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EXAMINING THE STATE OF THE DOMESTIC AUTOMOBILE INDUSTRY—PART I

HEARING

BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

ON

EXAMINING THE STATE OF THE U.S. DOMESTIC AUTOMOTIVE INDUSTRY AND ITS OVERALL IMPACT ON THE NATION'S ECONOMY, THE AUTOMOTIVE WORKERS, AND THE COMPANIES INVOLVED IN THE SUPPLY CHAIN AND THEIR EMPLOYEES

NOVEMBER 18, 2008

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C O N T E N T S

TUESDAY, NOVEMBER 18, 2008

WITNESSES

EXAMINING THE STATE OF THE DOMESTIC AUTOMOBILE INDUSTRY—PART I

TUESDAY, NOVEMBER 18, 2008

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 3:02 p.m., in room SD–538, Dirksen Senate Office Building, Senator Christopher J. Dodd (Chairman of the Committee) presiding.

OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD

Chairman DODD. The Committee will come to order.

If I had known the interest, I would have held this at RFK.

Well, listen, thank you all for coming this afternoon, and I appreciate the participation of our witnesses and our colleagues as well. Momentarily, we will be asking our colleague Senator Stabenow to share some opening comments.

I would point out that Carl Levin, the senior Senator from Michigan, is unable to be with us this afternoon, but has submitted testimony and obviously has a very strong interest in this subject matter. And I have had numerous conversations with him over the past number of days, and so we appreciate his contribution to this afternoon's proceedings as well.

Let me just briefly say how we are going to proceed here. I am going to make some opening comments. My friend and colleague from Alabama will make some opening comments, and then I will ask my colleagues here if they would please be brief, if you could. I know everyone wants to be heard on this subject matter, at least a couple of minutes. We will then turn to you, Senator Stabenow, and then we will invite our witnesses up for their testimony here this afternoon.

This afternoon's hearing is on "Examining the State of the Domestic Automobile Industry." This afternoon the Committee examines the condition of this important domestic industry to our country, and I want to thank Senator Shelby and our other colleagues for accommodating their schedules to allow us to have this hearing scheduled on such short notice. And although we may have different views on the ailments of the auto industry and the remedies for them, I think we can all agree that its fate is a very important subject matter for this Committee's consideration.

Our Banking Committee jurisdiction, I would point out to those who may not be aware, extends to matters pertaining to economic stabilization and financial aid to commerce and industry. As such, today's hearing is very timely and appropriate.

The automobile industry, of course, has made an urgent request, as we are all aware, that Congress provide some emergency assistance to their companies. Without that assistance, we are told that one or more of the Big Three automobile makers could become significantly impaired or collapse altogether. Were that to happen, the repercussions, of course, would be severe. Hundreds of thousands of people who assemble these automobiles would lose their jobs. Many more who supply auto parts would face layoffs. As well, automobile dealers would be shuttered, and countless others who rely on the auto industry for their livelihoods, from the people who work in restaurants near these auto factories to those who, in fact, clean the offices of these executives, could find themselves without a job.

There are those who believe that the partial or total collapse of the domestic automobile industry would have repercussions far beyond those whose work is directly or indirectly connected to that industry. They argue that if this major industry goes down, it could take down huge sloughs of the Nation's economy with it; and in so doing, it could create new and profound risks to the stability of our entire economy, which, as we all know, is already in a very precarious state.

None of us relishes being here today to consider these prospects. That goes for our company and labor witnesses who are going to be testifying later this afternoon. Their discomfort in coming to the Congress with hat in hand is only exceeded by the fact they are seeking treatment for wounds that I believe to a large extent were self-inflicted. No one can say that they did not see this coming. Their companies have been struggling for years. They are hemorrhaging jobs; 450,000 have been lost in the last 8 years alone. They are losing market share. For the first time, the domestic auto share for Ford, Chrysler, and GM has slipped below 50 percent, going from 66 percent in 2001 to just 47 percent today. Their boardrooms and executive suites, in my view, have been famously devoid of vision.

Certainly there have been exceptions. Ford was arguably ahead of the market when in the early years of this decade, they saw a big future in the fuel-efficient and alternative energy vehicles. But for the most part, the top echelons, in my view, of the Big Three turned a blind eye to such opportunities. They have been content, in my view, to not only satisfy but in too many respects drive the demand for inefficient gas-powered vehicles that Americans have been going broke to gas up. They derided hybrid vehicles as making "no economic sense." They have dismissed the threat of global warming, the role played by their products in creating it, and the strong desire of the American people to do something to stop it. The prices of GM and Ford shares have declined steadily and have now reached historic lows.

In short, the auto makers have failed to adapt to change, in my view, and the shareholders are rendering judgment for that fact. They have approached 21st century challenges with decidedly a 20th century mind-set, and we are all paying the price for it. This is not the first time that the leaders of our automobile industry have presented Congress with a doomsday scenario in connection with a cry for help. It happened in the late 1970s as well. At that time this Committee, under different leadership, and the Congress responded with the Chrysler Loan Guarantee Act. The law provided $1.5 billion to Chrysler in loan guarantees to help it avoid bankruptcy. But it did so with several very tough conditions. It created a Federal oversight board to review and approve funding decisions. It required Chrysler to become energy efficient. It prohibited the company from paying dividends on its common or preferred stock. It required buyouts that resulted in the loss of thousands of jobs, and the company was required to come up with a nearly dollar-for-dollar match in private funds in order to qualify for Federal guarantees.

Unlike 1979, however, today the tools already exist to provide meaningful and appropriate assistance to the industry. I am referring to the Emergency Economic Stabilization Act, which was signed into law barely 6 weeks ago. This legislation confers broad authority on the Secretary of the Treasury, including, in my view, the authority to purchase "any financial instrument," such as stock from any institution, if necessary, to promote financial market stability. The Secretary of the Treasury has until now declined to use that authority, and I regret that, focusing the resources of the act on financial companies. It is hard to explain how you can provide massive assistance to AIG, but manage to find no room at all for assistance for our three major automobile manufacturers.

Similarly, the Federal Reserve has declined to use its authority under Section 13-3 of the Federal Reserve Act to assist the auto industry. That provision allows the Fed to lend to any individual, partnership, or corporation if, due to unusual or exigent circumstances, that person, partnership, or company is unable to secure adequate credit.

I support efforts to assist this industry, not because their leaders necessarily deserve taxpayer help—on the contrary, deserve no more help than do the leaders of the financial companies that created the subprime mortgage mess that has exploded into the global financial crisis. Rather, I support action as a way to minimize the possibility of such a destabilizing event in our overall economy. At a time like this, when our economic future is so tenuous, we must do all we can to ensure stability. None of us wants to look back and ask if we were penny-wise and pound-foolish at a moment of great peril economically. That said, I am only one of 100 Members of this body. It will take more than my support to pass meaningful legislation this week or next week, and by "meaningful," I mean legislation that would provide not only necessary financing to sustain operations; I also mean legislation that imposes tough conditions on the companies to sustain our planet and to maintain strict accountability to the taxpayers who are once again being asked to make extraordinary sacrifices for those whose actions are costing our Nation dearly.

My view is that this moment presents not only a challenge but also an opportunity—an opportunity to reject the subsidy for failed business practices, instead to generate meaningful, lasting change that transforms a key piece of our manufacturing base for success in the 21st century.

Whatever path we ultimately choose—and we will have differences about what it is—that ought to be our shared goal. So in a few minutes, I will be asking our friend and colleague from Michigan to share her thoughts with us, but before I do that, let me turn to my colleague from Alabama, Senator Shelby.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Mr. Chairman.

Only 6 weeks ago, Congress hastily passed a bill that gave the Secretary of the Treasury authority to spend $700 billion to address the credit crisis. The key component of the Treasury plan was the purchase of so-called troubled assets held by financial institutions. At that time I expressed grave concerns with the wisdom of the approach and questioned whether it would be an appropriate use of taxpayer dollars.

