. These states represent 87 percent of the total employment associated with automotive parts manufacturing. While the majority of these direct jobs are concentrates in the upper-Midwest, Alabama, California, Kentucky, North Carolina, South Carolina, and Tennessee are within those 16 top employment states. This geographic dispersion is reversing an industry trend of geographic concentration that occurred through the last 20 to 25 years.

	U.S.	MI	OH	IN	IL	TX	CA	NY	TN	PA	NC	GA	KY	WI	FL	MO	SC	AL	Balance of U.S.
DIRECT	783,061	145,818	97,323	86,934	40,063	20,175	28,596	31,017	45,749	22,917	27,589	22,701	35,102	21,502	9,273	18,888	20,943	15,965	92,506
INTERMEDIATE	1,972,067	192,732	183,988	119,855	123,265	110,443	110,550	93,813	69,854	83,008	66,518	64,530	51,113	56,553	56,363	40,802	38,580	40,384	469,714
EXPENDITURE-INDUCED	1,704,561	185,164	159,231	114,261	104,284	98,524	83,473	80,506	67,075	66,872	54,527	54,970	44,933	42,674	43,233	39,593	33,069	32,537	399,635
TOTAL EMPLOYMENT CONTRIBUTION	4,459,689	523,714	440,542	321,050	267,612	229,143	222,620	205,336	182,677	172,797	148,635	142,201	131,148	120,729	108,870	99,283	92,593	88,886	961,856
National Multiplier	5.7																		

Appendix 1
Automotive Supplier Industry Employment Data
Page 3

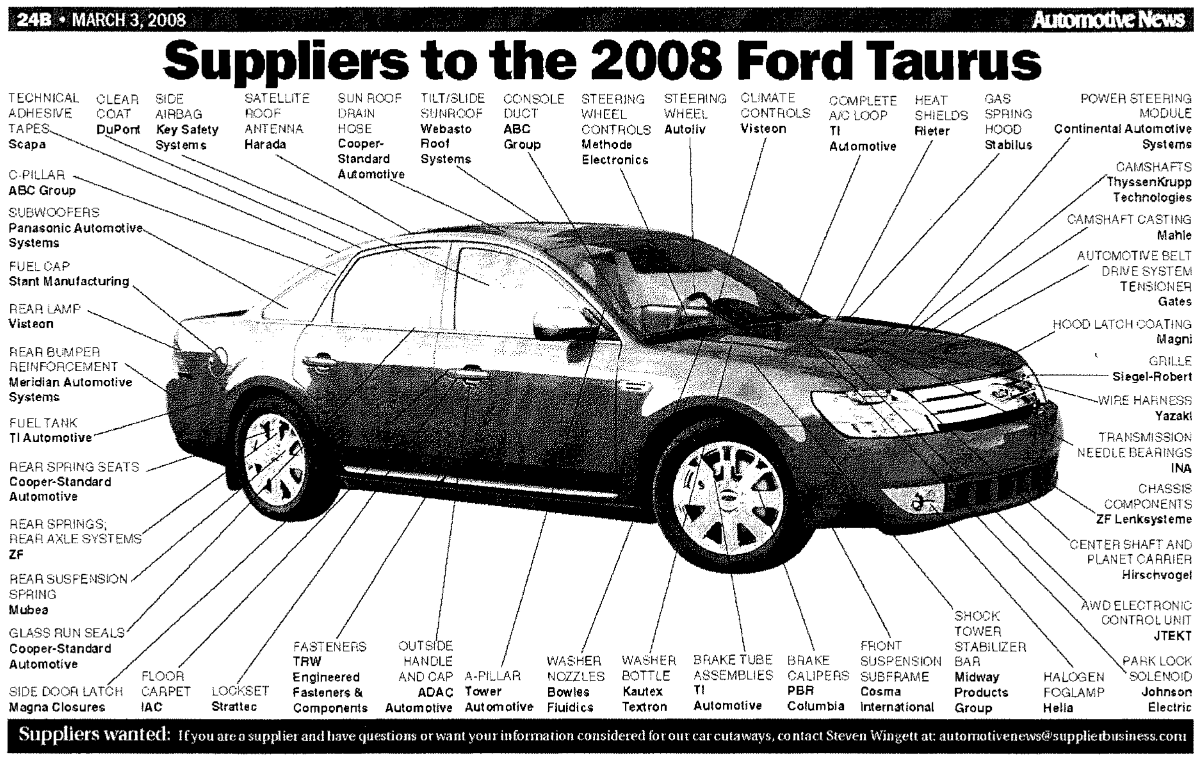
State	State Total Impact	State Total Labor Force April 2005	All Impact as % Labor Force
AL	88,885	2,146.30	4.1%
AK	4,593	337.7	1.4%
AZ	31,976	2,830.50	1.1%
AR	42,955	1,354.10	3.2%
CA	223,412	17,640.30	1.3%
CO	34,967	2,544.60	1.4%
CT	38,486	1,814.20	2.1%
DE	8,265	435.4	1.9%
DC	9,467	297.6	3.2%
FL	108,870	8,611.70	1.3%
GA	142,201	4,561.50	3.1%
HI	5,000	630.1	0.8%
ID	8,376	735.1	1.1%
IL	267,612	6,463.70	4.1%
IN	321,051	3,196.10	10.0%
IA	44,032	1,657.30	2.7%
KS	50,668	1,473.30	3.4%
KY	131,148	1,993.10	6.6%
LA	42,269	2,108.20	2.0%
ME	11,522	708.4	1.6%
MD	45,875	2,920.90	1.6%
MA	58,933	3,362.90	1.8%
MI	523,715	5,105.90	10.3%
MN	69,441	2,962.60	2.3%
MS	49,349	1,348.10	3.7%
MO	99,283	3,021.50	3.3%
MT	5,892	491.1	1.2%
NE	23,499	985.9	2.4%
NV	17,715	1,210.50	1.5%
NH	12,325	730.4	1.7%
NJ	79,029	4,408.70	1.8%
NM	10,102	933.4	1.1%
NY	205,335	9,397.20	2.2%
NC	148,635	4,311.80	3.4%
ND	4,613	357.9	1.3%
OH	440,543	5,892.20	7.5%
OK	41,299	1,735.30	2.4%
OR	21,929	1,857.30	1.2%
PA	172,797	6,295.80	2.7%
RI	8,122	567.5	1.4%
SC	92,592	2,067.40	4.5%
SD	6,176	431.1	1.4%
TN	182,677	2,912.70	6.3%
TX	229,142	11,176.30	2.1%
UT	26,387	1,261.40	2.1%
VT	6,558	354.1	1.9%
VA	86,391	3,919.90	2.2%
WA	25,850	3,275.50	0.8%
WV	23,189	796.5	2.9%
WI	121,915	3,036.70	4.0%
WY	4,627	282.8	1.6%

JOBS	INDUSTRY DESCRIPTION
783,100	**Motor Vehicle Parts Manufacturing**
649,500	Printing and Related Support Activities
550,500	Plastics Product Manufacturing
461,400	Aerospace Product and Parts Manufacturing
450,800	Semiconductor and Other Electronic Component Manufacturing
433,400	Navigational, Measuring, Electromedical, and Control Instruments Manufacturing
348,800	Other Miscellaneous Manufacturing
344,100	Converted Paper Product Manufacturing
343,900	Machine Shops; Turned Product; and Screw, Nut, and Bolt Manufacturing
313,900	Other Wood Product Manufacturing
309,600	Medical Equipment and Supplies Manufacturing
292,400	Pharmaceutical and Medicine Manufacturing
285,300	Other Fabricated Metal Product Manufacturing
264,700	Other General Purpose Machinery Manufacturing
248,200	Cement and Concrete Product Manufacturing
223,700	Motor Vehicle Manufacturing
211,700	Agriculture, Construction, and Mining Machinery Manufacturing
208,800	Computer and Peripheral Equipment Manufacturing
201,900	Metalworking Machinery Manufacturing
171,000	**Motor Vehicle Body and Trailer Manufacturing**

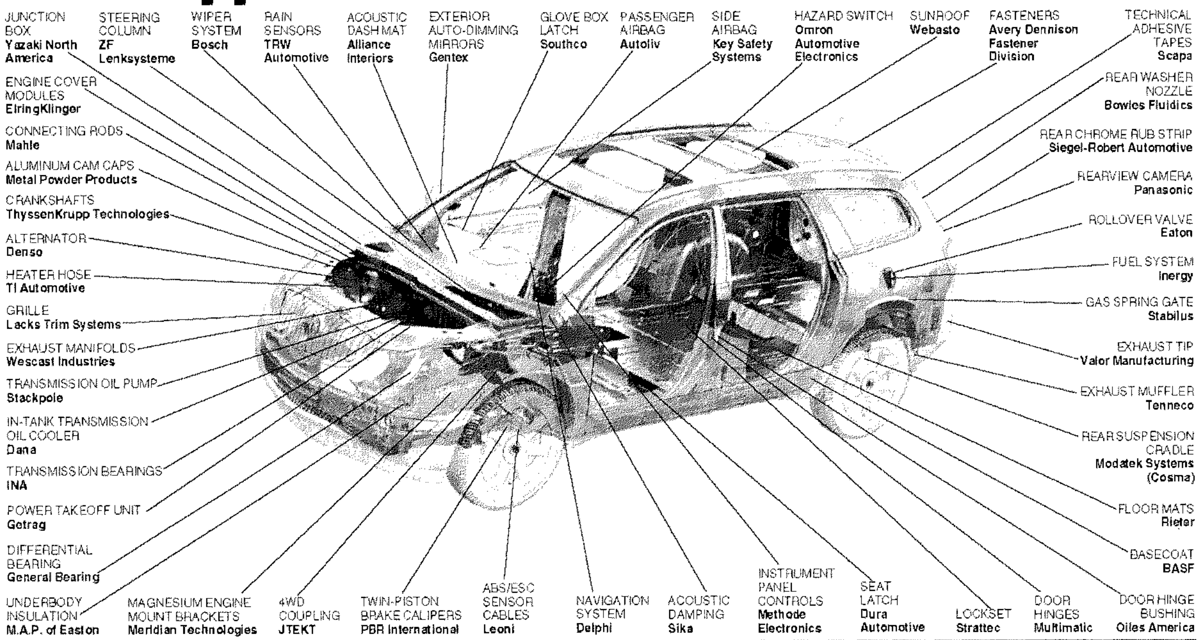
APPENDIX 2

Diagrams Illustrating a Vehicle's Component Part Framework

Source: Automotive News


24B • MARCH 3, 2008
Automotive News
Suppliers to the 2008 Ford Taurus
TECHNICAL ADHESIVE TAPES Scapa
CLEAR COAT DuPont
SIDE AIRBAG Key Safety Systems
SATELLITE ROOF ANTENNA Harada
SUN ROOF DRAIN HOSE Cooper-Standard Automotive
TILT/SLIDE SUNROOF Webasto Roof Systems
CONSOLE DUCT ABC Group
STEERING WHEEL CONTROLS Methode Electronics
STEERING WHEEL Autoliv
CLIMATE CONTROLS Visteon
COMPLETE A/C LOOP TI Automotive
HEAT SHIELDS Rieter
GAS SPRING HOOD Stabilus
POWER STEERING MODULE Continental Automotive Systems
C-PILLAR ABC Group
SUBWOOFERS Panasonic Automotive Systems
FUEL CAP Stant Manufacturing
REAR LAMP Visteon
REAR BUMPER REINFORCEMENT Meridian Automotive Systems
FUEL TANK TI Automotive
REAR SPRING SEATS Cooper-Standard Automotive
REAR SPRINGS; REAR AXLE SYSTEMS ZF
REAR SUSPENSION SPRING Mubea
GLASS RUN SEALS Cooper-Standard Automotive
SIDE DOOR LATCH Magna Closures
FLOOR CARPET IAC
LOCKSET Strattec
FASTENERS TRW Engineered Fasteners & Components
OUTSIDE HANDLE AND CAP ADAC Automotive
A-PILLAR Tower Automotive
WASHER NOZZLES Bowles Fluidics
WASHER BOTTLE Kautex Textron
BRAKE TUBE ASSEMBLIES TI Automotive
BRAKE CALIPERS PBR Columbia
FRONT SUSPENSION SUBFRAME Cosma International
SHOCK TOWER STABILIZER BAR Midway Products Group
HALOGEN FOGLAMP Hella
CAMSHAFTS ThyssenKrupp Technologies
CAMSHAFT CASTING Mahle
AUTOMOTIVE BELT DRIVE SYSTEM TENSIONER Gates
HOOD LATCH COATING Magni
GRILLE Siegel-Robert
WIRE HARNESS Yazaki
TRANSMISSION NEEDLE BEARINGS INA
CHASSIS COMPONENTS ZF Lenksysteme
CENTER SHAFT AND PLANET CARRIER Hirschvogel
AWD ELECTRONIC CONTROL UNIT JTEKT
PARK LOCK SOLENOID Johnson Electric
Suppliers wanted: If you are a supplier and have questions or want your information considered for our car cutaways, contact Steven Wingett at: automotivenews@supplierbusiness.com