Instead, at that time I called for a serious examination of the origin and scope of the ongoing financial crisis so that we might then craft a thoroughly considered and narrowly tailored solution. Unfortunately, we, the Congress, skipped that step.

The Treasury Department has since abandoned the plan, as you all know, to purchase troubled assets and is now using the funds to purchase direct equity stakes in financial institutions. We were told that this would be the best way to stabilize faltering institutions and stimulate lending. Although interbank lending has improved slightly in recent weeks, the series of *ad hoc* Government measures intended to relieve stress in the credit markets have actually increased mortgage rates and placed additional strains on demand. This has occurred despite intentions to the contrary.

Today, as we consider altering the Treasury bailout program to provide cash assistance to the domestic auto manufacturers, I am concerned that once again we are about to employ the "ready, fire, aim" approach to problem solving.

Before we take that step, I believe we need to determine a number of things. First, we must examine whether diluting the TARP program will fatally weaken an already flawed construct. Second, I believe we must determine the current financial condition of the domestic auto manufacturers and how they got that way. Finally, Mr. Chairman, I believe we must determine both the short- and long-term outlook for these firms. These are all fact-based considerations, and we should look at the facts. Therefore, we can and I think we must build a thorough record so that we can make fact-based decisions here in the Congress.

And while I recognize that the current economic situation has exacerbated the problems of the Detroit auto makers, I think we in the Congress must examine in greater detail the causes of their longstanding problem.

For example, industry analysts contend that the firms trail their major competitors in almost every category necessary to compete and make a profit. In fact, even when the firms were setting record sales records, they were barely making money.

I believe we need to understand why this has been the case. We need to know what the firms are doing to enhance their ability to compete in the future. How do they plan to deal with current management, labor, cost and quality control, and product development shortfalls, which they know they have? How do they plan to address changes in the marketplace such as long-term reductions in annual sales? How do they intend to reverse the continued loss of market share to foreign car companies? Yes, and how are they going to adapt to an international market that demands greater efficiency and flexibility?

I also, Mr. Chairman, have questions about the amount of resources needed to address the current situation. Is $25 billion—a lot of money to me—is that enough? Is this the end or just the beginning? Some reports state that the firms appearing today may each need at least $20 billion, some $50 billion apiece. If that is true, we should be told that today.

Finally, how is the money going to be used? That is a good question. Will it be used to improve their business model, which has been a failure, and product lines? Or is this just life support?

I understand that each firm may use their entire share to pay preexisting claims to stay afloat. In other words, the money would be used just to keep the lights on. If that is the case, there would be nothing left to make changes that might actually help turn the firms around. I believe this begs the question: Are we here in the Senate being asked to facilitate a stronger, more competitive auto manufacturing sector or to perpetuate a market failure?

Today's witnesses need to assure this Committee and the American people that they are able to do what they have failed to do in the last 10 years. I look forward to their answers.

Chairman DODD. Thank you very much, Senator.

Senator Johnson.

STATEMENT OF SENATOR TIM JOHNSON

Senator JOHNSON. Mr. Chairman, thank you for calling today's hearing to examine the condition of the domestic auto industry and the effects of interest rate turmoil on job creation and economic growth. As you know, I did not support the $700 billion bailout, in part because I did not believe that the conditions set for bailout monies for Wall Street firms were strong enough. I expect that if help is extended to the auto industry, these companies and their executives will be held to very high standards of accountability and that the taxpayer protection remains a top priority.

Going forward, Congress must focus on how to secure the hundreds of thousands of jobs connected to the auto industry and also ensure that this industry makes dramatic improvements to innovate and reflect consumers' changing tastes for fuel-efficient vehicles, including flex-fuel vehicles and alternative-fuel vehicles, cars, and trucks. The U.S. has the ability to lead the world powering vehicles on renewable fuels. What is lacking has been the domestic auto industry's embrace of policies and misallocations of resources, resulting too often in an inferior product.

I am keenly interested in learning from today's witnesses as to how additional investment of taxpayer dollars to this interest would not repeat these missteps.

Thank you, Chairman Dodd.

Chairman DODD. Thanks very much.

Senator Enzi.

STATEMENT OF SENATOR MICHAEL B. ENZI

Senator ENZI. Thank you, Mr. Chairman. I am disappointed that we are here today to consider another financial rescue package. While I agree that this topic deserves the deliberate consideration of the Senate Banking Committee, I have to note that this Committee will not actually be approving any legislative proposals related to the auto rescue package through the regular order, through deliberation, which is the only way that we get good legislation.

The Committee process is the method by which we consider legislative proposals, weigh alternative ideas, and build coalitions through the process of deliberation. Unfortunately, that process has not been relied upon during the debate on the Emergency Economic Stimulus Act, and it is not the process we are using right now. I opposed passage of the Emergency Economic Stabilization Act in October because, in Congress' rush to pass an expensive solution to our financial crisis, we did not carefully consider the impact such a proposal would have on our markets and honestly weigh all available alternatives. As evidenced by the financial markets since October 3rd, the EESA has made little progress in bringing prosperity and consumer confidence back into the markets. Even though there is a lot more flexibility there than I think any of us dreamed of, I have serious doubts that this rescue package will be any different. The auto manufacturing industry is telling us today they need a $25 billion rescue package as a result of the financial crisis and the public's inability to find credit to buy their products.

This is not the only reason why the domestic auto industry is in trouble. Labor costs, enormous legacy liabilities, and inefficient production have also contributed to the current crisis in the auto industry. Isn't it prudent for us to consider how the taxpayers' $25 billion will go to addressing these issues before we authorize the spending? For example, General Motors' direct labor cost is reportedly $71 an hour while Toyota pays only $47 per hour. Indirect costs resulting from union labor agreements only add to this cost differential. Ford and GM both spend much more time to produce a vehicle than either Toyota or Honda, and fixed costs keep domestic manufacturers from competing with more nimble overseas competitors.

Unfortunately, the auto package being considered by the Senate this week is completely silent on these issues. When the Senate votes on the bailout on Wednesday, the $25 billion bailout will not be attached to any larger proposal to reform contractually imposed costs incurred each year by domestic auto makers. The bill will not include reforms to address the industry's crippling legacy costs or enormous and costly infrastructure. Instead, it will be another check issued by the taxpayer to solve a long-term problem with a short-term solution. I am pretty sure whatever the bill is, if you took it to your banker and asked for $25,000, he would send you back for more work.

Under the terms of the proposal, I would not be surprised if we find ourselves and the domestic auto industry in the same situation 6 months or a year from now. There is nothing in the proposals that I have heard to prevent the same problems from returning to the industry in the future. We have little evidence that this $25 billion will do anything to promote the long-term success and competitiveness of domestic auto manufacturers. However, this body is under enormous pressure from that industry to provide the money with no strings attached.

Instead, I ask my colleagues to resist the illusions of pending economic disaster and carefully consider the proposal. This Committee should also examine ways to modify existing proposals to make it more taxpayer friendly. We could secure this $25 billion loan with unencumbered assets of the participating auto companies. We could boost private sector investment through a matching program similar to the one proposed by Secretary Paulson. These ideas are worthy of consideration and deliberation and should be a part of the debate.

I thank the Chairman.

Chairman DODD. Thank you.

Senator Schumer.

STATEMENT OF SENATOR CHARLES E. SCHUMER

Senator SCHUMER. Thank you, Mr. Chairman. I thank you and Senator Shelby for holding this obviously very timely and important hearing.

Survival of the auto companies is imperative for America's ability to remain the global economic leader in innovation. At a time when there are tremendous horizons of opportunity in the auto sector, helping the industry meet its challenges is very important. We should not drop out of the race before we have had a chance to compete. And given the fragility of our economy today, ignoring the plight of the auto industry would only accelerate an economic downturn and make it more difficult for our Nation to return to prosperity. Bankruptcy of one or more major companies at this point in time in our economy would have far more severe effects than during a time of relative prosperity or stability.

The auto industry is a bedrock of our economy. Almost 4 percent of the Nation's GDP comes from autos. That is 10 percent of our industrial production by value. What is more, the industry supports 3 million ancillary jobs—jobs we must preserve when employment is decreasing by over 200,000 jobs a month, and more massive layoffs are expected as a result of the credit crisis. And thousands of these jobs, Mr. Chairman, are in my State of New York, where the auto industry has been an important part of the local economy for decades. Large portions of the economies in western New York, the Rochester area, Syracuse, and other places depend on the auto industry.

So, while I believe that the auto industry is too vital to let fail, I do share many of my colleagues' concerns that what we are being asked to do is not the end but the beginning, and that you will be back before us in a matter of months. We must be assured that whatever aid we give you is accompanied by a real plan that shows you recognize the direction that this industry must take in order to not to survive but to thrive. I believe we must take action in the short term to save the industry, but we also need to hear a plan from the auto executives sitting here today. We need them to reassure us they will not come back again in 6 months in the same sinking boat asking for another $50 billion to plug more holes.

A business model based on a gas-guzzling past is unacceptable. We need a business model based on cars of the future, and we already know what that future is: the plug-in hybrid electric car. We need to know that you will be committed to building the cars that will make America a leader in automotive innovation and are committing the appropriate resources to get this done, even if it means sacrificing some short-term income for your long-term investment in the future.

I am hopeful that our Republican colleagues will recognize the urgency of this situation and join us in this critical investment in our future.

Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator.

Senator Hagel, any comments?

Senator HAGEL. No, Mr. Chairman.

Chairman DODD. Senator Bunning.

STATEMENT OF SENATOR JIM BUNNING

Senator BUNNING. Thank you, Mr. Chairman.

Before talking about any legislation, I want to say that I am very concerned about the state of the auto industry in the United States. I am not concerned out of a sense of American pride or because of the great history of the American auto industry. What concerns me are the workers, the men and women who assemble our cars and trucks, who sell and service the vehicles at dealerships, and those who work for suppliers that keep the industry running.

Auto manufacturing is the largest manufacturing sector in my State. I know Detroit's pain is felt in towns and cities all across Kentucky. In many counties, jobs making seat belts and radiator hoses are some of the best-paying jobs around. And those jobs are in danger.

Just last week at least 600 steelworkers were laid off at a plant in Ashland, Kentucky, that supplies steel for exhaust pipes. I am concerned for those workers and their families.

The question facing Congress is what, if anything, to do about the industry's current problems. The proposal coming before the Senate tomorrow is not a serious one. Much like the other bailouts we have passed, it is virtually a blank check that does not require serious considerations or concessions. It also does not address the current problem facing the industry, which is a lack of funding for auto loans. More importantly, it does not address the long-term viability of the domestic manufacturing industry.

Everything I read says that these three companies before this Committee cannot survive at the current size and cost structure, even when the current economic climate passes. I also hear that $25 billion is not enough to last past February at the current rate of spending. To me, that says that major changes are needed if Federal dollars are to be made available. The bill coming before the Senate requires no such changes. What I hear from our witnesses today is whether or not they are serious about making the painful changes that are necessary for these three companies to survive the long term.

One idea I read in the *New York Times* this morning is that the companies could go in a prearranged Chapter 11 restructuring and the Government would provide financing for these companies coming out of bankruptcy. That is a more serious proposal than what is before the Senate, so I want to know if the people sitting at the witness table—not my fellow colleague—are willing to make those tough choices. Are the companies ready to close down brands, factories, and shrink their overall sizes? Is the union willing to go along with cost and size reduction as the companies restructure? Are executives willing to give up their jobs as a condition of getting these funds? These are just a few of the questions that need to be answered.

Finally, Mr. Chairman, I want to repeat my concern for the workers up and down the auto supply chain and dealer networks. Many of those families and communities are living in fear right now. No matter what we do, some of those jobs are going to go away, at least for the short term. We owe it to them to discuss serious proposals that will lead to long-term stability in the auto industry.

Thank you.

Chairman DODD. Thank you, Senator.

Senator Carper.

STATEMENT OF SENATOR THOMAS R. CARPER

Senator CARPER. Thanks, Mr. Chairman. Welcome to our witnesses today. Thank you for joining us. It is an important occasion.

Not surprisingly, there is a healthy skepticism when it comes to an auto industry bailout. Many are quick to point out the mistakes the auto industry has made in past decades. I have been among those. Some prominent economists have gone so far as to say that the bankruptcy court could actually force a beneficial reorganization. If our economy were doing well and if the credit markets were not frozen, you know, it might just be possible that they are right. But as things stand today, I do not believe that bankruptcy court is the answer.

General Motors does not have the money to reorganize, nor is there credit available. That means we are not talking about a Chapter 11 process but a Chapter 7—in other words, liquidation. That means the loss of more than perhaps a million jobs at the worst possible moment. Our economy is too vulnerable. It simply cannot stand the kind of anti-stimulus that a GM liquidation would bring.

The Big Three auto makers are taking steps we would want them to take already. They have reached an agreement with the UAW to bring labor costs down and to reduce the legacy costs by moving health care benefits to private trusts managed by the union. Further, as painful as it is, the Big Three have closed plants to bring their production more in line with U.S. demand. In addition, they are developing new, exciting vehicles like the Chevrolet Volt, which will go 40 miles without using one drop of gasoline.

But in the midst of all these positive steps, the auto makers were hit by high gas prices, along with the rest of us, followed quickly by the complete paralysis of credit and a recession. The challenge now is to get our domestic auto industry through the next year while they finish the reorganization and modernization that everyone has agreed is good for them and for the country, and, I might add, while they bring through the pipeline the vehicles, the very promising vehicles that are on the drawing board.

As policymakers, it is our goal to design an assistance package that will lead to a successful outcome for the auto industry while protecting taxpayers' investment. To do so, such a package could include curbs on excessive executive compensation and the inclusion of preferred stock and warrants in each of the companies receiving bridge loans, not unlike what we did in 1979 with Chrysler, a process which led to the Federal Government actually realizing a return on investment of $310 million.

Although saving the auto companies is important to the overall health of our economy, in Delaware auto workers, much like those around the country, are losing their jobs right now. In fact, our Chrysler assembly plant in Newark, some 50, almost 60 years old, will close at the end of this year. So while we talk of another industry bailout, I just hope we can take some time to ensure assistance to those who will be left behind whether or not the companies, their companies, are saved.

Of course, people who are losing their jobs today need to know that they will have unemployment benefits tomorrow, as well as job retraining, job placement help, and possible relocation assistance. We also cannot forget the communities who are facing the challenge of redeveloping closed auto plants at a time when new investment is scarce. We must provide assistance to ensure that auto sites do not become blighted, but instead offer new opportunities and create new jobs.

I am pleased that our Chairman called this hearing, but I am not pleased that it was necessary, nor do I suspect any of our witnesses are. However, I am interested in hearing what you have to say. I stand ready to work with my colleagues, certainly Senator Stabenow and Senator Levin, to quickly determine the best course of action for auto makers, for their employees, for our taxpayers, and for our economy.

Thanks, Mr. Chairman.

Chairman DODD. Thank you. Thank you, Senator.

I want to note the presence of Sandy Levin, our fellow Congressman from Michigan, who is in the room. We thank you, Congressman, for coming over to join us.

Senator Dole.

STATEMENT OF SENATOR ELIZABETH DOLE

Senator DOLE. Thank you, Mr. Chairman.

As I have indicated before, I have very serious concerns about the $700 billion rescue package that this legislation unfairly holds taxpayers responsible for the costly and reckless decisions of investment bankers on Wall Street and policymakers in Washington. Like so many North Carolinians I have heard from, I continue to be very skeptical that this newly enacted law is turning out to be the blank check that so many of us feared.