Suppliers to the 2008 Buick Enclave



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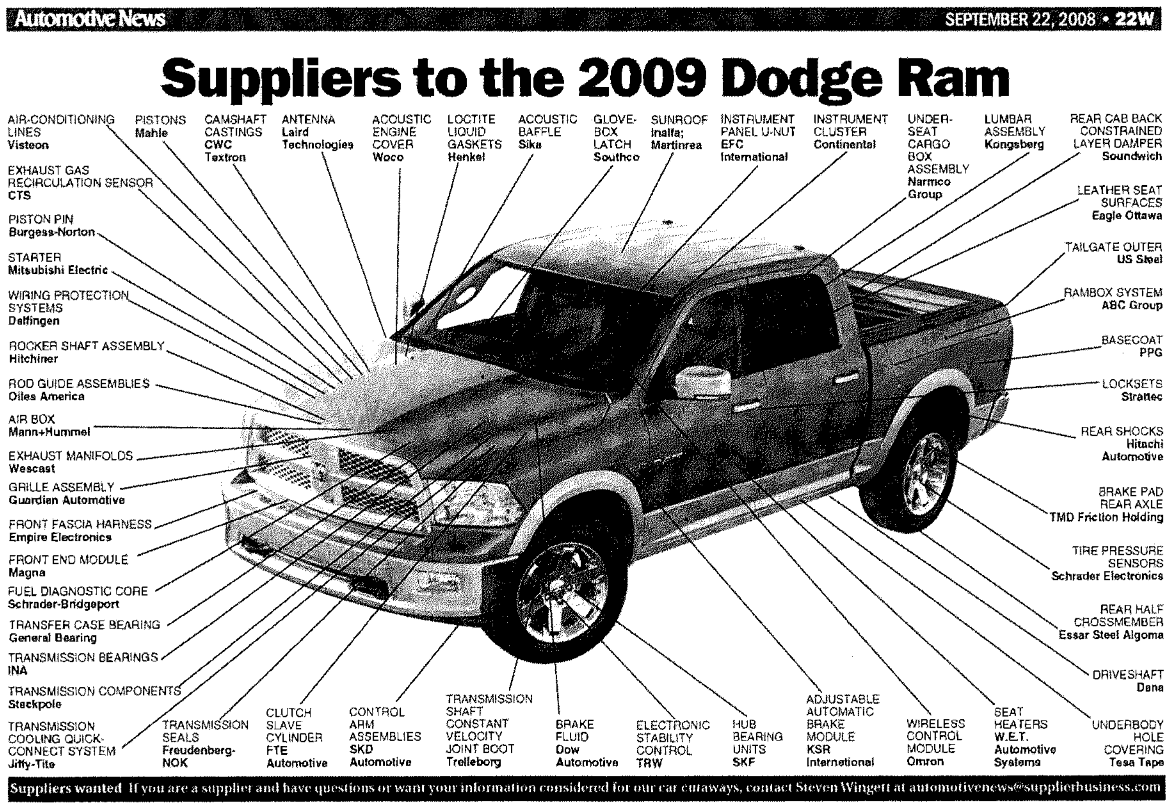
Automotive News
SEPTEMBER 22, 2008 • 22W
Suppliers to the 2009 Dodge Ram
AIR-CONDITIONING LINES Visteon
PISTONS Mahle
CAMSHAFT CASTINGS CWC Textron
ANTENNA Laird Technologies
ACOUSTIC ENGINE COVER Woco
LOCTITE LIQUID GASKETS Henkel
ACOUSTIC BAFFLE Sika
GLOVE-BOX LATCH Southco
SUNROOF Inalfa; Martinrea
INSTRUMENT PANEL U-NUT EFC International
INSTRUMENT CLUSTER Continental
UNDER-SEAT CARGO BOX ASSEMBLY Narmco Group
LUMBAR ASSEMBLY Kongsberg
REAR CAB BACK CONSTRAINED LAYER DAMPER Soundwich
EXHAUST GAS RECIRCULATION SENSOR CTS
PISTON PIN Burgess-Norton
STARTER Mitsubishi Electric
WIRING PROTECTION SYSTEMS Delfingen
ROCKER SHAFT ASSEMBLY Hitchiner
ROD GUIDE ASSEMBLIES Oiles America
AIR BOX Mann+Hummel
EXHAUST MANIFOLDS Wescast
GRILLE ASSEMBLY Guardian Automotive
FRONT FASCIA HARNESS Empire Electronics
FRONT END MODULE Magna
FUEL DIAGNOSTIC CORE Schrader-Bridgeport
TRANSFER CASE BEARING General Bearing
TRANSMISSION BEARINGS INA
TRANSMISSION COMPONENTS Stackpole
TRANSMISSION COOLING QUICK-CONNECT SYSTEM Jiffy-Tite
LEATHER SEAT SURFACES Eagle Ottawa
TAILGATE OUTER US Steel
RAMBOX SYSTEM ABC Group
BASECOAT PPG
LOCKSETS Strattec
REAR SHOCKS Hitachi Automotive
BRAKE PAD REAR AXLE TMD Friction Holding
TIRE PRESSURE SENSORS Schrader Electronics
REAR HALF CROSSMEMBER Essar Steel Algoma
DRIVESHAFT Dana
TRANSMISSION SEALS Freudenberg-NOK
CLUTCH SLAVE CYLINDER FTE Automotive
CONTROL ARM ASSEMBLIES SKD Automotive
TRANSMISSION SHAFT CONSTANT VELOCITY JOINT BOOT Trelleborg
BRAKE FLUID Dow Automotive
ELECTRONIC STABILITY CONTROL TRW
HUB BEARING UNITS SKF
ADJUSTABLE AUTOMATIC BRAKE MODULE KSR International
WIRELESS CONTROL MODULE Omron
SEAT HEATERS W.E.T. Automotive Systems
UNDERBODY HOLE COVERING Tesa Tape
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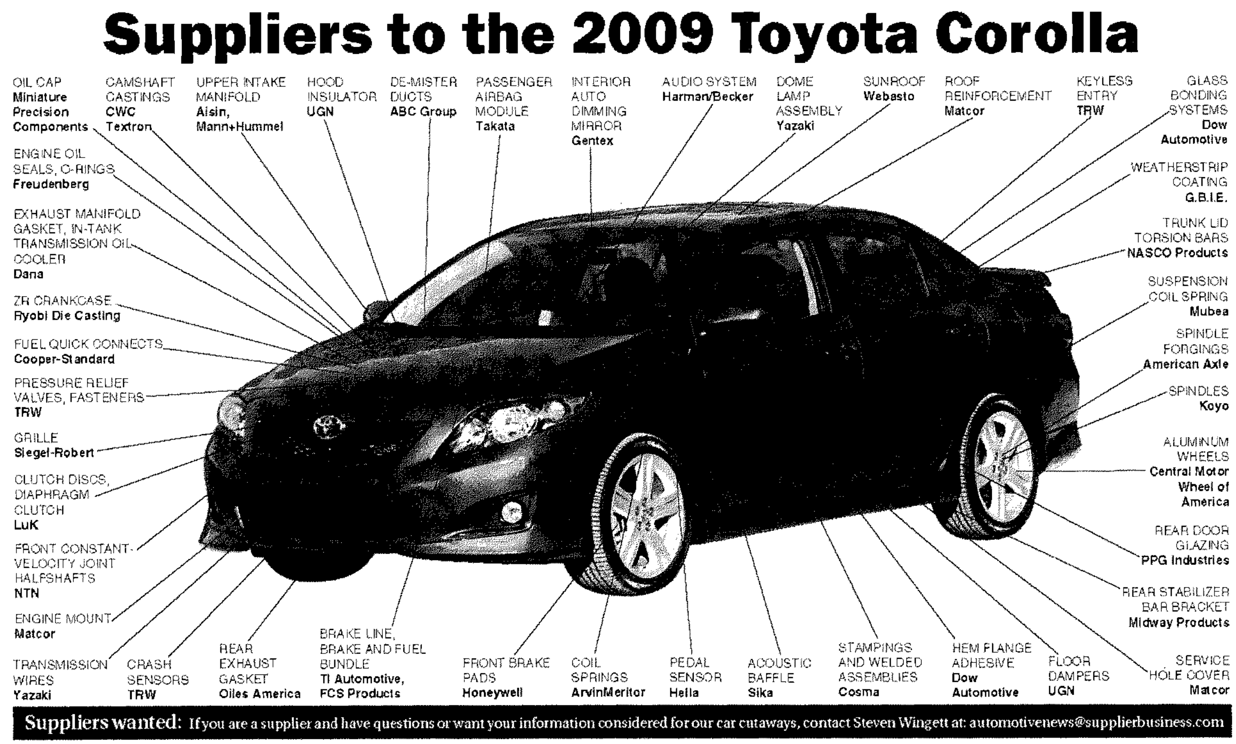
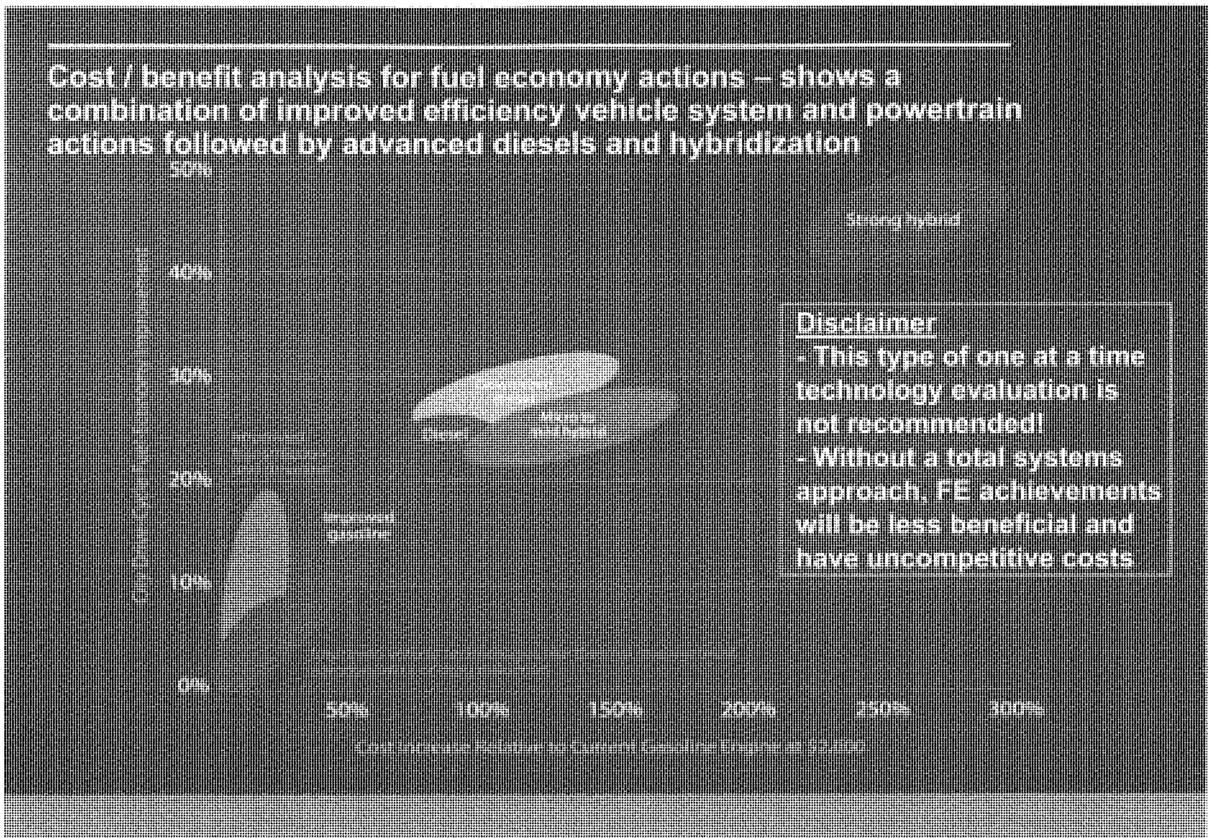

Suppliers to the 2009 Toyota Corolla
OIL CAP Miniature Precision Components
CAMSHAFT CASTINGS CWC Textron
UPPER INTAKE MANIFOLD Aisin, Mann+Hummel
HOOD INSULATOR UGN
DE-MISTER DUCTS ABC Group
PASSENGER AIRBAG MODULE Takata
INTERIOR AUTO DIMMING MIRROR Gentex
AUDIO SYSTEM Harman/Becker
DOME LAMP ASSEMBLY Yazaki
SUNROOF Webasto
ROOF REINFORCEMENT Matcor
KEYLESS ENTRY TRW
GLASS BONDING SYSTEMS Dow Automotive
ENGINE OIL SEALS, O-RINGS Freudenberg
EXHAUST MANIFOLD GASKET, IN-TANK TRANSMISSION OIL COOLER Dana
ZR CRANKCASE Ryobi Die Casting
FUEL QUICK CONNECTS Cooper-Standard
PRESSURE RELIEF VALVES, FASTENERS TRW
GRILLE Siegel-Robert
CLUTCH DISCS, DIAPHRAGM CLUTCH LuK
FRONT CONSTANT-VELOCITY JOINT HALFSHAFTS NTN
ENGINE MOUNT Matcor
WEATHERSTRIP COATING G.B.I.E.
TRUNK LID TORSION BARS NASCO Products
SUSPENSION COIL SPRING Mubea
SPINDLE FORGINGS American Axle
SPINDLES Koyo
ALUMINUM WHEELS Central Motor Wheel of America
REAR DOOR GLAZING PPG Industries
REAR STABILIZER BAR BRACKET Midway Products
TRANSMISSION WIRES Yazaki
CRASH SENSORS TRW
REAR EXHAUST GASKET Oiles America
BRAKE LINE, BRAKE AND FUEL BUNDLE TI Automotive, FCS Products
FRONT BRAKE PADS Honeywell
COIL SPRINGS ArvinMeritor
PEDAL SENSOR Hella
ACOUSTIC BAFFLE Sika
STAMPINGS AND WELDED ASSEMBLIES Cosma
HEM FLANGE ADHESIVE Dow Automotive
FLOOR DAMPERS UGN
SERVICE HOLE COVER Matcor
Suppliers wanted: If you are a supplier and have questions or want your information considered for our car cutaways, contact Steven Wingett at: automotivenews@supplierbusiness.com

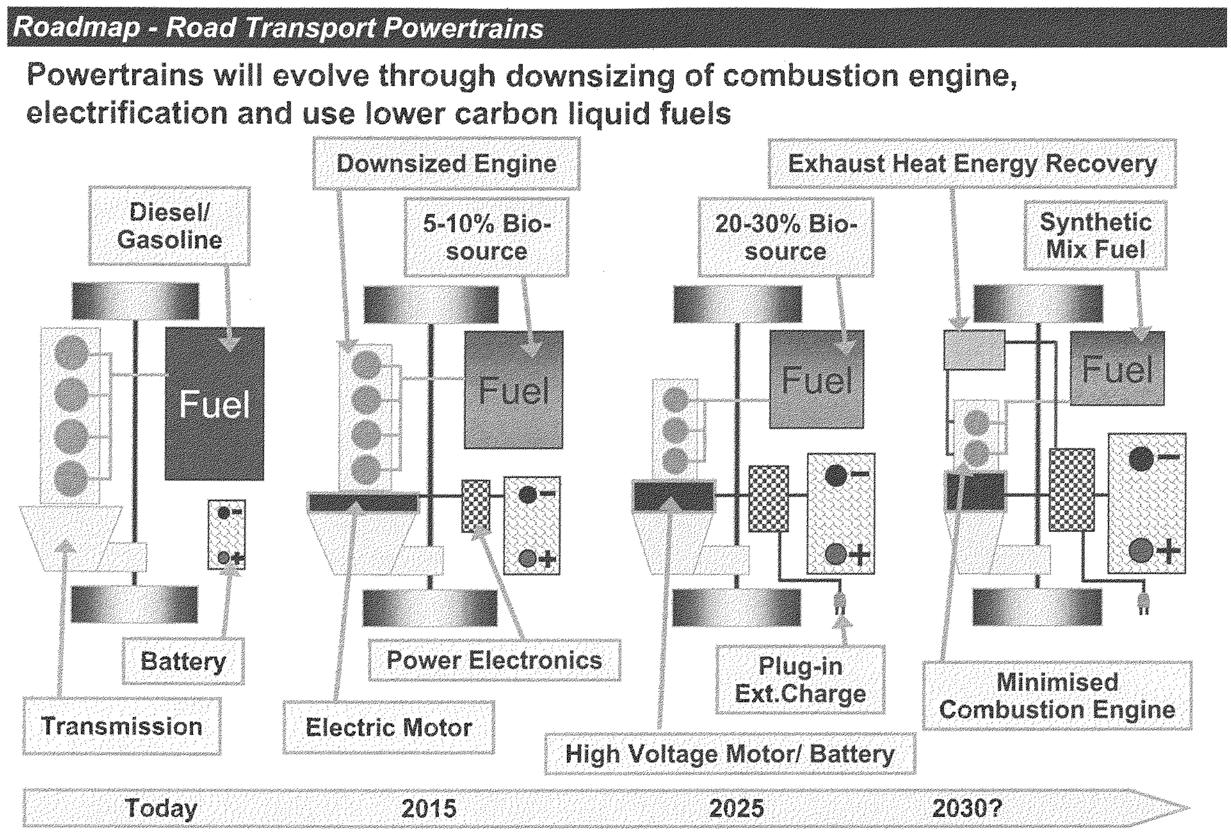
APPENDIX 3

Vehicle Technology Roadmap

Source: Ricardo, Inc.