Incredibly, only last week Treasury Secretary Paulson said that the Troubled Asset Relief Program would now not include the purchase of illiquid mortgage securities. This proposal was principally sold to Congress as the way to return our financial institutions to health. In fact, this Committee and its staff spent countless hours quizzing Treasury and Federal Reserve officials about how this proposal would work in practice. I know I was hardly the only Member who found their responses either inconclusive or unsubstantiated.

Well, as someone who opposed this legislation from the beginning, I am pleased that Secretary Paulson now recognizes this type of mortgage purchase mechanism looks destined to failure. I can only imagine the number of Members of Congress who have had to come to grips with the fact that the TARP plan was an ill-advised, hurried attempt to stymie fundamental underlying problems in our housing and credit markets. And now we are talking about extending this same legislation to the automotive companies? This would ignore the original intent of the law, which was to clear out the credit markets so banks would lend money to one another and to businesses, thereby spurring economic activity. Additionally, this would distract from what I believe to be the root cause of our economic problem: the collapse of our housing market.

So much of what is now happening with regard to the credit crisis, the housing slump, and the bankruptcy and dissolving of major financial institutions can be linked to the mismanagement of Fannie Mae and Freddie Mac, which was made possible by weak oversight and very little accountability. If anything, this Committee should now be spending its precious time asking regulators: What is going to happen with those GSEs in a post-Government-conservatorship world? After the conservatorship, what next? As I have previously stated, we need to end the existing structure of an implied Government guarantee. We need to end the practice of private rewards at public risk.

Another topic that would be more pertinent for this Committee's attention right now, it seems to me, would be the results of this past weekend's G-20 summit. One bright note from those discussions was the recognition among the participants for the need for stronger regulation of derivatives, including credit default swaps. I have called for more transparency in this area of the credit markets—called for it for some months—which have grown exponentially from $1 trillion in 2000 to $55 trillion today in market exposure.

Finally, without fundamental changes in the automotive industry, we would just be throwing taxpayers' dollars at firms that will inevitably go under. For instance, the enormous costs in union-required benefits is unsustainable. Renegotiating these contracts would be essential if there were to be hope of keeping these companies afloat.

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much, Senator.

Senator Menendez.

STATEMENT OF SENATOR ROBERT MENENDEZ

Senator MENENDEZ. Well, thank you, Mr. Chairman.

First, let me say that if I was a Michigander or this industry, I would not have any greater advocates than Senator Levin and Senator Stabenow. They are both passionate and eloquent, and if I lived in Michigan, I would want them to be my Senators.

You know, Mr. Chairman, a former chairman of General Motors once quipped very famously that what is good for General Motors is good for America. And we would like to believe that is still true today, but many of us believe, unfortunately, that General Motors has lost sight of what is good for General Motors or for America.

I read through the testimony of our witnesses, and what we will not hear is that any of the industry's problems are at the hands of any of the witnesses who will come before us. They will tell us that it is totally some other set of circumstances that they are affected by, very similar to what mortgage lenders and brokers did here a year ago in this very room. But I do hope that when you have an opportunity to answer questions, you will take some responsibility and work with us to find a constructive solution.

Our Nation is in the midst of an energy security crisis, and our planet is in the midst of a climate crisis. And the fact that these twin crises would have an enormous impact on your industry should not come as a surprise. For decades, leaders here on Capitol Hill have asked our domestic auto manufacturers to look beyond the next quarter and take into account the looming threats of energy and climate security. But all we have seen in response is a concerted effort to block progress. I think we are all, frankly, looking for some assurances that we will not continue to be here again year after year lamenting the fact that our domestic auto makers have chosen to lobby against changed regulation rather than to innovate and meet new circumstances. We have to make sure that we are making a wise investment with taxpayer money.

Quite simply, Mr. Chairman, I think there needs to be strings attached. We need to see some type of guarantee that fuel economy standards will continue to rise beyond the year 2020. We need to ensure that the California waiver can be granted without spending money by the industry in opposition to that effort. What we need is for the Big Three to become part of the solution for energy security and fighting global warming rather than being part of the problem.

That having been said, Mr. Chairman, I do worry—I do worry—about protecting the workers, not those in the executive offices but those on the manufacturing line, the suppliers, the dealers, the several million people whose fates are intricately—fellow Americans—who are intricately tied with this industry, and how we try to meet this challenge of giving the assistance necessary to keep the industry alive, but with the assurances that must come—not a blank check. It must come with some assurances along the way that hopefully can not only save the industry but move it into a new era for both America, for those workers, and for our future.

With that, Mr. Chairman, I ask that the rest of my statement be included in the record.

Chairman DODD. I will do that. And, by the way, all the full statements of our colleagues and the witnesses and any supporting material will be included in the record.

Chairman DODD. Senator Corker.

STATEMENT OF SENATOR BOB CORKER

Senator CORKER. Thank you, Mr. Chairman, and I thank our witnesses for being here today and certainly the Senator from Michigan.

In listening to the opening statements by many and just reading the tea leaves, my sense is that probably nothing is going to happen this week and that this is sort of the beginning of a loan application, if you will, or an application for equity injection. This is a beginning, and, in fact, probably in January you will be back.

I know most of us have read the data on the companies and realize, by the way, that these companies are not homogeneous. These are three very different companies that have very different criteria that they are dealing with. And I hope that today you will begin giving us a glimpse as to what each of the companies individually are doing. I realize that Ford may be in better shape to do some things they have done a few years ago. But I hope you will begin doing that.

I would ask the witnesses, since in essence you are asking the American public for a loan or equity or whatever it might end up being, I would ask you to be realistic with us. I know that there has been continual talk about how Chapter 11 just does not work. We realize there are lots of legacy issues that handicap these companies, and we understand that.

I would like for each of you during your testimony to walk us through why that does not work and why you would not be asking for money from the Federal Government for a prepackaged reorganization. I actually wonder, somewhat facetiously, if in your boardrooms you are not hoping that we will turn down this so that you have that as an option that you might emerge more strongly and focus on those things that you do well.

So I hope you will talk about all those things. I realize that in all likelihood this is the beginning. I think each of you know that I am fairly skeptical in looking at this, but I do thank you for being here, and I actually hope—I feel for you in the fact that hopefully you are carrying the burden of responsibility of all the employees and the many distributors across the country that are involved in marketing your products.

Thank you for being here.

Chairman DODD. Thank you very much, Senator.

Senator Brown.

STATEMENT OF SENATOR SHERROD BROWN

Senator BROWN. Thank you, Mr. Chairman, and thanks to Senator Stabenow and Senator and Congressman Levin both for your advocacy every day here.

The American auto industry needs our help and needs it now. The surest way to turn today's recession into a depression would be to let this industry founder. Like the banking industry, the auto companies have made some poor decisions, but they have had plenty of help.

In 2005, for example, the House and Senate decided against raising fuel efficiency standards. Most of the Members of this Committee took the position that CAFE standards were fine as they stood. I wish the Federal Government had acted sooner on CAFE, but we didn't and so we are on shaky ground if we now shake a finger at Detroit for being ill-prepared for $4 gasoline.

I wish the government in Washington had acted a lot sooner to address the housing crisis, too. It was only a little over a year ago that the Bush administration began to realize we had a serious problem on our hands. But before that, through all of 2007, the administration and boosters in the housing industry told us the problem was largely contained. It was contained in their view to the subprime mortgage market and to States like Ohio, Michigan, and Indiana. If you set aside those three States, according to one economist, the market was doing just fine.

We have seen the success of that approach. Before long, every State in the Nation felt the impact and every sector of the economy was dragged down by the troubles in housing. It spread from Main Street to Wall Street.

But that mistaken approach is exactly what some of my colleagues are suggesting we take in response to the crisis in the American automotive industry. Sure, the biggest and the most immediate impact will be in places like Ohio, places like Senator Stabenow's Michigan, places like Senator Bayh's Indiana. But auto suppliers and dealers and related industry, from Chuck Eddy in Austintown, Ohio, to suppliers in every corner of our Nation, will soon feel the impact. The industry is woven into the fabric of our economy every bit as much as Lehman Brothers and AIG or the three banks that testified before us in this Committee last week.

Each one of these three banks that testified last week received $25 billion under the Emergency Economic Stabilization Act. If it makes sense to give one bank $25 billion, we can certainly invest the same amount to save the entire domestic automobile industry.

As we heard last week, the banks may or may not lend the money anytime soon. They may or may not use it to buy other banks. They may or may not use it for executive bonuses or dividends. I don't know what those companies are going to do with the funds they receive from taxpayers and we don't know what impact it will have, but I do know what the American auto industry will do with the loans it seeks.

It will build cars using parts from every State in the Nation. It will provide good jobs to hundreds of thousands of middle-class families in places like Lordstown and Toledo and Sharonville. And it will support a decent retirement for a million senior citizens in every corner of this Nation.

Nobody wants to write this industry or any industry a blank check, and if Detroit were indifferent to the challenges it faced, then I don't think it would have a very good case to make. But if you need evidence that Detroit gets it, look at last year's labor agreement. Labor and management made unprecedented changes to bring their costs in line with the competition. They didn't anticipate the current economic environment any more than did Secretary Paulson or Alan Greenspan.

But if failing to see the future foreclosed access to Federal help, the line of applicants would be very, very short. If that were our standard, the government wouldn't aid the victims of flood or fires. But we don't turn a blind eye to people who live near the Gulf Coast or in the California hills. We help them.

Economically and politically, we are the United States, not some confederation of islands, and we must be united in rebuilding a strong and vibrant manufacturing sector, a sector that has withered over the past decade as we tried to build one Potemkin village after another. Our economy can't make it on mouse clicks alone and we cannot live by just lending to one another. We need to build real things, and that is what Detroit does. Helping bankers is fine, but we have it exactly backwards if we help those who don't need it and we ignore those who do.

Thank you, Mr. Chairman.

Chairman DODD. Thank you, Senator Brown.

Senator Allard.

STATEMENT OF SENATOR WAYNE ALLARD

Senator ALLARD. Mr. Chairman, thank you for holding this hearing. I am just sitting here and thinking, as a businessman, somebody has handed me the payroll. I have had to compete against my own tax dollars. And I sit here thinking, we don't have the entire automobile industry here before us. I mean, we have a section of the automobile industry and workers who are able to survive, at least show a better balance than what we are seeing here before us.

I think I know how they must feel if they have to compete against their own taxpayer dollars if we give them a subsidy, and my question is, are we really serving the consumers of this country a real service if we take one sector and give them a subsidy and another sector of the automobile industry and don't give them a subsidy and we put those workers, we put those companies at risk because they have to compete against companies that are subsidized by the tax dollar.

So I am glad we are holding the hearing and hope that we will have a genuinely open and deliberative legislative process on this matter. To do otherwise often produces some of Congress's worst legislation and generally fails to address the root causes.

Based on the testimony submitted by the witnesses, it is unclear that we have even identified the single root cause. Thus, I am unsure how we can be confident that the proposed solution will have any effect. While we will hear about the dire consequences should the domestic auto industry fail, it should be even worse if the industry fails and our Nation faces those consequences after pouring tens of billions of dollars of taxpayer money into the industry.

So I thank the witnesses for being here today and look forward to their testimony and thank you, Mr. Chairman and Ranking Member Shelby, for holding this hearing.

Chairman DODD. Thank you very much, Senator.

Senator Bob Casey.

STATEMENT OF SENATOR ROBERT P. CASEY

Senator CASEY. Mr. Chairman, thank you very much for calling this hearing, especially at this time in our history when we are facing so many economic challenges. We want to thank Senator Stabenow for being with us today and for listening to our statements before she gives her testimony, Senator Levin and Congressman Levin, and the witnesses.

One of the questions I think we have to ask today, in addition to the important questions we will pose to the witnesses, one or two questions, at least, threshold questions. One is, what are the consequences of doing nothing today, or this week, I should say, as opposed to doing something down the road? That is a question we have to ponder. And what are the consequences of doing nothing at all? If the Congress takes a position that these companies must survive or not on their own, what are the consequences of that?

We have seen the evidence in the public record already, and these are not exaggerated numbers. We know that potentially millions of jobs are at risk across America. I know in Pennsylvania, for example, even though the job loss number might be in the thousands, maybe not like in some other States where it would be tens of thousands or more, even in Pennsylvania, we can't afford to lose thousands of jobs. When you look at September 2007 versus September 2008 in our State, the unemployment number is up above 90,000 jobs. We cannot afford thousands of jobs lost in Pennsylvania.

I have to think of the history of my own State. The steel industry faced an enormous challenge a generation ago and the government did not help. It did not help in a substantial way. It helped in some ways, but not in the way that we are contemplating today. And I wonder, and I leave it to the economic historians, what if the Federal Government acted in a prudent way at that time, improving technology, improving the operations of those companies? Maybe Western Pennsylvania would not have had their job numbers cut in half—in half—in one region of one State. I wonder about that, and I don't think we should make the same mistake again when it comes to our auto industry.

We know that some economists believe that what is now, in my judgment, definitively a recession could become a depression. Some would dispute that, but I think that the evidence is pretty clear it could head in that direction if these companies fail in the next couple of months. Even our national security could be at risk in some way or another because of the part suppliers that supply both automobiles and weapons and defense materiel.

So I think the country now is at a crossroads and I think we have to take a couple of steps. First of all, I believe that now is the time to finally transform our economy into a greener one that is more energy efficient. Now is also the time to invest in the American worker and in our children so we can continue to have the most productive workforce in the world. And third, now is the time to modernize our financial regulations so the Nation of spenders can become a Nation of savers.

Manufacturers and those who are representing manufacturers here today know this, and I think it is important in your testimony you demonstrate that you understand and know this and put evidence on the table that you understand this. You have to change. Some have. Some have changed more than others. But you have to change and you have to become focused enough on change that you are helping our economy, the United States economy, transform itself to a green economy. That means efficiency. That means improvements in technology.

You have to demonstrate that to us if the Congress and the American people are going to give you the support you are asking for. You have to improve your operations and you have to demonstrate that. I would argue you should have to demonstrate it every single month before money goes out the door from the Federal Government.

I think that workers have led the way on this in terms of understanding what is at stake for the industry. Workers have made tremendous concessions, coming together with management to do that.

But I really believe that one way to hold these companies accountable, one way to have taxpayers have a sense that their money is being spent prudently and judiciously is to have monthly reporting so that the release of any taxpayer dollars would be accompanied by not just a broad justification, and the bill that we have before us has some planning features, but I think the following should be part of what we need.

First of all, information to the relevant committees in Congress for, number one, cash and other sources of funding for current operations.

Number two, expected monthly expenditures by category.

Number three, plans to reduce cash needs and improve revenues in the immediate future.

And Number four, in subsequent months, a report on the progress made toward meeting previously established cost and revenue goals.

That kind of accountability would go a long way to ensuring the American people that the money that they are spending, $25 billion, if that is the number that is arrived at to help these companies by way of a bridge loan, to get from here to there would be spent in an appropriate way.

I have to say that even though $25 billion is a lot of money, it still only represents 4 percent of the $700 billion that this Congress approved to help the financial institutions, and when this government can come up with $150 billion for AIG, not to mention the other help that it has provided, I think we can help the backbone of our manufacturing economy represented by these companies. But the companies have to demonstrate here today and on an ongoing basis that they get it, that they understand the stakes for our economy, but they also understand the sacrifice of taxpayers. Thank you.

Chairman DODD. Thank you, Senator, very much.

Senator Bennett.

STATEMENT OF SENATOR ROBERT F. BENNETT

Senator BENNETT. Thank you, Mr. Chairman. As I have listened to the executives of the companies that have come to see me, and I assume they have come to see a number of the other Members of the Committee, I am fully satisfied that they are very much aware of all that they have to do in order to survive and I won't give them a lecture on that score. I think they understand it better than I do.