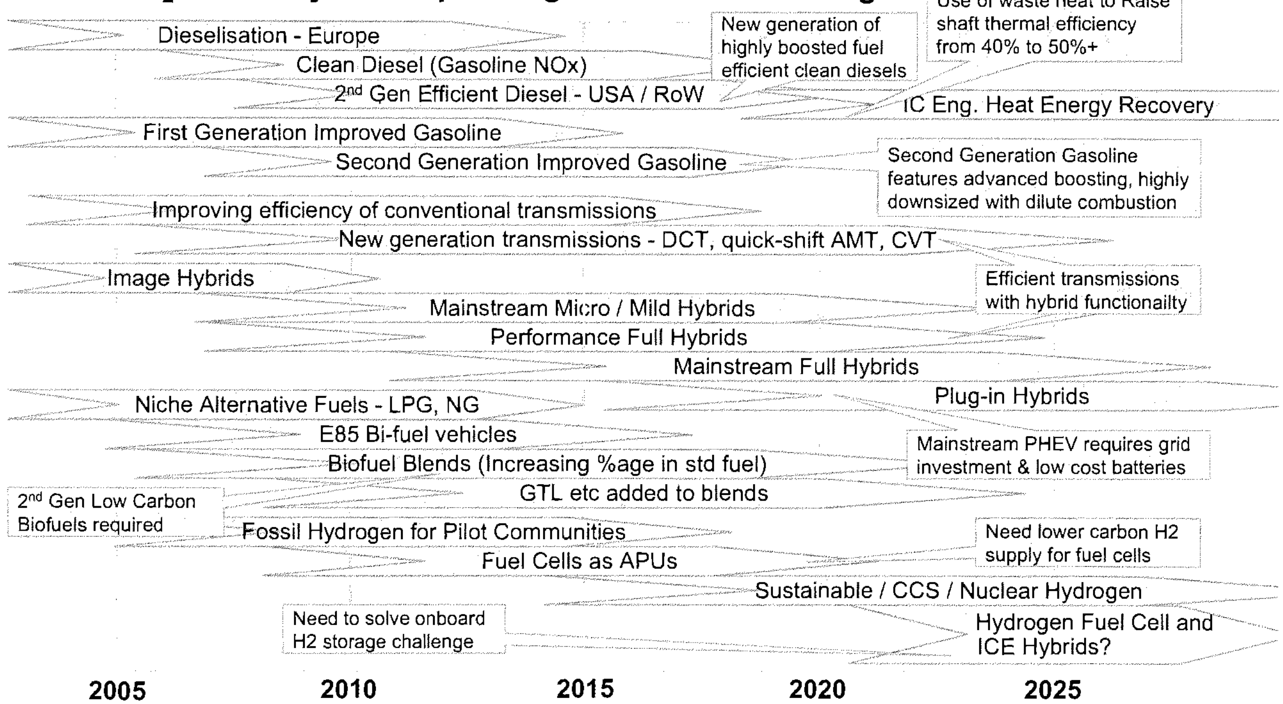


Cost / benefit analysis for fuel economy actions – shows a combination of improved efficiency vehicle system and powertrain actions followed by advanced diesels and hybridization
50%
40%
30%
20%
10%
0%
Strong hybrid
Diesel
50%
100%
150%
200%
250%
300%
Disclaimer
- This type of one at a time technology evaluation is not recommended!
- Without a total systems approach, FE achievements will be less beneficial and have uncompetitive costs


Roadmap - Road Transport Powertrains
Powertrains will evolve through downsizing of combustion engine, electrification and use lower carbon liquid fuels
Diesel/ Gasoline
Fuel
Battery
Transmission
Downsized Engine
5-10% Bio-source
Fuel
Power Electronics
Electric Motor
20-30% Bio-source
Fuel
Plug-in Ext.Charge
High Voltage Motor/ Battery
Exhaust Heat Energy Recovery
Synthetic Mix Fuel
Fuel
Minimised Combustion Engine
Today
2015
2025
2030?

Roadmap - Road Transport Powertrains

The Powertrain roadmap shows improved conventional technologies supplemented by Hybridization & blended Biofuels -- Future H_2 economy will require significant breakthroughs



APPENDIX 4

Excerpt from

Grant Thornton Report

"Automotive Industry Review"

Summer 2008

Appendix 4 *Excerpt from Grant Thornton "Automotive Industry Review" Summer 2008*

Grant Thornton

Automotive Industry Review

Corporate Advisory Services Summer 2008

2nd Quarter U.S. Automotive Highlights

OEMs Back Away From Profitability Pledges / Speak Out Against BK Concerns

As news of continued poor sales results at GM, Ford and Chrysler spread across the industry, the current restructuring and profitability plans of the "Detroit 3" continued to be called into question. Although sales have recently plummeted, this is not the first time critics have raised concerns about the future of the D3.

Merrill Lynch & Co. analyst John Murphy, announced bankruptcy "is not impossible" if the U.S. auto market worsens. GM's CEO, Rick Wagoner said that GM has "no thoughts whatsoever" of bankruptcy and has "robust" cash reserves with options for raising more money in the future. Chrysler's executive Jim Press, in a letter to dealers, stated that such reports suggesting Chrysler might file for bankruptcy are "without merit" and encouraged dealers to "hang in there and fight for every sale."

As it stands, the D3 have cash to operate (in the near-term), appear to be making steps to get through 2009 until the economy rebounds and will attempt everything in their playbook before resorting to bankruptcy. Two questions remain: How many plays are left in their playbook and how fast can they implement these necessary changes?

Commodity Price Increases Pinching Supply Base Margins

In the first six months of the year, increasing commodity prices continued to afflict upward cost pressure on automakers. Decreasing supply, higher raw material costs, and increasing energy prices have caused the relentless rise in prices. >

Contents

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Appendix 4 *Excerpt from Grant Thornton "Automotive Industry Review" Summer 2008*

Financial Statistics

Automotive Industry – Public Markets Multiples
As of 6/30/2008 (Figures in US$)

Company	Ticker	Stock price			Equity Market Cap	Enterprise Value (EV)	Net Debt/ LTM[2] EBITDA	EPS		Price earnings		EV/ LTM[2] EBITDA
		Current	% of 52 week high	Quartile[1]				LTM[2]	NTM[3]	LTM[2]	NTM[3]	
OEM												
Daimler AG	DAI	$61.67	55%	0%	$59,474	$127,168	2.7x	$4.71	$10.06	13.1x	6.1x	6.8x
Ford Motor Co.	F	$4.81	50%	7%	$10,784	$156,190	9.8x	NM	NM	NM	NM	10.7x
General Motors	GM	$11.50	27%	3%	$6,511	$28,702	3.7x	NM	NM	NM	NM	5.1x
Honda Motor Co.	TSE:7267	$34.03	90%	65%	$61,749	$96,708	2.3x	$2.89	$2.73	11.8x	12.5x	2.4x
Nissan Motor Co.	TSE:7201	$8.26	76%	13%	$33,646	$78,764	3.3x	$1.03	$0.83	8.0x	10.0x	3.6x
Toyota Motor Corp.	TSE:7203	$47.00	73%	0%	$148,016	$255,671	2.7x	$4.73	$4.09	9.9x	11.5x	2.9x
Volkswagen AG	DB:VOW	$288.00	100%	99%	$114,226	$182,351	3.4x	$15.33	$19.68	18.8x	14.6x	12.3x
Mean										12.3x	10.9x	6.3x
Median										11.8x	11.5x	5.1x
Supplier												
American Axle	AXL	$7.99	26%	0%	$433	$982	1.7x	NM	NM	NM	NM	3.0x
ArvinMeritor	ARM	$12.48	53%	23%	$921	$1,915	3.4x	NM	$2.07	NM	6.0x	7.1x
Autoliv	ALV	$46.62	72%	12%	$3,387	$4,679	1.4x	$3.86	$5.19	12.1x	9.0x	5.3x
BorgWarner	BWA	$44.38	79%	36%	$5,153	$5,789	0.7x	$2.70	$3.02	16.4x	14.7x	7.9x
Cooper Tire	CTB	$7.84	28%	0%	$462	$714	0.6x	$1.18	$0.07	6.7x	NM	2.7x
Cummins	CMI	$65.52	87%	74%	$13,308	$13,488	(0.1)x	$3.96	$5.23	16.6x	12.5x	10.4x
Dana Holding	DAN	$5.35	40%	3%	$530	$1,581	0.4x	$1.91	$0.65	2.8x	8.2x	3.6x
Delphi	DPHI.Q	$0.07	3%	1%	$41	$5,544	NM	NM	NM	NM	NM	NM
Eaton	ETN	$84.97	82%	49%	$13,986	$17,568	2.0x	$6.47	$7.84	13.1x	10.8x	10.0x
Federal-Mogul	FDML	$16.13	55%	8%	$1,621	$3,889	3.3x	$14.72	$1.32	1.1x	12.2x	5.9x
Gentex	GNTX	$14.44	64%	11%	$2,062	$1,662	(2.2)x	$0.85	$0.90	16.9x	16.1x	9.0x
Goodyear Tire	GT	$17.83	48%	2%	$4,289	$7,236	1.0x	$1.65	$2.50	10.8x	7.1x	3.9x
Hayes Lemmerz	HAYZ	$2.84	46%	4%	$287	$898	3.0x	NM	NM	NM	NM	5.1x
Johnson Controls	JCI	$28.68	65%	1%	$17,019	$21,254	1.5x	$2.31	$2.64	12.4x	10.9x	7.8x
Lear	LEA	$14.18	34%	0%	$1,096	$2,871	1.6x	$3.44	$2.78	4.1x	5.1x	2.7x
Linamar	TSX:LNR	$12.24	46%	1%	$822	$1,237	1.1x	$1.55	$1.74	7.9x	7.0x	3.6x
Magna Intl.	TSX:MG.A	$59.40	61%	0%	$6,803	$4,759	(1.1)x	$5.51	$6.48	10.8x	9.2x	2.4x
Navistar Intl.	NAVZ	$65.82	83%	63%	$4,623	$10,798	11.5x	$0.77	$8.00	85.7x	8.2x	20.1x
Tenneco Inc.	TEN	$13.53	36%	0%	$631	$1,952	2.7x	NM	$1.76	NM	7.7x	4.0x
TRW Automotive	TRW	$18.47	47%	1%	$1,866	$4,609	2.1x	$2.60	$2.25	7.1x	8.2x	3.6x
Visteon	VC	$2.63	32%	0%	$344	$1,832	2.4x	NM	NM	NM	NM	3.6x
Mean										15.0 x	9.6x	9.7x
Median										10.8 x	8.6x	5.1x
Dealer												
AutoNation	AN	$10.02	44%	0%	$1,789	$5,653	5.1x	$1.36	$1.34	7.4x	7.5x	7.4x
Asbury Automotive	ABG	$12.85	51%	8%	$410	$1,550	5.5x	$1.92	$1.72	6.7x	7.5x	7.5x
CarMax	KMX	$14.19	52%	0%	$3,103	$3,407	1.0x	$0.66	$0.71	21.4x	20.1x	11.7x
Group 1 Automotive	GPI	$19.87	46%	0%	$461	$2,047	7.2x	$2.91	$3.00	6.8x	6.6x	9.2x
Lithia Motors	LAD	$4.92	19%	0%	$99	$1,042	9.2x	$0.85	$0.62	5.8x	8.0x	10.2x
Penske Automotive	PAG	$14.74	64%	13%	$1,406	$3,931	6.4x	$1.53	$1.64	9.6x	9.0x	9.9x
Sonic Automotive	SAH	$12.89	42%	0%	$521	$2,490	6.1x	$2.51	$1.81	5.1x	7.1x	7.7x
Mean										9.0x	9.4x	9.1x
Median										6.8x	7.5x	9.2x

[1]Quartile is calculated as (stock price current minus 52 week low)/(stock price 52 week high minus 52 week low).
[2]Latest 12 months diluted earnings per share before extraordinary items.
[3]Next 12 months estimated diluted earnings per share, based on today's date.

Source: Capital IQ

Appendix 4 *Excerpt from Grant Thornton "Automotive Industry Review" Summer 2008*

Financial Statistics (continued)

Automotive Industry – Comparative Quarterly Metrics
As of 6/30/2008 (Figures in US$)