The primary problem as I see it is overcapacity in the industry. They have the ability to produce, what, 17 million cars a year and they are only selling ten. They have to do something to reduce their capacity, and they are doing that as rapidly as they can. But in the process, they are burning through cash in a way that imperils their survival.

So I am in favor of trying to find a way to provide them with the cash that will allow them to continue. I agree absolutely that we need some kind of accountability to make sure they continue, that they don't take the cash to say, oh, well, we can stop our attempts to reduce capacity. I am not quite sure about bankruptcy as the way to accomplish this. I am unburdened with a legal education, as you know, so I don't understand all of the implications of that.

But I believe we have to do something to see to it that they survive while they are on this terribly difficult challenge of turning a multi-billion-dollar industry into a smaller multi-billion-dollar industry in a very short period of time. Everybody is going to get hurt in the process. Executives are going to lose their jobs. Middle management is going to lose their jobs. And hourly workers are going to have to have their contracts renegotiated downward and some of them are going to lose their jobs.

And any thought that we in the Congress can prevent that from happening is wishful thinking. All we can do is provide as soft a landing as possible, and I hope we can find a way to craft the details of that landing in the timeframe that we have. I fear that we may not, but I hope that we understand the importance of what it is we are trying to do.

Chairman DODD. Thank you, Senator, very much.

Senator Tester.

STATEMENT OF SENATOR JON TESTER

Senator TESTER. Thank you, Mr. Chairman, Ranking Member Shelby, and thank you for the folks who are about to testify. Over the next many months, we will be dealing with a lot of economic problems that this country has and I don't think there is anybody that has a silver bullet on how to get us out of this situation other than the fact that we need to invest in infrastructure, roads and highways and water and sewer systems and education and health care and energy.

About 7 weeks ago, Secretary Paulson came in and handed us a bill and said, if you don't pass this in 3 days, we are going to have an economic meltdown. I don't like to be behind the gun and I expressed that to him at that point in time.

At this point in time, we have the auto industry in here, and I might add while I am saying this, I get contacts from a lot of folks. The timber industry is upside down right now. A mining company just called me from Montana. They are laying off 21 percent of their employees in that company in Montana because of the economic turndown. Everybody is in trouble.

But we have the auto industry here today, and I talked to one of your agents on the ground who sells cars and said that I didn't know if this was going to pass at this point in time. He said, I don't know if they are going to make it until January. So once again, we are up against the gun.

And as I said before, I think everybody wants to try to find the magic key that pulls us out of this, but we have to look at some of the past performance. And I will tell you that one of my vices in this world is that I like iron. I like iron a lot. In fact, 5 days ago, I bought one of your pieces of iron. I traded off my 2004 pickup, and to be honest with you, I had a hard time finding a pickup that had a number one leading off the VIN number, an outfit that was built in the United States. There were a lot built in Canada, a lot built in Mexico, but very few could I find that were built here. That distresses me, because we need to encourage our manufacturing base.

But what even more distresses me, and I heard folks talk about aware of what we need to do, the outfit I traded out was a 2004 for a new one. I took a loss and mileage of three to four miles a gallon by making that trade. That is ridiculous. And we ask ourselves, why, why, why is the industry going down? Folks, you need to look at yourselves and make those business decisions.

Now we are here with a $25 billion bailout, and compared to $700 billion, it is somewhat of a pittance, but $25 billion, to put it in perspective, is about 8 years of Montana's budget. So it is a fair amount of dough. And we need to know, if we are coming in to bail you out, are things going to change? Are we going to get decent mileage out of these vehicles?

You have a dependable vehicle. I am not one of those that will say that any one of you make a vehicle that is not dependable. You do. But is your business plan for the future going to offer something that the American people can afford to buy and that will have limited operation and maintenance budgets applied to it?

The other thing I would have to ask is, where is the money going to be spent? Who is it going to be spent on? And what country is it going to be spent in? Those are all critically important. If we are using taxpayer dollars, from my perspective, it ought to be spent here. If Canada wants a dollar spent up there, go see the Canadian taxpayers. But if we are putting American taxpayer money on the line, it ought to be spent here.

I look forward to your testimony. I look forward to hearing what you have to say as far as the future goes. I can tell you that I think the auto industry is critically important to this Nation's economy for all the reasons that have been listed above before me here today. But the truth is that no matter how much money we put forth, if the business model isn't changed, you are going to fail. And so tell us how you are going to change the business model.

Thank you very much.

Chairman DODD. Very good, Senator.

Senator Martinez.

STATEMENT OF SENATOR MEL MARTINEZ

Senator MARTINEZ. Chairman, thank you very much, and I will be very brief because I believe I am all that stands between the panel and the——

Chairman DODD. No, no, there are a couple more.

Senator MARTINEZ. Oh, is that right? OK. I will still be brief.

I have heard, Mr. Chairman, a lot of consensus around the table. We have talked an awful lot about the understanding that is, I think, acknowledged by us all that the business model of these companies is a failed model and that currently they are not on a sustainable path and that the cash-flow situation is such that even with $25 billion, it may be February before there is a cataclysmic failure again.

So at the end of the day, I would love to see us, and I agree with my colleague, Senator Corker, that it looks to me like we are poised to stand clear on our positions but get nothing done, and the American people are tired of this. They want to see the Congress get things done, things that are important. No one wants to see the American automobile industry fail. But equally, no one wants to see the taxpayer dollars put at risk in an investment that is at best risky and perhaps destined to fail.

So what assurances will you give us that you are putting forth a business model that can be sustained and that, in fact, $25 billion is going to make a difference, that it is going to be a difference maker? I personally believe that the TARP money is meant for the financial institutions. That was the problem we were addressing it to. And the incoming administration, there will be not more opportunities to talk about what the Bush administration did or didn't do. There will be a new administration and it will be their responsibility to try to keep the financial institutions afloat. That money is going to be needed for that.

We already have given $25 billion to the auto industry in the Section 136 program under the energy bill that we did. Why not take that money and utilize it for this purpose? It is as if the remodeling of the home for decorative purposes can wait while the structural problems with the roof are taken care of.

This is an emergency we are looking at today, it seems to me. There are ways in which we can help these companies to be on a sustainable model if you can give us those assurances, and there is a way to get some help. I am not against helping the industry stay afloat. I am not against seeing these workers continue to be employed. We are at a very perilous economic time. The last thing we need is additional unemployment. But I am also realistic enough to know that the TARP money is going to be needed for financial institutions and that we do have a vehicle available through the Section 136 where there could be broad consensus.

So do we want to get to a solution? Do we want to insist that these companies give us some assurance that they will be able to make something happen with $25 billion that will be sustainable? Or is this a downpayment on even yet more money down the road? And why not utilize what is already available, what already was passed by the Congress, where there can be great bipartisan consensus to get something done, not just to posture.

Thank you, Mr. Chairman.

Chairman DODD. Thank you very much.

Senator Bayh.

STATEMENT OF SENATOR EVAN BAYH

Senator BAYH. Thank you for your leadership, Mr. Chairman.

Senator Stabenow, it is good working with you again. That is what friends and neighbors are for. But, of course, where I am from, we kind of consider Michigan to be part of Greater Indiana, so however we define it, it is good to be working with you.

And to our witnesses, it is good to see you here today. At least one of the witnesses, Mr. Chairman, was born in the State of Indiana. Ron, it is good to see you again.

These are historic times. We face what the Chairman of the Federal Reserve has described as the greatest financial panic since the 1930s. That has contributed at least in part to the greatest real downturn in the economy since at least the early 1980s, possibly before then, and this is really the first significant economic downturn since the advent of globalization, which means rather than having some parts of the world growing more rapidly to serve as a countervailing force to weakness here, instead, weakness in one part of the world begets further weakness and it runs the risks of an accelerating downside to economic growth around the world.