Company	Ticker	Stock price					LTM[1] Revenues					LTM[1] EBITDA				
		Current	1 month		1 Year%		Current	1 month		1 Year%		Current	1 month		1 Year%	
			Prior	% Δ	Prior	% Δ		Prior	% Δ	Prior	% Δ		Prior	% Δ	Prior	% Δ
OEM																
Daimler AG	DAI	$61.67	$76.03	↓-19%	$91.95	↓-33%	$144,574	$138,747	↑4%	$128,997	↑12%	$21,802	$22,224	↓-2%	$25,911	↓-16%
Ford Motor Co.	F	$4.81	$6.80	↓-29%	$9.42	↓-49%	$172,963	$172,455	↑0%	$162,281	↑7%	$14,664	$13,841	↑6%	$10,015	↑46%
General Motors Corp.	GM	$11.50	$17.10	↓-33%	$37.80	↓-70%	$180,405	$181,122	↓0%	$197,145	↓-8%	$5,584	$6,320	↓-12%	$28,205	↓-80%
Honda Motor Co.	TSE:7267	$34.03	$33.23	↑2%	$36.29	↓-6%	$105,021	$102,184	↑3%	$94,794	↑11%	$12,875	$12,953	↓-1%	$10,460	↑23%
Nissan Motor Co.	TSE:7201	$8.26	$9.40	↓-12%	$10.72	↓-23%	$94,709	$97,012	↓-2%	$89,506	↑6%	$10,977	$11,022	↓0%	$10,419	↑5%
Toyota Motor Corp.	TSE:7203	$47.00	$51.03	↓-8%	$62.94	↓-25%	$230,022	$221,190	↑4%	$204,755	↑12%	$32,912	$33,583	↓-2%	$30,962	↑6%
Volkswagen AG	DB:VOW	$288.00	$279.45	↑3%	$159.34	↑81%	$154,923	$149,287	↑4%	$136,279	↑14%	$18,074	$17,691	↑2%	$15,315	↑18%
Supplier																
American Axle	AXL	$7.99	$18.59	↓-57%	$29.62	↓-73%	$3,034	$3,248	↓-7%	$3,159	↓-4%	$324	$393	↓-18%	$257	↑26%
ArvinMeritor	ARM	$12.48	$14.97	↓-17%	$22.20	↓-44%	$6,698	$6,544	↑2%	$6,517	↑3%	$271	$251	↑8%	$269	↑1%
Autoliv	ALV	$46.62	$54.67	↓-15%	$56.87	↓-18%	$6,898	$6,769	↑2%	$6,319	↑9%	$883	$877	↑1%	$823	↑7%
BorgWarner	BWA	$44.38	$51.71	↓-14%	$43.02	↑3%	$5,550	$5,329	↑4%	$4,708	↑18%	$729	$683	↑7%	$607	↑20%
Cooper Tire	CTB	$7.84	$10.98	↓-29%	$27.62	↓-72%	$2,942	$2,933	↑0%	$2,648	↑11%	$261	$280	↓-7%	$175	↑49%
Cummins	CMI	$65.52	$70.42	↓-7%	$50.61	↑29%	$13,705	$13,048	↑5%	$11,501	↑19%	$1,291	$1,221	↑6%	$1,254	↑3%
Dana Holding	DAN	$5.35	$10.60	↓-50%	N/A	→N/A	$8,888	$8,721	↑2%	$8,452	↑5%	$440	$404	↑9%	$220	↑100%
Delphi	DPHI.Q	$0.07	$0.11	↓-30%	$2.37	↓-97%	$21,853	$22,283	↓-2%	$21,446	↑2%	$(157)	$(139)	↑13%	$(658)	↓-76%
Eaton	ETN	$84.97	$96.68	↓-12%	$93.00	↓-9%	$13,416	$13,033	↑3%	$12,389	↑8%	$1,751	$1,710	↑2%	$1,627	↑8%
Federal-Mogul	FDML	$16.13	$19.96	↓-19%	N/A	→N/A	$7,057	$6,914	↑2%	$6,443	↑10%	$660	$710	↓-7%	$630	↑5%
Gentex	GNTX	$14.44	$17.56	↓-18%	$19.69	↓-27%	$675	$654	↑3%	$590	↑14%	$184	$179	↑3%	$161	↑14%
Goodyear Tire	GT	$17.83	$25.41	↓-30%	$34.76	↓-49%	$20,087	$19,644	↑2%	$18,788	↑7%	$1,848	$1,613	↑15%	$1,070	↑73%
Hayes Lemmerz	HAYZ	$2.84	$3.92	↓-28%	$5.35	↓-47%	$2,202	$2,127	↑4%	$1,826	↑21%	$177	$172	↑3%	$159	↑11%
Johnson Controls	JCI	$28.68	$34.06	↓-16%	$38.59	↓-26%	$36,812	$35,898	↑3%	$33,242	↑11%	$2,714	$2,618	↑4%	$2,327	↑17%
Lear	LEA	$14.18	$25.75	↓-45%	$35.61	↓-60%	$15,447	$15,995	↓-3%	$17,567	↓-12%	$1,065	$1,088	↓-2%	$920	↑16%
Linamar	TSX:LNR	$12.24	$17.02	↓-28%	$18.12	↓-32%	$2,276	$2,154	↑6%	$1,983	↑15%	$339	$317	↑7%	$272	↑25%
Magna Intl.	TSX:MG.A	$59.40	$70.50	↓-16%	$91.51	↓-35%	$25,452	$24,271	↑5%	$21,584	↑18%	$1,931	$1,869	↑3%	$1,410	↑37%
Navistar Intl.	NAVZ	$65.82	$75.95	↓-13%	$66.00	↓0%	$13,060	$12,101	↑8%	$12,124	↑8%	$536	$286	↑87%	$544	↓-1%
Tenneco Inc.	TEN	$13.53	$23.98	↓-44%	$35.04	↓-61%	$6,344	$6,184	↑3%	$4,951	↑28%	$484	$486	↓0%	$424	↑14%
TRW Automotive	TRW	$18.47	$24.95	↓-26%	$36.83	↓-50%	$15,279	$14,702	↑4%	$13,315	↑15%	$1,266	$1,229	↑3%	$1,136	↑11%
Visteon	VC	$2.63	$4.04	↓-35%	$8.10	↓-68%	$11,238	$11,266	↓0%	$11,230	↑0%	$502	$409	↑23%	$356	↑41%
Dealer																
AutoNation	AN	$10.02	$15.79	↓-37%	$22.44	↓-55%	$17,391	$17,692	↓-2%	$18,377	↓-5%	$761	$797	↓-5%	$859	↓-11%
Asbury Automotive	ABG	$12.85	$16.47	↓-22%	$24.95	↓-48%	$5,598	$5,713	↓-2%	$5,729	↓-2%	$206	$215	↓-4%	$219	↓-6%
CarMax	KMX	$14.19	$19.66	↓-28%	$25.50	↓-44%	$8,320	$8,285	↑0%	$7,865	↑6%	$291	$347	↓-16%	$384	↓-24%
Group 1 Automotive	GPI	$19.87	$26.04	↓-24%	$40.34	↓-51%	$6,400	$6,393	↑0%	$6,189	↑3%	$222	$218	↑2%	$219	↑1%
Lithia Motors	LAD	$4.92	$6.83	↓-28%	$25.34	↓-81%	$3,144	$3,219	↓-2%	$3,120	↑1%	$103	$116	↓-12%	$127	↓-20%
Penske Automotive	PAG	$14.74	$20.89	↓-29%	$21.29	↓-31%	$13,082	$12,958	↑1%	$11,652	↑12%	$396	$394	↑1%	$363	↑9%
Sonic Automotive	SAH	$12.89	$18.65	↓-31%	$28.97	↓-56%	$8,355	$8,337	↑0%	$7,982	↑5%	$322	$326	↓-1%	$295	↑9%

[1]Latest 12 months diluted earnings per share before extraordinary items.
↑Up ↓Down →Same

Source: Capital IQ

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About Grant Thornton LLP, Corporate Advisory and Restructuring Services
The combined access of the Grant Thornton International member firms gives a unique insight into supply chain and network distribution issues. Whether you are interested in acquiring underperforming component plants, or considering the creation of a dealer network in Europe or the US, we have the experience to provide advice on the strategic options and assistance with implementing the strategy.

APPENDIX 5

2008 AlixPartners Global
Automotive Review™ - Excerpt

"Recent North American Supplier Bankruptcies"

2008 AlixPartners Global Automotive Review™ - Excerpt

Chicago Dallas Detroit Düsseldorf London Los Angeles Milan Munich New York Paris San Francisco Shanghai Tokyo

AlixPartners

Recent North American Supplier Bankruptcies

Assets >$100 million

Company – Sales $M (Year)	Year Ch. 11	Current Status
Federal-Mogul - $6,914 (2007)	2001	Emerged from bankruptcy in Dec 2007
ANC Rental - $3,163 (2001)	2001	Alamo and National acquired by Cerberus in October 2003 for $2.4 billion
Hayes Lemmerz - $2,130 (2007)	2001	Emerged in June 2003 with 37% owned by Joseph Littlejohn Levy
Harvard Industries - $330 (2000)	2002	Liquidated in 2002 after four bankruptcies in 25 years
Exide Technologies - $2,939 (2007)	2002	Emerged in May 2004; reduced debt by 70%
Daewoo Motors - $3,500 (2002E)	2002	Majority of global operations acquired by GM
Budget Group - $2,161 (2001)	2002	Acquired by Cendant in November 2002 for over $500 million
Venture Holdings - $1,700 (2002E)	2003	Acquired by creditors and renamed New Venture Holdings
Intermet - $731 (2003)	2004	Emerged from Chapter 11 November 2005, reorganized into five business groups
Oxford Automotive - $1,000 (2004E)	2004	Emerged March 2005 to focus on European operations
Amcast - $424 (2003)	2004	Filed Chapter 11 November 2004, emerged August 2005
Tower Automotive - $2,816 (2003)	2005	Filed Feb 2005, finalized emergence July 2007 by selling assets to affiliate of Cerberus for ~$1B
EaglePicher - $685 (2003)	2005	High commodity prices & insufficient cash – Filed CH 11 on April 11th
Meridian Automotive - $1,000 (2003E)	2005	First day motions approved - Chapter 11 on April 26th
Collins & Aikman - $3,784 (2003)	2005	Filed Chapter 11 May 2005, obtained confirmation of a liquidating chapter 11 plan in July 2007
Delphi – $27,000 (2005E)	2005	Seeking relief from high labor costs + union prohibition on closing/selling plants
Dana – $8,700 (2007)	**2006**	**Filed Chapter 11 March 2006, emerged February 2008**
Dura - $2,350 (2005)	**2006**	**Received approval to emerge from Chapter 11 in May 2008**
Citation Corp. - $714 (2007E)	**2007**	**2 Filings in 3 years, previously emerged from Chapter 11 May 2005**
Remy - $1,129 (2007)	**2007**	**Filed and emerged from Chapter 11 in late 2007**
American LaFrance - $166 (2007E)	**2008**	**Filed Chapter 11 January 2008**
Plastech - $1,400 (2007E)	**2008**	**Filed Chapter 11 February 2008**
Total - $74.7 billion		

APPENDIX 6

Standard & Poor's Ratings Services November 15, 2008 Report:

"Ratings On 15 North American Auto Suppliers Placed On Watch
Neg On Exposure To U.S.-Based Automakers; Two Are Also Downgraded"

Ratings On 15 North American Auto Suppliers Placed On Watch Neg On Exposure To U.S.-Based Automakers; Two Are Also Downgraded

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On Nov. 13, 2008, Standard & Poor's Ratings Services placed the ratings on 15 North American auto suppliers on CreditWatch with negative implications as a result of their significant exposure to **General Motors Corp.** (CCC+/Negative/--), **Ford Motor Co.** (B-/Watch Neg/--), and **Chrysler LLC** (CCC+/Negative/--). Other auto suppliers were already on CreditWatch, in part because of their exposure to the three automakers. (See table 1 for all affected companies and their ratings.)

At the same time, we also lowered the long-term corporate credit ratings on Dana Holding Corp. (to 'B+' from 'BB-') and Magna International Inc. (to 'A-' from 'A'); these ratings are among the 15 that we placed on CreditWatch negative. (For the complete corporate credit rating rationale, please see the research updates on **Dana** and **Magna International**, both published Nov. 13, 2008, on RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis.)

Table 1

U.S. Auto Suppliers On CreditWatch With Negative Implications

As of Nov. 13, 2008

	To	From
Ratings lowered and placed on CreditWatch with negative implications		
Dana Holding Corp.	B+/Watch Neg/--	BB-/Negative/--
Magna International Inc.	A-/Watch Neg/--	A/Negative/--
Ratings placed on CreditWatch with negative implications		
ArvinMeritor Inc.	B+/Watch Neg/--	B+/Negative/--
BorgWarner Inc.	A-/Watch Neg/--	A-/Stable/--
Cooper-Standard Automotive Inc.	B/Watch Neg/--	B/Stable/--
Federal-Mogul Corp.	BB-/Watch Neg/--	BB-/Negative/--
Goodyear Tire & Rubber Co. (The)	BB-/Watch Neg/--	BB-/Stable/--
Hayes Lemmerz International Inc.	B/Watch Neg/--	B/Stable/--
Johnson Controls Inc.*	A-/Watch Neg/A-2	A-/Stable/A-2
Lear Corp.	B/Watch Neg/--	B/Negative/--
MetoKote Corp.	B+/Watch Neg/--	B+/Negative/--
Shiloh Industries Inc.	BB-/Watch Neg/--	BB-/Stable/--
Stoneridge Inc.	B+/Watch Neg/--	B+/Stable/--
Tenneco Inc.	BB-/Watch Neg/--	BB-/Stable/--
Visteon Corp.	B-/Watch Neg/--	B-/Negative/--
Existing ratings on CreditWatch with negative implications		
American Axle & Manufacturing Holdings Inc.	B/Watch Neg/--	--
TRW Automotive Inc.	BB+/Watch Neg/--	--

*The short-term rating is not on CreditWatch.

The CreditWatch listings reflect the increasingly beleaguered state of the Michigan-based automakers and the multiple scenarios--almost all of them negative--that could play out over the next few weeks or months. We expect the result to adversely affect the business and financial risk profiles of the rated North American auto suppliers enough in some cases to result in downgrades.

GM has stated that, in the absence of substantial federal government support, it may run out of cash to operate its business beyond the end of 2008. Chrysler does not report financial results to the public, but we believe its cash balances are well below the $11 billion reported as of June 30, 2008, given that the company relies almost exclusively on the North American auto market. Ford used $7.7 billion in cash in its global automotive operations in the third quarter. Although it has $10.7 billion available under its revolving credit facility, the company could face significant liquidity challenges late in 2009, given its increased cash outflows.

The automakers may receive increased or expedited U.S. government assistance, although the form, timing, and magnitude of such assistance are difficult to predict. Financial restructurings or bankruptcy filings are also possible, with or without government aid. Also, given the very weak credit markets and grim economic outlook, we cannot rule out the possibility, however remote, that one or more of the automakers might be forced to cease operations. Even with sufficient financial support to avoid a financial restructuring, some or all of the U.S. automakers are unlikely to avoid further sweeping changes to their product lines, market focus, or possibly their status as independent entities. Accordingly, we are likely to reevaluate the business risk profiles of many rated suppliers, in addition to our financial analysis, in connection with determining a supplier's rating.

The suppliers placed on CreditWatch on Nov. 13 span a wide range of credit quality and have varying degrees of exposure to the Michigan-based automakers (see table 2). We believe certain companies would be able to withstand the liquidity shock of a sudden bankruptcy filing by one or more of the manufacturers, but they may not be able to do so and remain at current rating levels. We have taken numerous rating actions in the supplier sector this year; however, the looming potential for changes in the structure and fundamental composition of the domestic automaker customer base will be more sharply reflected in the resolution of today's CreditWatch actions.

Table 2

U.S. Auto Suppliers' Credit Quality And Exposure To Michigan-Based Automakers In North America

Rating category*	--Estimated total sales to GM, Ford, and Chrysler in North America--		
	<15%	15%-30%	>30%
Investment grade	BorgWarner Inc.		Magna International Inc.
	Johnson Controls Inc.		
'BB' category	Goodyear Tire & Rubber Co. (The)	Federal-Mogul Corp.	TRW Automotive Inc.
		Tenneco Inc.	Shiloh Industries Inc.
'B' category	Hayes Lemmerz International Inc.	Dana Holding Corp.	Stoneridge Inc.
	ArvinMeritor Inc.	MetoKote Corp.	Cooper-Standard Automotive Inc.
		Visteon Corp.	Lear Corp.
			American Axle & Manufacturing Holdings Inc.

*Credit rating as of Nov. 13, 2008.

Several other rated companies have not been placed on CreditWatch, including those with a relatively minor percentage of sales to the Michigan-based automakers, and certain aftermarket parts producers, truck suppliers, and auto retailers. Still, we believe many of these companies face business and financial challenges that, although not directly related to the domestic automakers' production schedules, reflect the broader challenges affecting vehicle demand in the U.S. and Europe. Accordingly, their respective ratings could be placed on CreditWatch or lowered as a result of our ongoing surveillance process.

We expect to resolve the CreditWatch listings within the next 90 days. Given the potential for immense structural and near-term changes to the industry, we would likely resolve the CreditWatch listings as we receive more information on potential U.S. government assistance to the automakers, or lack thereof. Our reviews will include assessments of any potential effect on the suppliers' liquidity, including their ability to remain in compliance with financial covenants, and prospects for the viability of their businesses more broadly, including future incremental revenue and profitability declines. We may resolve the reviews for certain less-affected suppliers more quickly than for others.

Testimony of Alan R. Mulally
President and Chief Executive Officer, Ford Motor Company
House Committee on Financial Services
November 19, 2008

Thank you Chairman Frank, Ranking Member Bachus, and members of the Committee. I appreciate the opportunity to be here with you today representing Ford Motor Company as you consider issues that are absolutely critical to this venerable American company and to the nation.

In my judgment, there are two fundamental questions on the table today:

- Is there a competitive and sustainable future for our domestic automotive industry?
- Is the provision of government assistance to help bridge the domestic auto industry through these difficult economic times more favorable to our nation than the costs of inaction?

I respectfully submit that the answer to these questions is a resounding yes. The domestic industry is increasingly more competitive and sustainable and is in many respects on par with our foreign competitors. A decision to make government assistance available makes much more sense than taking the tremendous risks to our already-fragile economy that come with inaction.

Ford's Competitive Transformation

As you are well aware, we face serious problems in our economy, and the auto industry has been among the most heavily affected by the turmoil in the financial markets and the impact that turmoil has had on spending for consumer products. As public attention has shifted from the credit and financial institution crisis to larger economic issues, we in the auto industry find ourselves at the center of a national debate on the future of our industry. Much of the commentary I've read in the last few weeks is highly critical of our industry, and a common refrain is that our companies "need a new business model."

I completely agree. What many of the commentators and critics fail to recognize, however, is that we at Ford are on our way to realizing a complete transformation of our company – building a new Ford that has a very bright future.

The reason I came to Ford two years ago after 37 years in the aerospace industry working for Boeing was because of my confidence that the incredible talent and resources of the Ford Motor Company could and should be redirected into an effort to transform Ford so it can be one of the strongest competitors in today's global automotive market. Inspired by the compelling vision outlined by our Executive Chairman Bill Ford, Ford had already begun its transformation from a company focused in this country largely on trucks and SUVs. All of our efforts over the last two years have been directed toward speeding up the transformation of Ford to a global profitable business based on the highest quality, sustainable, fuel-efficient, safe, fun-to-drive and best-value world class vehicles.

With that in mind, I'd like to take a few minutes to tell you about the transformation under way at Ford to give you a vision for the future that we are creating today.

Our plan for the past two years has been consistent.

- We have been aggressively *restructuring* to operate profitably at the current lower demand and changing model mix.
- We have been accelerating development of the safe, fuel-efficient, highest-quality new *products* that customers want and value.
- We have been working to *finance* our plan and improve our balance sheet.
- And we have been *working together* as one team – with our employees, dealers, suppliers and union partners – leveraging our global assets like never before.

Our goal has been and remains to create a viable, highly focused, fully integrated Ford Motor Company – a lean enterprise delivering profitable growth for all over the long term.

Restructuring. Few companies in the history of our country have restructured more aggressively. I can tell you that in my experience, the union under Ron Gettelfinger is working with us as part of the solution.

In a very short period of time, working together, we have reduced excess capacity, closing 17 plants in North America – including more than one-third of our assembly plants – in the past five years. We have also reduced our workforce by 51,000 employees in the past three years, shrinking our hourly workforce from 83,000 to 44,000 and reducing salaried headcount by around 12,000 from a base of 33,000.

We negotiated a new contract with our UAW partners to begin a path toward competitiveness and offset some of the massive legacy costs that come with doing business in America for more than 100 years. Most significantly, that contract established a trust that funded our retiree health care obligation and removed the liability from Ford's balance sheet effective 2010. Ford has fully met the funding requirements associated with that agreement, including setting aside an initial $4 billion contribution in January of this year.

Our agreement with the union also established an entry level wage that reduces future costs and will make us more competitive going forward longer-term. And, for the first time ever, it included no base wage increase during the four-year period covered by the agreement.

We have also been engaged in a broader effort to cut our costs, and in North America alone have reduced our costs by $5 billion compared with year-end 2005. We also plan further cost and cash improvements to offset the increasing weakness in the global automotive industry.

Product. We are not simply on a journey to cut and shrink our way to profitability. Instead, we very much recognize the need for a product-led transformation, and believe we have the products to achieve just that. We have dramatically accelerated the introduction of new vehicles; 43 percent of our vehicles will be new or refreshed in 2009, and 100 percent of the Ford, Lincoln and Mercury lineup will be new or refreshed by the end of 2010 compared with 2006 models.

Keenly aware that the world is changing as we transform our company, we are shifting from an emphasis on large trucks and SUVs to a more balanced portfolio that also emphasizes smaller and more fuel-efficient vehicles here in the U.S. – the same world-class small vehicles that have been so successful for us in other high-fuel-cost markets. By the end of 2010, two-thirds of our spending here will be on cars and crossovers – up from one-half today.

We are delivering the best or among the best fuel economy with every new vehicle we introduce. This is possible through affordable, fuel-saving technologies like EcoBoost engines, which use gasoline turbocharged direct-injection technology for up to 20 percent better fuel economy, up to 15 percent fewer CO2 emissions and superior driving performance versus larger-displacement engines. We are doubling capacity for four-cylinder engines here to meet the consumer trend toward more efficient powertrains and vehicles. We also are doubling the number of offerings and volume of our hybrids in the next year alone, and we have a plan for delivering new electric vehicles and plug-in vehicles.

Ford is taking advantage of our scale and global product strengths. We are delivering a balanced portfolio of small, medium and large cars, utilities and trucks, with a sharp focus on the Ford Blue Oval brand across the globe. Going forward, this balanced portfolio will provide the flexibility to adapt more easily to changes in our environment and to begin to grow profitably as the global economy rebounds.

Our new products will be assembled in plants featuring lean manufacturing techniques, and, in nearly all facilities, flexible body shops will make them competitive with the best in the business. A number of our powertrains will be built in plants that can flex among the I4, V6, V8 or diesel engines. As we make these changes, we are fixing the fundamentals of the business, including a further significant reduction in structural costs next year. We also will continue the ongoing consolidation of our dealer and supplier network. Our plans call for reducing our supplier network by more than 60 percent and thereby improving supplier capacity utilization and financial viability.

We have continued to improve quality with four consecutive years of marked progress. This is another area where much of the recent commentary has not yet caught up with reality. Most recently, Ford, Lincoln, and Mercury vehicles collectively reduced what we call "things gone wrong" – a metric used to assess quality – by 7.7 percent compared with last year. That puts Ford's quality on par with Honda and Toyota.

We achieved a leading number of top safety picks from the U.S. Insurance Institute of Highway Safety, with the 2009 Ford Flex and the 2009 Lincoln MKS recently earning top honors. This builds on Ford's achievement of having the most U.S. government five-star safety ratings in the automobile industry.

The speed and breadth of our product-led transformation is demonstrated by significant actions taking place just this week.

- Today at the Los Angeles Auto Show, we unveil two all-new hybrids, the Ford Fusion Hybrid and the Mercury Milan Hybrid. Both beat the Toyota Camry Hybrid in fuel efficiency by at least five miles per gallon. The conventional versions of these new vehicles also beat the Camry in fuel economy.

- These vehicles are from the same Fusion family that is being recognized on the cover of one of the nation's most prestigious consumer magazines for outstanding reliability and quality – quality that respected third parties now agree is on par with Honda and Toyota.

- Yesterday, Ford submitted our application to the Department of Energy for direct loans authorized by Congress last year in section 136 of the Energy Independence and Security Act of 2007. We appreciate Congress' support for these loans, as they will provide access to lower-cost capital for retooling plants for more fuel-efficient vehicles. While no company has yet received funding through this program, we believe it will be important in the long term in deploying advanced technologies.

- On Friday, we end large SUV production at our Michigan Truck Plant and begin converting the facility to build fuel-efficient small vehicles. It is one of three large truck plants that we are converting to small vehicle production in the next two years.

Financing our Plan. To fund our transformation, we have taken many steps to protect Ford's liquidity position, including:

- Raising $23 billion of available liquidity through an enterprise-wide secured credit facility, going to the capital markets at the right time in 2006 to secure that financing.
- Selling Aston Martin, Jaguar, and Land Rover, and as announced earlier this week, a partial sale of our Mazda interest so that we could have an absolute laser focus on growing the Ford brand.
- Selling other businesses such as Hertz to aid our liquidity and to focus on our core business.

Similarly, Ford Credit, our captive finance company, has consolidated abroad to preserve capital to support U.S. consumers and our Ford dealers here.

The consolidation efforts alone have not been sufficient to overcome the financial market disruption which has significantly diminished our access to traditional funding sources.

Unsecured financing has declined dramatically during the past 12 months and impaired our ability to fully support dealer and consumer needs, or to achieve our growth objectives. Such funding is either non-existent or available today only at uneconomic terms.

Securitization markets, our primary funding source, have likewise been frozen. The asset-backed commercial paper and public term securitization markets also have declined significantly, greatly impairing the company's ability to support dealer and consumer financing needs. Accordingly, many of our low-volume financing products have been eliminated or curtailed as we wait for the credit and financial markets return to some state of normalcy.

Our Ford Credit team is optimistic that government assistance in the form of a purchase program for future term securitizations will allow us to continue financing consumers and dealers. The CPFF has been successful in this regard for providing liquidity to our asset-backed commercial paper program.

In addition, it is important that the FDIC approve Ford Credit's industrial loan bank application as another way for us to be able to offer automobile financing to credit-strapped consumers. First filed in June 2006 and refiled in February after an 18-month FDIC-imposed moratorium, Ford Credit's application for an industrial loan bank is still pending further review by the FDIC. We believe that the application and business plan meet the statutory requirements for approval in every material respect. During this extended period, Ford Credit has operated and will continue to operate at a significant competitive funding disadvantage to its competitors. Both domestic (GMAC) and foreign competitors (Toyota and BMW) benefit from FDIC-insured industrial banks and access to stable, low cost FDIC-insured deposits.

Financial Results and Economic Climate

The bottom line of all of our efforts is that we are now competitive with the best in the world – and it has shown in our financial results. In each quarter of 2007, we delivered year-over-year improvements, excluding special items, and on the same basis posted a $100 million profit globally in the first quarter of this year. We appeared to be well on our way to returning to sustainable profitability next year.

As this year has progressed, however, our companies, dealers, suppliers and customers have faced an unprecedented economic crisis and a severe credit crunch. I know that the Committee is all too familiar with the circumstances of our economy, but just a few statistics put the situation we face in sharp focus.

While the domestic auto industry has made mistakes in the past, the current problems have been exacerbated by one of the worst economies in nearly three decades. The mix of the housing crisis, credit crunch, wildly fluctuating gas prices and major spikes in commodity prices has lead to an unprecedented reversal in the business environment that is driving not just the U.S. but markets around the world into a synchronized economic downturn.

Spending by consumers fell at an annual rate of more than 3% in the third quarter (as compared to the second quarter). According to the early November 2008 reading of consumer confidence from the University of Michigan Survey of Consumers, this is the first time in the 50-year history of that survey that consumers were unanimous in their view that the economy is in recession. Consumers' assessment of their economic and financial conditions is the worst since the early 1980s, when the U.S. economy encountered two consecutive recessions. The unemployment rate of 6.5% is well above the low point of 4.4% in March 2007 and likely will rise significantly in coming months. Job losses are over 1.1 million in the first 10 months of this year, and further reductions in employment are expected.

The auto sector is highly reliant on well-functioning credit markets – from manufacturers and suppliers to dealers and consumers. Our industry is one of the first to suffer from bad economic conditions – indeed, spending on new vehicles historically represents about 4% of GDP and therefore will predictably be closely tied to those conditions. The early evidence of weak economic growth began to set in during the first half of this year, with consumers facing a weaker job market at the same time that rising food and energy prices were taking up an increasing share of their disposable incomes. As the financial crisis persisted, both credit availability and consumers' weakened confidence contributed to a drastic decline in vehicle sales. There has been a broad-based tightening of origination and underwriting standards for automotive financing, spreading beyond the sub-prime arena to affect many prime borrowers as well. The Federal Reserve Senior Loan Officers' survey shows that banks' willingness to extend consumer installment loans has only been weaker at one time in the past 30 years, and that was in June of 1980. More than 60% of banks have tightened standards for consumer credit in the most recent survey.

During the last six months, light vehicle sales fell at a 45% annualized rate, the worst slide since mid-1980. In October, the annualized sales rate for the US industry was only 10.5 million units – compared to over 16 million units just last year. This means the industry has lost over 5 million vehicle sales – the equivalent of two companies the size of Ford in North America – in a single year.

October was the worst auto sales month the U.S. industry has seen in 25 years, and we expect it will not be the weakest result we see over this economic cycle. Total industry volumes in 2009 are expected to be weaker than in 2008 on a full-year basis, with significant pressure in the first half of next year.

This is not just a case of the domestic auto industry failing to anticipate changing economic conditions. Very few in any industry, of course, predicted the kind of economic headwinds we face today. Certainly our foreign competitors have not been immune from the downdraft. Toyota, Honda, and Nissan each reported a decline in sales of more than 23 percent in October. Importantly for Ford, we have held or slightly increased our market share in the midst of this declining market.

The decline in the overall market has been the result of two problems – economic uncertainty that discourages Americans from making major purchases, and a lack of available credit so even some people who want to buy a car are unable to secure credit. But importantly, despite our best efforts, our industry's ability to weather this storm has been directly affected by the external financing environment.

This unprecedented pressure on our industry, which is the result of a financial crisis that was not of our industry's making, is coming just at the time when our efforts to restructure Ford have finally begun to bear fruit. The real challenge for this nation is to find a way to allow our successful restructuring efforts to continue despite these challenging times. To do otherwise would be a disservice to the millions of employees at our plants, suppliers, dealers, and customers who are depending upon our success as well as to the American public.

As quickly as these changes have been occurring, of course, we at Ford have been taking fast and decisive action to deal with them. We reduced our production levels dramatically in the face of a shrinking industry demand. In the third quarter alone, we reduced North American production by 219,000 units from the 637,000 vehicles we produced in the third quarter of 2007. Our fourth quarter plans call for production decreases in excess of 210,000 units from the fourth quarter of last year, leaving the company with a full year reduction of over 600,000 units in 2008. We are firmly committed to managing production carefully rather than simply producing units we know the market cannot absorb.

We have announced plans to further reduce employment and cut benefits and compensation at all levels. In addition to further salaried personnel reductions, we have already announced the elimination of merit raises and bonuses in 2009. We support including reasonable limits on executive compensation if we borrow from the federal government. However, we hope that you will take into account our need to retain and attract top quality talent to ensure our future competitiveness. As a high-skilled research and development focused company, arbitrary and broad limits on compensation would harm our competitiveness going forward.

Even as we take these steps, however, we continue to protect our investment in the fuel-efficient new vehicles that we believe will secure our future. Operating under our "One Ford" principle, we intend to deliver more vehicles worldwide from fewer core platforms, further reduce costs and allow for the increased use of common parts and systems. The result will be a lineup of highly acclaimed, smaller vehicles in global segments (sub-compact, compact, and mid-size vehicles, and commercial vans) beginning in mid-2009. About 40% of Ford's entries in these segments will be shared between Ford North America, Ford Europe, and Ford Asia Pacific by 2010, with 100% alignment achieved by 2013. And, as I mentioned earlier, we are committed to deliver every new product with the best or among the best fuel economy in its segment, driven by the most extensive powertrain upgrades ever for Ford.

The Bridge to Transformation

What I have outlined so far is the dramatic transformation taking place at Ford and the intense economic headwinds we now face as we attempt to continue and complete that transformation. The question remains whether we as a company and collectively as an industry will have time given the unprecedented short-term economic conditions to complete our transformation for the long term.

Speaking only for Ford, we are hopeful that we have enough liquidity based on current planning assumptions and planned cash improvement actions, but we also know that we live in tumultuous economic times in which rapid and unexpected change seems to be the norm rather than the exception. While we are cautiously confident, we must also be prudent, and prudence at this point requires that we prepare ourselves for the prospect of deteriorating economic conditions in 2009.

We also know that at least one of our competitors has reported that, absent the ability to secure additional funding, its estimated liquidity will fall significantly short of the minimum required to operate its business in the first two quarters of next year unless conditions rapidly improve – which we don't expect.