So these are unprecedented times. This has led our government to take a variety of unprecedented steps, none of which will be found in your Economics 101 textbook. We have intervened in the banking sector, taking significant equity stakes in the largest banks of our country. We have intervened in the insurance sector, virtually taking over one of the largest insurance companies, not only here but anywhere in the world. We have essentially taken over Fannie Mae and Freddie Mac, the GSEs. We have moved to stabilize the money market system. We are looking at the credit card situation and student loans. We are even now debating whether entire States and municipalities may need financial assistance from our government to weather these unprecedented and unpredicted times.

All of this has led to a great deal of instability, fragility, and an unpredicted situation, and so my own view, Mr. Chairman, is that there is so much that we don't know, but this is not the time to add greater instability to this situation, more unknown to this situation.

I am reminded of decisions that were made earlier in the year when the decision was made to rescue Bear Stearns because the thought was that the systemic risk was too great. Subsequent to that, the decision was made to not intervene on behalf of Lehman Brothers because the systemic risk was perhaps—was at that time thought to be not so great. Well, with the benefit of hindsight, I think if we had to do it over again, perhaps that situation would be addressed a little bit differently and the taxpayers, the overall economy, and the financial system would have been better served.

My point simply is, if we allow tens of thousands of ordinary people to lose their jobs, thousands of small businesses, suppliers, dealerships, and others to be imperiled, three of the largest corporations in the company to run the risk of going down, it will have unintended consequences, none of them positive and some of them quite possibly severe. This is probably not the right moment in our economic situation to allow such a state of affairs to take place.

Now, having said that, as my colleagues have outlined, that doesn't mean we should just do anything. I am delighted, Mr. Chairman, that we have the major stakeholders here. All of you need to step up and make contributions to setting this right. Otherwise, we are not going to be able to get the job done and the help might not be forthcoming.

Fortunately, and the final thing I will say is that we do have a model to build off of, and one of my colleagues had mentioned this previously, and that was in 1979 with the Chrysler Corporation. In that particular case, all the stakeholders did step up. The right decisions were made. And the net result was that the taxpayers, or the jobs were saved. The company was saved. The taxpayers were repaid ahead of time, and I think, Tom, you mentioned that taxpayers actually generated a profit. That is not why we are in the business, but it does go to show that if we do this correctly, Senator Stabenow, it can be a win-win-win situation.

Mr. Chairman, I am grateful for your leadership in helping to bring that outcome about.

Chairman DODD. Thank you, Senator Bayh, very much.

Our last colleague, Senator Crapo.

STATEMENT OF SENATOR MIKE CRAPO

Senator CRAPO. Thank you very much, Mr. Chairman, and I will be brief since I am the last thing standing between us and hearing from our witnesses.

I just want to reiterate a couple of points that have already been made. The first is, I am very concerned about process. While we are holding this hearing, and I appreciate very much the fact that we are holding the hearing, the reality is that the legislation that we are going to vote on has been drafted already and is on the floor of the Senate. Now, as one of my colleagues has already mentioned, it may be that this is just the first step and that tomorrow's votes are simply one of the steps in the process before we really get to the legislation that will be more seriously considered by the Senate.

But my hope is that in some way, we can utilize this hearing as a part of the real process where we develop legislation in this Committee as we are supposed to do and have the process work the way it was intended to work. I am very concerned about the fact that not only with this legislation, but increasingly, we tend to see the process, the committee process and the legislative process which works so well here in the Senate bypassed and I am very concerned about that.

Also, with regard to the substance that we are going to hear today from the witnesses and with regard to the substance of many of the comments of my colleagues here on the committee, it is very clear to me that we have very different points of view being expressed about what the problem is, why we have the problem, and what the solutions should be. Some are saying we just need this bridge loan and we can get past everything and we can't allow this problem to get worse and this loan is going to solve the problem.

Others say that we need to restructure this industry and the restructuring needs to take place, so it is not a question of if, it is a question of when we get into a reorganization and some type of a bankruptcy proceeding. Others say, well, you know, we don't know exactly what is going to happen, but we are pretty sure that even if Congress passes this legislation, we are going to be right back here in February looking at another tranche.

I would like to see some answers to some of these questions, and one of the things that the witnesses who are here today can help with significantly, I think, is to evaluate that question. Are we headed inevitably to a restructuring or a reorganization in the context of some type of a Chapter 11 proceeding, and if so, is there a reason why that should not happen now as opposed to in February or in June or at some other date, after we have burned through another $25 billion or who knows how many more dollars? What is the real analysis that has gone on in the boardrooms with regard to what the options are and what the best thing for these companies can be?

I think about other companies that did not get these kinds of bridge loans from the taxpayers necessarily but who have gone through the difficult process of reorganization, such as Delta Airlines, which has had to go through a similar type of restructuring and a reorganization, and we now see some significant progress there.

So I guess the thing that I would like to hear most from these witnesses and also from hopefully the future proceedings of this Committee is what exactly is the nature of this problem? What are we looking to in the future? And if we are looking at an inevitable reorganization and some type of a legal proceeding or, heaven forbid, some kind of a Congressionally designed proceeding—and I say that only because I think if Congress gets involved in doing the reorganization it will probably be worse for everybody—but if we are headed for that, why should we not deal with it now? Or what will the benefits of bridging to some future time be?

All of these questions, as well as the others that my colleagues here have raised, are the kinds of things that I believe this Committee should have the time to deal with before we are forced to vote on legislation that has been crafted and put on the Senate floor before we even have our first hearing.

Chairman DODD. I thank the Senator.

Let me just thank all of my colleagues for their comments. We will get to Senator Stabenow, our witness.

Obviously, we are operating here in the lame duck period, as they say, and I thought it would be worthwhile for my colleagues to have the opportunity to hear from the major stakeholders here. We are going to be gone in a matter of hours, probably, until mid-January. We could come back. We may come back. But it is always difficult to reconvene committees.

As my colleagues know, over the last 2 years my intention has always been, wherever possible, to have the Committee act, not only in hearings but also to move forward legislatively. Obviously, events can overtake us from time to time, and that has happened in the past. It happened in September. My intention certainly would be that we have a normal process where the Committee goes through it and does the kind of work that my colleagues have suggested. And that still may be the case, depending upon what happens over the coming couple of days. And so it is my intention to proceed along those grounds, as has been my manner of operating here over the last 2 years, and I intend to continue in that framework.

There are times when that is not possible, and all of us here know those moments do arrive from time to time. But we do not have the luxury of time to act. And I am encouraged as I hear this—and obviously there are some who, I think, would never be supportive of any particular effort. But I hear generally that my colleagues here would like to do something, recognizing this is not just any industry. It has critical implications for our country. And so a moment may well arrive here when we need to act. But I am encouraged as well by the comments I hear suggesting that we expect to hear more from the industry itself of what needs to be done in order to put us on the right track. And so today's hearing gives us an opportunity for the first time to do that, and I welcome your comments.

I hope it has been worthwhile for the witnesses. Normally we do not take a lot of time with people making opening statements, but I thought it was as important for the witnesses to hear from Members of this Committee as it is for us to hear from you what is going so you get a flavor of what is being said up here. Not always do you hear from everyone, but you have heard, I think, a good smattering. While we disagree on routes to take, there has been a lot of commonality about what needs to be done, at least from the industry perspective. So I hope that has been worthwhile.

With that, Senator Stabenow, we will hear your testimony and then get right to our other witnesses.

STATEMENT OF DEBBIE STABENOW A U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator STABENOW. Well, thank you, Mr. Chairman, particularly to you, thank you on behalf of Senator Levin and myself for working with us as we deal with what is a very serious crisis related to the global financial crisis that has occurred. And I want to thank all my colleagues for thoughtful comments and important questions that need to be answered. I know that those who will come after me will be able to answer those questions.

Let me just say I am not going to spend a lot of time on what is happening in terms of quality in the industry, nor am I going to spend time talking about decisions of the past. But I will tell you that I would put an American-made, a domestic-made car or truck up against any other vehicle being made on this planet. And the reality is that we have—the industry spent last year $12 billion on innovation to focus on fuel efficiency for the future.