You have requested that we address the role of government-provided debtor-in-possession financing for a prepackaged Chapter 11 reorganization. The difficulty with this approach, in our view, is that Chapter 11 will not facilitate successful restructuring in our industry but would actually impair it by severely damaging sales in an already weak market. A Chapter 11 reorganization requires lengthy negotiations and potential concessions from suppliers, bondholders, the UAW, and the PBGC among other stakeholders – and the industry would be unlikely to survive, even in Chapter 11, during the time it takes to accomplish all of these steps. In short, Chapter 11, even prepackaged, makes no sense for us or for the industry.

Ours is in some significant ways an industry that is uniquely interdependent – particularly with respect to our supply base, with more than 90 percent commonality among our suppliers. In addition, we share an extensive minority and women-owned business supply base which, at Ford, represents $4 billion of the approximately $40 billion that Ford spends annually with U.S. suppliers. Should one of the other domestic companies declare bankruptcy, the effect on Ford's production operations would be felt within days -- if not hours. Suppliers could not get financing and would stop shipments to customers. Without parts for the just-in-time inventory system, Ford plants would not be able to produce vehicles.

Our dealer networks also have substantial overlap. Approximately 400 of our dealers also have a GM or Chrysler franchise at their dealership, and we estimate that as many as 25% of our top 1500 dealers also own GM or Chrysler franchises. The failure of one of the companies would clearly have a great impact on our dealers with exposure to that company.

In short, a collapse of one of our competitors here would have a ripple effect across all automakers, suppliers, and dealers – a loss of nearly 3 million jobs in the first year, according to an estimate by the Center for Automotive Research.

In the face of incredibly fragile economic conditions and the interdependence of our industry, we believe it is appropriate at this time to join our competitors in asking for your support to protect against an uncertain economic future that threatens all of the progress we have made to accomplish a goal that serves the interests of this nation – creating a strong and viable American automotive industry. I know we can achieve this goal because we at Ford are implementing the transformational changes that are required to achieve it – as long as we can survive the present economic turmoil.

Our request today is to gain access to an industry bridge loan that would provide all of us with an available tool to navigate through this difficult economic and financial crisis. We would suggest that the loans only be drawn as needed so that the exposure to the taxpayer would be limited – and, if used, we would repay with interest.

<u>The Public Interest</u>

It should come as no surprise that we who are testifying before you today believe the domestic automotive industry should be supported and preserved as it transforms to meet the new challenges of meeting changing consumer demands and environmental imperatives in a difficult economic environment. The question before you, however, is one of the public interest – is the public interest better served by offering aid to the industry at this time or by letting market and regulatory forces work to whatever future they might bring?

I respectfully submit that the public interest is clear – this industry merits your support. I have already detailed at length the ways in which our iconic American Ford Motor Company is transforming itself for the future, and I know my colleagues from General Motors and Chrysler are equally confident of presenting a compelling vision of the future. We all believe that future is worth supporting.

But perhaps the most compelling reason for you to support our industry comes upon consideration of the consequences that would be visited on our already fragile economy if this industry should collapse.

At the end of 2007, Chrysler, Ford and General Motors directly employed about 240,000 American workers and indirectly supported more than 4.5 million other workers in the U.S. The Detroit Three are among the nation's largest purchasers of U.S.-manufactured steel, aluminum, iron, copper, plastics, rubber, electronics and computer chips. Last year, they provided health care to nearly 2 million Americans and paid pension benefits to 775,000 retirees or their survivors.

One recent study estimated that in the event the Detroit Three were to cease operations in 2009, employment loss would be nearly 3.0 million jobs, personal income would be reduced by over $150 billion, and the loss to the government in tax revenue would be more than $60 billion – in the first year alone. Even a 50 percent reduction in our operations would result in devastating losses to the economy, according to this study.

Many more statistics are available. Each would demonstrate that the collapse of the U.S. automotive industry would be a calamity for the entire economy. This is not a claim that any individual company is "too big to fail," although of course that sort of claim seems to have been at work in some recent – and far more costly – actions taken in other sectors in response to the economic crisis. Rather, ours is a claim that a large swath of the industry rises and falls together, and that the industry collectively is too big and too important to fail. The linkages we have through our suppliers, dealers, workers and customers mean that there are very few isolated events in our industry. I would therefore urge you as you consider our request not to think of individual companies but rather of the industry – and the economy – as a whole.

Of course, more than mere economics are at play. It would not be overstating the case to observe that our nation's ability to engage in heavy manufacturing is very much at stake and is a matter of national security. No less an authority than former NATO Commander General Wesley Clark eloquently made that point in a column in last Sunday's *New York Times* that I commend to the Committee:

> More challenges lie ahead for our military, and to meet them we need a strong industrial base. For years the military has sought better sources of electric power in its vehicles — necessary to allow troops to monitor their radios with diesel engines off, to support increasingly high-powered communications technology, and eventually to support electric propulsion and innovative armaments like directed-energy weapons. In sum, this greater use of electricity will increase combat power while reducing our footprint. Much research and development spending has gone into these programs over the years, but nothing on the manufacturing scale we really need.
>
> Now, though, as Detroit moves to plug-in hybrids and electric-drive technology, the scale problem can be remedied. Automakers are developing innovative electric motors, many with permanent magnet technology, that will have immediate military use. And only the auto industry, with its vast purchasing power, is able to establish a domestic advanced battery industry. Likewise, domestic fuel cell production — which will undoubtedly have many critical military applications — depends on a vibrant car industry.

Our industry is proud of the role we have played through the years in meeting our national security needs, and we believe that role will continue to be critical in the years to come.

Conclusion

We live in difficult and challenging times, and have discovered in recent weeks and months that both old solutions and new must be re-examined and adjusted to meet rapidly changing conditions.

At Ford Motor Company, we remain committed to constant examination and response as we face new challenges. With each of those challenges, however, I become more convinced than ever that we have the right plan to transform Ford and that our best days are ahead of us. The reality is that Ford already is well on our way to realizing a complete transformation of our company – building a new Ford that has a very bright future.

With your help, we will together ensure that bright future for Ford and the entire American auto industry. With your help, we will create a safeguard to deal with the current unprecedented economic uncertainty, while all of us at Ford continue to deliver on our plan. And, as we continue to be an important part of communities across America, we look forward to working with you to be part of the solution on the road to economic recovery.

Thank you.

United States House of Representatives Committee on Financial Services

Committee Hearing

Stabilizing the Financial Condition of the American Automobile Industry

November 19, 2008

Robert Nardelli

Chairman & CEO

Chrysler LLC

(Written Submission)

Mr. Chairman, members of the Committee, I appreciate this opportunity to address the current economic and financial crisis, the impact it is having on the automotive industry, and the need for immediate action.

During the 15 months I've been part of Chrysler, and since we've emerged as the first privately held American auto company in 50 years, I've been proud to work with a team of dedicated men and women determined to restore this 83-year old, iconic American brand to its rightful place in the automotive industry.

We are asking for assistance for one reason: to address the devastating automotive industry recession caused by our nations' financial meltdown, and the current lack of consumer credit, which has resulted in the critical lack of liquidity within our industry.

With credit markets frozen, our customers – average working Americans – do not have access to competitive financing to purchase or lease vehicles...our dealers do not have access to market competitive funding to place wholesale orders for new vehicles...resulting in the constriction of cash inflows to auto manufacturers. At the same time, Chrysler has billions of dollars in cash payment obligations every month to pay wages, to pay suppliers, to fund health care and pensions, all in the range of $4 to $5 billion per month.

This crisis has already driven U.S. sales to a 25-year low. In 2008 alone, our volume domestically has dropped from 17 million units to 11 million – a 38 percent decline. That volume drop is more than the total U.S. sales of Ford and Chrysler combined.

Therefore without immediate bridge financing support, Chrysler's liquidity could fall below the level necessary to sustain operations in the ordinary course. This would put at risk health care coverage for retirees, which is part of Chrysler's nearly $20 billion total health care obligation, $2 billion in annual pension payments to our retirees and surviving spouses, approximately $7 billion in current payables, $35 billion in future annual supplier business, and 56,600 direct Chrysler employees earning $6 billion in wages.

Independent research firms have quantified the fallout of a domestic auto maker bankruptcy to the overall economy, and the impact is devastating: 2.3 – 3 million in lost jobs, $275-$400 billion in lost wages, and $100-$150 billion in lost government revenue.

But this is not a good option for Chrysler, and more importantly, for the auto industry or the broader economy – for the following reasons:

1. We believe that retail sales would be impacted materially as a result of declining consumer confidence, and we will be forced to heavily discount existing inventory to move our product.

2. Given our common supplier base - at Chrysler, 96 of our top 100 suppliers are common to Ford and GM - the bankruptcy of any one domestic automaker would place enormous pressure on the supply chain and, consequently, that company's competitors.

3. Our factories would likely be idled for a significant period of time while we renegotiate contracts with each of our thousands of individual suppliers.

4. Restructuring and reorganization costs and expenses will be materially higher in connection with a Chapter 11 process: supplier and dealer support and marketing costs will increase, general economic dislocation will follow and significant fees and expenses will be paid to an army of bankruptcy professionals.

5. The overall amount and cost of financing the restructuring will be significantly higher in a Chapter 11 process than the working capital bridge we are requesting here today.

6. And finally, we cannot be confident that we will able to successfully emerge from bankruptcy.

That's why as an industry we are requesting a $25 billion working capital bridge to survive this liquidity crisis. However, both our private equity owner and I believe that while the immediate bridge financing is critical, the long-term solution to the industry's problems and challenges requires industry consolidation and cost rationalization to eliminate excess industry capacity and redundant costs.

I would expect Congress to insist that the American taxpayer be protected. We are willing to provide full financial transparency, and welcome the government as a stakeholder – including as an equity holder. We are fully prepared to comply with the current conditions and policies already put in place as mandated by the government, under the recently enacted Emergency Economic Stabilization Act.

Our private equity owner, Cerberus Capital Management, L.P., has made it clear that it will forgo any benefit from the upside that would, in part, be created from any government assistance that Chrysler LLC may obtain. The principal of Cerberus Capital has stated that he will enter into legally binding agreements requiring the contribution to the government of the General Partner's future profits interest related to Chrysler LLC which he might receive if any are ever earned.

Immediately on the separating from Daimler in August 2007, and being new to the automotive industry, I recognized the need to question and sometimes challenge the status quo, and seek significant opportunities to improve performance throughout the business. We began an aggressive restructuring and transformation of our business as an independent American auto company.

During the first 60 days, we approved more than 400 line item design changes, representing an investment of half a billion dollars in improvements to our products' reliability, durability, fit and finish, and consumer appeal. We offered our customers a lifetime powertrain warranty to build their confidence. Due to a focused product quality improvement effort during the past year, we've seen our warranty claim rates drop by 29 percent and the improvement trend continues.

We made tough decisions to reduce operating costs and adjusted production schedules immediately. We prioritized every product investment with a strong emphasis on improving energy security and environmental sustainability by introducing advanced powertrain technologies, while at the same time we discontinued four vehicle models. We also identified over $1 billion in non-earning assets to sell and we're more than 75 percent toward achieving that goal.

Since 2007, Chrysler has reduced 1.2 million units of capacity, which represents over 30 percent of our previous installed capacity, and which resulted in the elimination 12 production shifts. Over the past 10 months alone, we've reduced our fixed costs by $2.2 billion, and unfortunately, by the end of the year, we will have furloughed over 32,000 employees. That is the most gut-wrenching part of this job, to see the effect on the lives of good men and women who lose their jobs through no fault of their own, but because of the actions the Company is forced to take in these difficult times.

We have increased our manufacturing productivity to equal Toyota as America's most productive automaker in terms of hours of assembly per vehicle, and our recently negotiated labor agreement was an important step in making our cost structure more competitive with transplants by 2010.

To further enhance our product portfolio, support growth and improve our cost structure, we continue to aggressively pursue strategic alliances and partnerships with other companies. I believe more restructuring and consolidation is required for the industry to be viable in the long-run. We would welcome the opportunity to have an open discussion with the new Administration and Congress on a collaborative approach to restructuring that would ensure any Government resources invested in the industry are used efficiently and help achieve important national public policy objectives.

It is equally important that the lack of liquidity to provide loans and leases to customers and financing to dealers is addressed immediately. It is imperative that our affiliated financial companies receive access to competitive liquidity and financing capacity. They must in order to provide credit to our customers - average working Americans - and support wholesale orders from our dealers.

Historically, over 90 percent of all new vehicles were purchased or leased with financing assistance, and the lack of readily available financing has simply frozen sales. A perfect example of this consumer credit crisis is that 20 percent of our revenue disappeared overnight when our finance company was unable to offer leases. These sales literally vanished.

At Chrysler, 75 percent of our dealers rely on Chrysler Financial to finance their business, and 50 percent of all customers finance their vehicle purchases through the Chrysler Financial. Normally, these loans and leases are securitized and sold in the secondary market to generate fresh liquidity and financing capacity.

Today, there is virtually no secondary market, and therefore, no way to raise capital. Money is not available for dealers to finance their wholesale orders, invest in their facilities, and hire and train employees. Competitive loans for the average working American – our customers – are virtually nonexistent. This has directly and dramatically depressed vehicle sales, putting at risk not only auto manufacturers but also the widespread network of suppliers, vendors. In Chrysler's case, 3,200 entrepreneurs...small businesses owners called dealers, and the approximately 140,000 people they employ in every state across the country. The National Automobile Dealers Association estimates more than 700 of them will go out of business by year end. If we don't secure a bridge loan, all 13,600 dealers are at risk.

There are 4.5 million people depending on this industry, and without assistance, nearly three million of them could lose their jobs in the next 12 months, according to a research memorandum published November 4, 2008, by the Center for Automotive Research. Failing to act now will hurt many American families and undermine our country's economic recovery, far outweighing the costs related to supporting an industry that touches every district in every state of the nation.

The crippling of the industry would have severe and debilitating ramifications for the industrial base of the United States, would undermine our nation's ability to respond to military challenges and would threaten our national security. Chrysler has long contributed to our national defense. Our Jeep® was an indispensable part of our nation's efforts in World War II and Korea.

Immediate financial assistance will serve the country and the economy directly in two key ways. First, the lifeblood of the U.S. economy will continue to flow. The industry will be able to continue to pay at its current levels $22 billion in annual wages to our employees, $13 billion in annual pensions to our retirees and surviving spouses, and meet our current commitment of $102 billion in healthcare costs to employees. We will continue to pay $156 billion annually to our suppliers and work to keep them strong by providing significant additional financial relief for distressed suppliers fighting to stay in business.

Second, America's auto companies are investing in innovation. Capital investment in new technologies, improved operations, and future product will be able to continue, including a combined $12 billion in annual spending for research and development. As an industry, we are moving full speed ahead to make the transition to advanced propulsion vehicles that will help support national energy security and environmental sustainability goals.

Chrysler plans to emerge from the current downturn as a lean, agile company. We are, and will continue to be the quintessential American car company. Currently, 73 percent of our sales are in the U.S., 61 percent of our vehicles are produced in the United States, 74 percent of employees work in the U.S., 78 percent of our materials are purchased in the U.S. and 62 percent of our dealers are based in the U.S.

Today, Chrysler has a very strong pipeline, with a product renaissance for 2010. In September we revealed our ENVI electric vehicle program, and announced that we will begin producing one of these electric-drive models for North American consumers in 2010. This underscores our commitment to deliver environmentally friendly, fuel-efficient vehicles to customers, and to meet this social responsibility faster and more broadly than any other manufacturer.

Today we are asking you to help us bridge a chasm created by an unprecedented financial meltdown. We are also asking you to consider investing in a company that will deliver real results for the American taxpayer.

I recognize that this is not an insignificant amount of money. However, we believe this request is the least costly alternative considering the options we face... with less impact on human capital, and would provide stimulus, as opposed to further depress the economy.

Thank you very much.

Nardelli, Robert L.
Chairman and Chief Executive Officer, Chrysler LLC
Board of Managers, Chrysler LLC

Robert L. Nardelli joined Chrysler LLC as Chairman and Chief Executive Officer and as a member of the Board of Managers in August 2007.

Prior to joining Chrysler, Nardelli served as Chairman, President and CEO of The Home Depot beginning in 2000. Nardelli began his career at GE in 1971, and advanced through a series of leadership positions in the company's Appliances, Lighting and Transportation Systems business units. In 1988, he left GE to join Case Corporation in Racine, Wis., where he led Case Construction Equipment's global business. He returned to GE in 1992 and was ultimately named President and CEO of GE Power Systems and Senior Vice President of General Electric.

His work and academic background includes:

- Chairman and Chief Executive Officer and member of the Board of Managers, Chrysler LLC, August 2007
- Board of Managers, Cerberus Operating and Advisory Company LLC, 2007
- Chairman, President and Chief Executive Officer, The Home Depot, 2000
- President and CEO, GE Power Systems, Senior Vice President, General Electric, 1995
- President and CEO, GE Transportation Systems, 1992
- Executive Vice President and Chief Executive Officer, Canadian Appliance Manufacturing, (subsidiary of GE), 1991
- Executive Vice President and General Manager, Case Construction Equipment, 1988
- Manufacturing Engineer, various management positions at General Electric Appliances, GE Lighting, and GE Transportation Systems, 1971
- Master of Business Administration, University of Louisville, 1975
- Bachelor of Science, Western Illinois University, 1971

He chairs the Atlanta Board of Visitors of the Savannah College of Art and Design, and has also served on President Bush's Council on Service and Civic Participation. He has received the Distinguished Pennsylvanian Award from Gannon University (1995) and the Distinguished Alumni Award from the College of Business and Technology at Western Illinois University (1997 and 1999). He is an alumni fellow and 2001 Alumnus of the Year of the University of Louisville, and serves on the Board of Advisors, University of Louisville Graduate School of Business, as well as on the College of Business & Technology Advisory Board for Western Illinois University, and is a member of The Business Council.

Nardelli was born on May 17, 1948, in Old Forge, Penn.

United States House of Representatives
Committee on Financial Services

Testimony of Matthew J. Slaughter for Full Committee Hearing,
"Stabilizing the Financial Condition of the American Automobile Industry"

Wednesday, November 18, 2008 2128 Rayburn House Office Building

Committee Chairman Frank, Ranking Member Bachus, and fellow members, thank you very much for inviting me to testify on these important and timely issues regarding the American automobile industry. The Big Three automobile companies have very dedicated and hard-working executives and other workers, and they have many collective strengths and talents.

My name is Matt Slaughter, and I am currently Associate Dean and Professor of International Economics at the Tuck School of Business at Dartmouth, Research Associate at the National Bureau of Economic Research, and Senior Fellow at the Council on Foreign Relations. From 2005 to 2007 I also served as a Member on the Council of Economic Advisers, where my international portfolio included the competitiveness of the American economy and related topics.

I base my testimony to you today on my many years of scholarship and public service on the broad issues of how American companies and the country overall can succeed in an increasingly global economy. And I also base my testimony on two deeply held convictions. One is that although the dynamic and related forces of international trade, investment, and technological change have generated—and have the potential to continue generating—very large gains for the United States overall, these gains do not flow to every single worker, company, and community. The other, given the first, is that one of the paramount policy challenges facing America today is how to both continue realizing the aggregate gains of globalization yet also share these gains more broadly.

Despite these convictions—or rather, as I will explain in my testimony, largely because of them—I do not believe that automobile companies merit any new "bailout" assistance from the federal government.

Any such "bailout" assistance would incur large costs to American workers, companies, taxpayers, and the overall economy. Let me list three such costs.

1. First and, in the long run perhaps most importantly, would be the economy-wide cost of substituting product-market competition with resource allocation set by political rather than economic forces. One of the great U.S. policy successes since World War II has been the bipartisan effort to eliminate laws and regulations that stifle competition and innovation in product markets. With this system, productive U.S. companies expand and force their competitors to adapt. In addition, leading companies from around the world sell in the U.S. market and invest in U.S. factories and offices, ensuring that the U.S. economy is exposed to and strives to meet global best practices. All this dynamism has yielded higher productivity growth, higher average incomes, and greater choices for consumers.

A bailout of certain U.S. automobile companies could set a precedent to be followed for many years by many companies in many other industries. Given the limited pool of savings available in the U.S. economy, these bailouts would displace productive investments from firms elsewhere in the economy and would thereby impede long-run economic growth and rising standards of living. This cost would admittedly be incurred over the longer term. But that does not make it any less important. If anything, this cost would be all the more important because of the long-term challenges facing our country such as the slow-down in educational attainment and the unsustainable growth in entitlement spending.

2. A second important cost of any bailout would be damage to America's engagement with the global economy. One dimension of this "global cost" would fall on foreign direct investment into the United States. In 2006 foreign-headquartered multinationals engaged in making and wholesaling motor vehicles and parts employed 402,800 Americans—at an average annual compensation of $63,538. Across all industries, insourcing companies in 2006 registered $2.8 trillion in U.S. sales while employing 5.3 million Americans and paying them $364 billion in compensation. But as the world has grown smaller, today the United States faces stiffer competition to attract and retain these companies. Indeed, the U.S. share of global FDI inflows has already fallen from 31.5 percent in 1988-1990 to just 16.0 percent 2003-2005. Will the desire of insourcing companies to operate in America be enhanced by federal government subsidies for their domestic competitors? On the contrary: too many such bailouts would cost America in terms of a smaller, less-dynamic presence of insourcing companies.

   Another dimension of this global cost would fall on U.S.-headquartered multinationals, key U.S. companies which employ over 22 million Americans and account for a remarkable 78.9% of all private-sector R&D. Their success depends critically on their ability to access foreign customers. They do this via exports from their U.S. parents. But even more important is via local sales of their foreign affiliates created via FDI abroad. In 2005, U.S. parents exported $456.0 billion to foreign markets. That same year their majority-owned affiliates tallied nearly $3.7 trillion in total affiliate sales--$8.10 for every dollar in parent exports.

   The policy environment abroad, however, has been growing more protectionist towards the trade and FDI so important to U.S. multinationals. Multilateral efforts to liberalize trade in the Doha Development Round died in July with no prospects for restarting. Even more worrisome are rising FDI barriers. In 2005 and 2006, the United Nations tracked record numbers of new FDI restrictions around the world—even in major recipient countries such as China, Germany, and Japan. Will U.S.-government bailouts of its "national champions" go ignored by policy makers abroad? No. Instead, U.S. bailouts will likely entrench and expand their protectionist practices. This would erode the foreign sales and competitiveness of U.S. multinationals—and would thereby reduce their U.S. employment, R&D, and related activities as well.

3. A third and more direct cost would be the likelihood that any new taxpayer assistance would go largely or entirely unpaid. Public filings by GM, Ford, and Chrysler make clear that in the past two years they have collectively lost scores of billions of dollars. For Ford, operating losses were $2.8 billion in 2007 and $8.7 billion in first nine months of 2008. The operating losses for General Motors have been even larger: $43.3 billion in 2007 and $21.3 billion in first nine

months of 2008. And this total in Ford and GM's operating losses over 21 months of $76.1 billion was incurred almost entirely before the sharp downturn in economic activity and heightened capital-market turmoil since mid-September.

All this suggests that today the Big Three firms are losing money at a rate in excess of $4 billion a month. Because this underlying dynamic has been at play for quite some time, without fundamental structural changes in these companies an infusion of capital from any source—public or private—runs a high risk of not being repaid. As I address below, a relevant question for taxpayers thus becomes how to structure a different deployment of public funds to support the workers and communities affected by a struggling Big Three.

These three important costs of any new bailout assistance do not imply that the federal government should do nothing at all about the very serious challenges facing the Big Three. Indeed, the federal government can help minimize the economy-wide costs of these challenges. Exactly how will depend on what the future holds for these companies. In struggling industries, one common outcome is for firms to merge. Alternatively or in addition, there is reason to expect that bankruptcy awaits some number of American automobile companies. On this issue, it is important to emphasize two points.

1. Bankruptcy and, more generally, plant closures and job restructurings related to both bankruptcy and mergers, are not uncommon occurrences in the overall U.S. economy. Rather, they are essential for overall economic growth because they are a principal channel through which capital, people, and ideas get reallocated to the most profitable business opportunities.

   Amidst all this dynamism, every single job separation can be difficult for the worker and family involved. This is important to emphasize, and I shall return to it below. But often-heard numbers regarding job reductions must be put in context to be properly understood. Suppose that a bankruptcy filing by one of the Big Three were to lead to 50,000 layoffs. Last week our U.S. Bureau of Labor Statistics reported that in September, the total number of gross job separations was 4.053 million. At an average of about four 40-hour work weeks per month, this means that on average a remarkable 25,000 jobs are destroyed in the U.S. economy every hour that America is open for business. Indeed, my hypothetical 50,000 layoffs from a bankruptcy filing happens every day in the aggregate U.S. economy in less time than this hearing will take.

2. A bankruptcy filing for an automobile company would very likely mean restructuring, not liquidation, in which case many of the company's operations would continue. Much of today's discussions presume that upon filing bankruptcy all jobs at a company—and all those at any suppliers—disappear immediately and forever, with all affected workers rendered unemployed immediately as well. This presumption is simply not an accurate reflection of most bankruptcy proceedings initiated under Chapter 11 rather than Chapter 7 of U.S. federal bankruptcy code. In most bankruptcy cases, many day-to-day operations continue as the company is restructured on many dimensions to restore long-term business viability. And even under Chapter 7 filings, asset sales as part of liquidation often result in continued operation rather than shut-down by the acquirer.

This is not to say that bankruptcy restructuring is simple or painless. It is not, a point to which I return below. But it is to say that the proper perspective for analysis is not one of immediate and permanent redundancy of the entire company.

So if the future of the American automobile industry may involve some combination of additional downsizing, new mergers, and perhaps even bankruptcy, what role should the federal government play? As stated earlier in my testimony, I regard the proper federal-government focus not to be on impeding market forces but rather on addressing the distributional pressures of these market forces. This focus suggests three areas for federal-government assistance. Let me list these in increasing order of breadth.

1. First, the federal government could help expedite any bankruptcy proceedings. Because of the weak overall U.S. economy minimizing delays in any filing would be of paramount importance. This assistance would help maintain economically sensible activity not just at the Big Three themselves but also at their suppliers as well.

   The exact nature of government assistance in bankruptcy would need to be determined. One possible example might be insuring warranties on new and/or existing cars. The concern has been raised that a bankrupt car company would experience a sharp drop in demand because prospective customers would worry about the quantity and quality of warranted after-sales service. Until such concerns were allayed by actual performance in and beyond bankruptcy, the government could insure such provision.

2. Second, the federal government could extend targeted and temporary aid to workers and communities deemed to be adversely affected by a bankruptcy filing or other industrial restructurings.

   The Big Three are geographically concentrated in certain Midwest communities and states. Many of these areas already face hardship from the national economic slowdown in general and from falling home prices in particular. Plans could be laid now for extending supplemental benefits, beyond standard unemployment-insurance amounts, to whatever workers in whatever communities are deemed worthy of such support.

   The political process would need to determine the appropriate amount and kinds of supports. For now, let me simply state that in light of the size of bailout funds currently being proposed, the potential per-worker supports are extremely large. Today the Big Three employ about 200,000 workers in the United States. If the government reallocated the previous $25 billion in loans allocated to the Big Three and the under-discussion additional amount of at least $25 billion more and planned instead to somehow distribute these taxpayer dollars to workers, this would translate into $250,000 for every single Big Three worker. This could be allocated across several years of unemployment income benefits, of wage-loss insurance upon re-employment, of retraining and relocation expenses: whatever combination of social-safety-net policies we as a country might deem appropriate for these (and perhaps other) workers.

3. Third and perhaps most importantly, the federal government could use this auto-industry crisis as an impetus for meaningfully expanding the economy-wide social contract I mentioned at the outset of my testimony, to better distribute the gains of our dynamic economy.

   In recent times, I have researched and written several studies on how public policy could better support American workers and communities while still expanding the global engagement and technological change so critical for raising U.S. living standards.[1] We as a country could do this in many ways: by linking future trade and investment liberalization to a more-progressive tax code; by a fundamental overhaul of our Unemployment Insurance and Trade Adjustment Assistance programs; and by new insurance mechanisms that would allow communities to smooth out their tax revenues. Policies like these would help America grow more equitably in the long run. As the old saw goes, there is no time like the present to start deliberating and implementing such policies.

Let me close by thanking you again for your time and interest in my testimony. I look forward to answering any questions you may have.

[1] "A New Deal for Globalization," Kenneth F. Scheve and Matthew J. Slaughter, *Foreign Affairs*, July/August 2007, pp. 34-47. *Succeeding in the Global Economy: A New Policy Agenda for the American Worker*, Grant D. Aldonas, Robert Z. Lawrence, and Matthew J. Slaughter, The Financial Services Forum policy research report, June 2007. *Global FDI Policy: Correcting A Protectionist Drift*, David M. Marchick and Matthew J. Slaughter, Council Special Report, Washington, D.C.: Council on Foreign Relations, June 2008. *An Adjustment Assistance Program for American Workers*, Grant D. Aldonas, Robert Z. Lawrence, and Matthew J. Slaughter, The Financial Services Forum policy research report, July 2008.

Testimony of Annette Sykora

Chairman

National Automobile Dealers Association

Before the House Financial Services Committee

Hearing on "Stabilizing the Financial Condition of the American Automobile Industry"

November 19, 2008

Good morning, Mr. Chairman and Members of the Committee. My name is Annette Sykora and I am a third-generation car dealer and owner of Smith Ford Mercury in Slaton, Texas, and Smith South Plains Ford, Lincoln-Mercury, Dodge, Chrysler and Jeep in Levelland, Texas. This year, I am also privileged to be the Chairman of the National Automobile Dealers Association (NADA), on whose behalf I am testifying today.

NADA's membership includes nearly 20,000 new car and truck dealers in the United States, both domestic and international nameplates, whose members employ over 1.1 million "Main Street" Americans. Many, many more Americans are employed in businesses that supply goods and services to dealerships. These are good, well-paying jobs that cannot be outsourced. Statistics that document the national economic impact of automobile dealerships in the U.S. are attached to my testimony. Information on specific economic impacts by state can be found on our website at http://www.nada.org.

Mr. Chairman, the economic health and well-being of our nation depends on a robust automotive industry. Nearly 1 in 10 Americans rely on the automotive industry for their livelihood and financial security.

For decades, the nation's auto dealers have been the bellwether for the state of this country's economy. Auto sales constitute 20 percent of all retail spending in the United States and generate up to 20% of the sales tax revenue for state and local governments, many of which are themselves currently facing budgetary shortfalls.

As most of you know, the automobile retail industry is highly credit-dependent and, as such, has been hit especially hard by the recent financial crisis and flagging consumer confidence. Although it is a great time to buy a car with great deals, great incentives, and great vehicles available, the public is not out there shopping.

In fact, for 2008, only an estimated 13.5 million new vehicles are likely to be sold, down from 16.1 million vehicles in 2007---and a 15-year low.

Mr. Chairman, as you evaluate the economic stabilization package before you today, I urge you to take into account one indisputable economic fact: ***A resurgence of automotive retailing is necessary for a resurgence in the***

overall U.S. economy. A well-capitalized financially sound dealer network is essential to the success of every automobile manufacturer, especially a manufacturer facing economic challenges.

The complex interaction between an auto manufacturer and a franchised new car or truck dealer is unlike any other business relationship in America. While the manufacturer assumes the economic risk attendant to designing and producing vehicles, the dealer assumes the economic risk of retailing those big-ticket items. Franchised dealerships are independently owned businesses, not the "company owned" stores used by many other industries to distribute their products.

As such, it is the dealer – and not the manufacturer – that invests in the land, buildings, facility upgrades, personnel, and equipment necessary to sell and service vehicles. Because of these sizable multi-million dollar dealer investments, manufacturers receive a national retail distribution network at no capital expense and are able to externalize most of the costs associated with the establishment and maintenance of a national retail distribution network for their products. Similarly, customers enjoy a competitive market in which to purchase and service vehicles and convenient locations to respond to safety recalls.

Section 405 of the discussion draft dated November 17, 2008 which is the subject of this hearing today would impose a reporting requirement on the automakers receiving Federal assistance. Among other things, this submission would require a borrower to describe its efforts to "rationalize costs and capitalization with respect to [its] manufacturing workforce, suppliers and dealerships."

Industry trends evidence an orderly, market-based consolidation of the dealer network:

- For more than 50 years, the number of dealerships in the U.S. has been shrinking at a consistent pace, dictated by market conditions. In 1949 there were almost 50,000 dealerships and by 1970 that number was 30,800. During that timeframe virtually all of these held domestic franchises. In 1987, there were 25,150 new-car dealerships; by the end of this year, we expect that number to have dropped to 19,700. Furthermore, of the remaining dealerships only about 14,200 are domestic only.

- What's more, this reduction in dealerships does not reflect a contraction of the overall auto industry. For example, the number of vehicles in operation rose from approximately 125 million in 1976 to almost 250 million in 2007.

While market forces have operated – and will continue to operate – to reduce the number of dealerships, it is important to recognize that dealership reduction is not necessarily the equivalent of dealership rationalization or dealership optimization. There are important counterbalancing factors to consider. The foremost of these are the convenience and competition that consumers receive from an extensive dealer network. Intra-brand competition is very important to consumers. Indeed, the most intense competitor for, say, an individual Ford dealer is the nearest Ford dealer. Therefore, any precipitous decline in the size of the dealer network of any manufacturer could dramatically reduce competition for the sale and service of vehicles.

Mr. Chairman, the franchise system has just celebrated its 100^{th} anniversary. Through those years, it has provided a strong auto retail network for consumers, dealers and vehicle manufacturers alike.

In addition to making long-term capital investments, dealers, unlike other retailers, must pay significant "floor planning" expenses – the wholesale costs associated with acquiring and holding an inventory of new and used vehicles. For an average dealership with a single location, this line of credit averages $3 million.

Despite the fact that both wholesale and retail automotive loans – even when securitized – have continued to perform well, dealers are facing sharp increases in floor plan interest and a decline in the number of lenders willing to finance dealer inventories and fewer lenders willing to finance their inventories. In short, the access to wholesale financing is decreasing and the cost is increasing.

This trend, along with a drastic decrease in consumer confidence, has created severe cash flow problems that are eroding the ability of many dealers to remain viable. By the end of 2008, NADA estimates that at least 700 dealerships and at least fifty-thousand dealership jobs will be lost.

According to the National Association of Minority Automobile Dealers today, there are 2,100 ethnic minority automobile dealers in the U.S. and with the economic turmoil, up to 75 percent of the entire minority dealer body could run out of cash and close their doors by year end. Federal financial assistance is needed immediately to allow these dealers to survive.

If these trends are not halted and reversed, there will be widespread destructive consequences for the dealers, for their employees and for almost every community across the country.

Mr. Chairman, on a related matter, very soon, perhaps even today, the fuel economy increases ordered by Congress last year will be released by the U.S. Department of Transportation. The new CAFE rules are expected to be the largest jump ever in fuel economy standards, and are on track to exceed even what Congress has mandated. In this time of economic uncertainty, the auto industry needs at a minimum regulatory stability and certainty to once again prosper. A single national fuel economy standard provides that certainty and stability, and gives manufacturers a road map to produce the fuel efficient cars of tomorrow. Double regulating fuel economy by some states, under a patchwork of competing rules, would exacerbate the economic challenges facing the industry and actually impair our efforts to achieve energy independence and enhance the environment.

<u>Economic Impact Without Additional Financing</u>

Mr. Chairman, simply put, the current state of our national economy cannot withstand the failure of a major automobile manufacturer--it's not a viable option. The repercussions of such would be widespread and immediately felt not just in Detroit but economy wide on every automobile manufacturer -- both foreign and domestic -- on every Main Street nationwide.

Some commentators have suggested parallels between the airline and automobile industries with regard to bankruptcy. However, the automobile industry is fundamentally different.

Should an automaker enter bankruptcy, vehicle sales are likely to plummet. Unlike the purchase of an airline ticket which typically only involves a few hundred dollars and only a few hours in the air, automobile purchases average nearly $30,000 and involve a long-term customer to protect the consumer's investment in areas such as service, parts and warranty. Moreover, the number of available choices for any particular destination in the airline arena is much lower that the number of comparably priced, competitive products in the automobile market.

A Chapter 11 bankruptcy also likely would result in even further constraints on dealership inventories, financing -- raising costs for everyone -- dealers and consumers.

Finally, the sheer complexity and the multiple levels of relationships in our industry -- manufacturers, suppliers, dealers and lending institutions -- means that bankruptcy will have a very broad effect on various sectors of the economy. Simply put, a Chapter 11 bankruptcy would create more problems than it would solve.

Policy Recommendations

On behalf of NADA, I call upon Congress to move quickly to provide the assistance needed to allow the automotive sector to once again lead our country back to economic health.

In particular, we ask for action in three areas:

1. **Pass the economic stabilization package for the auto industry**

   Mr. Chairman, economic stability will restore consumer confidence in the auto industry. Congress can help to provide stability through a bridge financing program for automobile manufacturers.

2. **Enact a broad economic stimulus for automotive retailing this year**

   Congress should attempt to provide temporary financial assistance to families who are looking to make a new car or truck purchase. This can be done by:

   a. Allowing a temporary deduction of interest on consumer new auto loans and of sales or excise taxes on new vehicle purchases. This will restore consumer confidence, generate showroom traffic and stabilize the auto industry. We commend

Senators Barbara Mikulski of Maryland and Kit Bond of Missouri for introducing S. 3684 in the Senate and Congressman Bill Pascrell for agreeing to introduce a companion bill in the House and urge its immediate passage;

b. Providing for a temporary, refundable consumer tax credit for car and truck buyers;
c. Funding for state fleet modernization (also known as "cash for clunkers") programs like those in place in Texas and California that encourage consumers to upgrade their older vehicles to newer, more environmentally-friendly models;
d. Providing for a temporary increase in the expensing/depreciation of business vehicle purchases.

3. **Target a small business dealer loan guaranty program immediately**

As I've mentioned, many dealers are currently facing working capital challenges, which have already led to the loss of tens of thousands of dealership jobs this year. NADA is working with the Small Business Administration (SBA) to implement a targeted automobile dealer loan guaranty initiative. A similar initiative, implemented in 1980 when the nation's dealers were facing similar financial challenges, successfully helped the industry get back on its feet. Such an initiative requires no new federal programs or federal monies. We urge Congress to support this effort by encouraging the SBA to proceed with our requested initiative as soon as possible and help to ensure that as many dealers as possible are able to participate.

As you can see, we seek support of an economic stabilization package that is focused on the vehicle buying public and on preserving millions of jobs in virtually every community across the country.

In conclusion, NADA and our dealers nationwide stand ready to work with you and the Congress to identify and develop the specific elements that should be adopted to restore consumer confidence, maintain dealer viability, stabilize and strengthen automobile manufacturers and accelerate economic recovery.

Mr. Chairman, the federal government is already helping Wall Street. Now it's time to help Main Street.

Thank you for this opportunity to testify. I am happy to answer any questions.

Attachments:

NADA DATA National Economic Summary

Driving the United States' Economy

Annual Contributions of the United States' New-Vehicle Dealers*

the United States' dealers maintain a multi-BILLION dollar retail industry.

Average sales per dealership .... $33.4 million
Total sales of all new-vehicle dealerships in the United States .... $693.3 billion
Dealership sales as % of total retail sales in the state 18.0%
Estimated number of new-vehicle dealerships 20,770

Dealers provide thousands of well-paying jobs in the United States.

Total number of new-vehicle dealership employees in the United States 1,114,500
Average number of employees per dealership 53
Average annual earnings of new-vehicle dealership employees $48,339
Dealership payroll as % of total retail payroll 13.4%
Annual payroll of new-vehicle dealerships .... $54 billion
Average annual payroll per new-vehicle dealership .... $2.59 million

Dealers generate hundreds of millions of dollars of tax revenue for state and local government through:

- **Sales Tax Revenue**
- **Corporate Tax Revenue**
- **Payroll Tax Revenue**

**Numbers reflect annual economic activity during 2007*

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Testimony by

Rick Wagoner

Chairman and Chief Executive Officer

General Motors Corporation

to the

United States House of Representatives

Financial Services Committee

Washington, D.C.

November 19, 2008

- **Good morning, Mr. Chairman.**

  - I'm Rick Wagoner, Chairman and Chief Executive Officer of General Motors. Thank you for the opportunity to speak today about the future of America's domestic auto industry.

- **As recent news coverage has made abundantly clear, many people have a picture of GM that has not kept pace with our progress.**

  - Since 2005, we've reduced our annual structural costs in North America by 23 percent, or $9 billion... and expect to reduce them by about 35 percent, or $14-$15 billion, by 2011.

  - We negotiated a landmark labor agreement with the UAW last year that will enable us to virtually erase our competitive gap.

  - And we've addressed pension and retiree health care costs in the U.S., on which we spent $103 billion over the last 15 years.

  - As a result of these and other actions, we are now matching -- or besting -- foreign automakers in terms of productivity, quality, and fuel economy. By 2010, we'll match them on labor costs, as well.

- **On the product side, we're building vehicles that consumers want to buy... like Cadillac CTS, *Motor Trend* magazine's 2008 Car of the Year... and Chevy Malibu, the 2008 North American Car of the Year.**

  - We've also made huge progress developing advanced propulsion technologies... like 20 models in the U.S. next year that get at least 30 miles per gallon highway... six hybrids on the road, and three more next year... more than three million flex-fuel vehicles... the world's largest hydrogen fuel-cell test fleet... and the upcoming Chevy Volt extended range electric vehicle.

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- **In short, we've moved aggressively in recent years to position GM for long-term success... and we were well on the road to turning our North American business around.**

  - Last October, following the negotiation of a new labor agreement with the UAW, our stock price climbed to $42.64 per-share... based on analysts' views that we had finally overcome the cost-competitiveness gap with foreign automakers.

- Since then, our industry has been hit hard by the global financial markets crisis... and the recent plunge in vehicle sales threatens not only GM's ongoing turnaround, but our very survival.

- **In response, we have moved quickly to keep our company on track. Since June, we've:**

    - reduced our North American manufacturing capacity;
    - put parts of the company up for sale;
    - suspend dividend payments;
    - reduced headcount;
    - and eliminated raises, bonuses, and 401(k) matches, and health-care coverages... all designed to improve GM's liquidity by $20 billion by the end of 2009.
    - These actions affect every employee, retiree, dealer, supplier, and investor in our company.

* * * * * * *

- **Mr. Chairman, I do not agree with those who say we are not doing enough to position GM for success.**

    - What exposes us to failure now is not our product lineup, or our business plan, or our long-term strategy.
    - What exposes us to failure now is the global financial crisis, which has severely restricted credit availability, and reduced industry sales to the lowest per-capita level since World War II.
    - Our industry needs a bridge to span the financial chasm that has opened before us.
    - We'll use this bridge to pay for essential operations... new vehicles and powertrains... parts from our suppliers... wages and benefits for our workers and retirees... and taxes for state and local governments.

* * * * * * *

- **But if the domestic industry were allowed to fail... the societal costs would be catastrophic:**

  - three million jobs lost within the first year;
  - U.S. personal income reduced by $150 billion;
  - and a government tax loss of more than $156 billion over three years...
  - not to mention the broader blow to consumer and business confidence.
  - Such a level of economic devastation would far exceed the government support that our industry needs to weather the current crisis.

- **In short, helping the auto industry bridge the current financial crisis will not only prevent massive economic dislocation now... it will also produce enormous benefits for our country later.**

  - And in return, we will repay the taxpayer's faith and support many times over, for many years to come.
  - Thank you, and I look forward to your questions.

* * *

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Ben Stein Votes "Yes" On Big Three Bailout

Nov. 16, 2008

(CBS) What economic problem should be the government's top priority? Contributor Ben Stein has his nominee:

It's getting ugly out there.

America's Big Three automakers - GM, Ford and Chrysler - are not so big any more. They are on the ropes, in urgent danger of simply running out of cash.

Their executives and the unions who represent their workers, are pleading for a massive bailout from us, the taxpayers. President-elect Obama agrees with them.

Now there are plenty of good reasons to say no. After all, the Big Three have made every mistake in the book: far too lush employee contracts, poorly designed and poorly built cars that often burn too much gasoline.

Meanwhile, the Asian and German automakers with plants in the southern U.S. do a far better job at making cars people want to drive.

Mr. Bush, egged on by his own Dr. Evil, Henry Paulson, Secretary of the Treasury, is saying that Uncle Sam will not agree to a bailout. And in a way, I sympathize with President Bush and Secretary Paulson.

Still, the Obama team and the Democrats have this one right: The taxpayers just have to save Detroit.

We are in an economic tailspin. We cannot allow the roughly three million workers connected to the Big Three auto industry to fall into the ranks of the unemployed. It is possible that this nightmare could push the oncoming recession into being a Depression, something we definitely do not want to ever again experience.

Plus, we need a powerful domestic motor industry for defense purposes, to be able to convert to making tanks and military trucks if they had to.

Bankruptcy is not a good option. Who would buy a car made by a company in bankruptcy? After all, would the company even be there when you wanted your car serviced or repaired? And how could workers handle extended layoffs while it all got sorted out?

Yes, we need strict standards for revamping Detroit, maybe even bringing in supervisors from Toyota, BMW and Nissan. Yes, we need to make sure Detroit makes cleaner, more efficient vehicles.

But this economy is in enough trouble already. With our hearts in our mouths, we beg you, Mr. Bush, save Detroit now before it's too late for them, and too late for us.

America is not America without a big domestic motor industry. And yes, what's good for General Motors is good for America.