My family owns automobiles made by all of these companies, but I would invite you to come out and see Motor Trend's Car of the Year, the 2008 CTS, which is sitting right outside this building. So I would be happy to have anyone take a look and compare what is being made by American people every single day with what is coming overseas.

We passed, as you all know, the increase in CAFE standards on fuel efficiency, and part of that was Section 136 that has been referred to here that relates to support for the industry to be able to get to the new vehicles. And I was very pleased that before we left in October that we funded that provision to be able to focus on the future for the industry and support those vehicles being made here, retooling plants so they will be made here in America. The Department of Energy has come forward with what I believe is a complicated set of rules that relates to a cumbersome process that we need to address to activate those.

But we thought we were on our way. We thought we were on our way. And then the global financial crisis hit, and we all know that it hit everyone, and everyone on this Committee has debated the ramifications of that. But the credit squeeze has made it impossible for auto makers to raise capital in order to invest in advanced technology or to even meet daily operational costs. Dealers and suppliers are not able to get credit. Motor vehicle financing companies and the plummeting consumer demand due to the unavailability of auto loans and the economic realities facing families have really created the perfect storm. And that is why we are here.

I would rather not be here. The people behind me would rather not be here. They want to be out making those new advanced fuel vehicles that we all want them to make and be focused on the future. We can debate previous decisions, but I think we would all agree that the global financial crisis was not caused by the American auto industry. And that is why we are here.

In October, we had the worst auto sales month in the entire industry that we have seen in 25 years. Across the industry, both American and foreign auto makers saw huge declines, Mr. Chairman. GM sales dropped 45 percent; Chrysler's, 35 percent; Ford, 30 percent; Toyota sales dropped 23 percent; Honda sales dropped 25 percent. We are in a severe global recession that has, in fact, caused a group of auto makers, including Toyota, to approach the British Government requesting $56 billion to help them get through the credit crisis that we have today.

The question I would ask, Mr. Chairman, I think it is important for us to decide, is: Does it matter if we have an American auto industry? If we can buy a car, does it matter where it is made? Do we care about 3 million people who have helped create the middle class of this country by making things for us in this country? Is it important to have cars in this country? Because we are at a point right now where that is a basic decision that I believe we have to answer.

The domestic auto industry represents 4 percent of our GDP, 10 percent of our U.S. industrial production value, and one out of ten jobs in America is auto related, with 5 million jobs across the country that you are going to see represented by the three CEOs and the UAW today.

They provide health care and pension benefits for over a million retirees and their families—people that have been able to share in the American dream and be a part of the middle class as a result of being a part of the auto industry and auto manufacturing.

Motor vehicle parts suppliers provide over 780,000 direct employment jobs, and they are leading the U.S. manufacturing employers, contributing 4.5 million private industry jobs, 5.5 percent of all manufacturing jobs. The numbers are huge. And the fact is that you have more computer chips in your automobile than you have in anything else you own. This is an industry that is connected with every other industry in the United States, and certainly with defense. The U.S. military relies on the Chrysler Company's B series engine, commonly found in a Dodge Ram, for both propulsion and electric generation of power. We need to keep that line open for the national security interests of our country.

ArvinMeritor, a major supplier to all three auto makers, has been a major supplier of axles for the U.S. Army for over 50 years. Goodyear, GM's second largest tire supplier, has supplied the military for over 100 years. We could go on and on and on.

The reality is the failure of the auto industry moves over into suppliers who do not get paid, who are not able to survive, and then it moves over into defense and aerospace and, I would argue, certainly in manufacturing and in technology, every industry in our country.

General James Cartwright, the U.S. Marine Corps Vice Chairman of the Joint Chiefs of Staff, has said that an auto maker failure “certainly has the potential to diminish our capability.” And so we are watching this situation very closely.

Other countries understand the importance of manufacturing. While we continue not to focus on partnering with our industries here at home, Germany has announced the great Battery Alliance, which is investing $650 million in advanced battery technology research. By 2010, South Korea will spend $700 million on advanced batteries and developing hybrids. China offers multi-billions of dollars in direct funding and incentives for R&D and so on. India has developed an Automotive Mission Plan. And that is just related to R&D.

But the reality is we have our companies competing against countries—countries who pay for research, countries who pay for health care, countries that fight for their industry on trade agreements. And I would just give one example. U.S. auto makers sold just 6,200 vehicles into South Korea last year while Korea exported to us nearly 750,000 vehicles. Yet, with the Korean Trade Agreement in front of us, nothing is done to fix that, Mr. Chairman.

I say that only to say if we want an automotive industry and American jobs in manufacturing, we need a 21st century manufacturing strategy that relates to all of these things, not just leaving our companies to compete with countries.

Despite the challenges of all of this, we have managed to see the American auto makers remain competitive until this point with the severe global downturn.

Now, Mr. Chairman, let me just say that I do not believe failure is an option, nor is bankruptcy. The Center for American Research found that if one or more of the top three automotive companies file for bankruptcy, we can expect 2.5 million lost jobs. That includes direct job losses and losses from other kinds of industries that I have talked about. Now, think of our economy right now. What happens if we add another 2.5 million jobs to that? And that does not count suppliers and services and dealers and all of the others that are affected. Also, bankruptcy would put a disastrous burden on the American taxpayer through the Pension Benefit Guaranty Corporation, which already has massive shortfalls, and current estimates are it will be tens of billions of dollars that we would be back here trying to figure out how to find to be able to deal with the pensions that we would assume. This is on top of the check that taxpayers would pick up for health care, unemployment benefits, additions for Medicare and Medicaid, and other social services estimated to total about $50 billion.

Governments, local governments facing crises, loss of tax base, as well, tax revenue, would be impacted. Bankruptcy would result in a reduction of personal income of $276 billion, which would lead to a total Government tax loss of $108 billion over 3 years, not to mention the increased borrowing costs for many States.

The reality is that at a time when we need people to have jobs and have money in their pockets so they can pay their mortgage and stay in their home and have a demand side of an economy, not just supply, this would be a disaster for us.

Now, Mr. Chairman, in closing, let me just say that opponents who say that we should restructure—maybe bankruptcy is all right because it would involve restructuring. Mr. Chairman, we have been restructuring in Michigan now for a decade, 400,000 jobs lost, most of those related to the auto industry. We do not need to be told that there needs to be restructuring or downsizing or closing of plants. I can take you on a tour of plants that have been closed in order to address excess capacity and downsizing.

Also, we do not have to say to the workers that they should restructure in terms of pay cuts and changes inflexibility and changes in benefits. The new contracts with the UAW cut wages for new workers by 50 percent. I do not know any other industry anywhere who has been willing to make changes on the order of a 50 percent cut in wages.

By the end of the current 2005 and 2007 contracts, the labor cost gap between domestic auto makers and foreign transplants will be largely eliminated. Some estimates indicate that GM's labor costs will be even lower than Toyota's costs. They have eliminated 50 percent of the company's liabilities for retiree health benefits, negotiating an unprecedented—an unprecedented—agreement to take over retiree health care by the UAW taking the costs off of the companies, the voluntary agreements.

So, Mr. Chairman, in conclusion, I would say I understand frustrations about where we are on a number of fronts, but the reality is this is an industry, long before we told them they need to restructure, that has been restructuring, has been downsizing, workers who have been doing their part. We need this industry as a basic part of the fabric of our economy. Somebody has to make something in America. Credit default swaps alone, moving paper, are not going to do it.

And so, Mr. Chairman, we need a 21st century manufacturing strategy. I am proud that there are those now looking and speaking with us about how to do that. But we need to make sure that we are not moving from foreign dependence on oil to foreign dependence on technology, to foreign dependence on manufacturing, to depending on others to make our tanks and our equipment and our planes and our automobiles. And that is what is at stake here today: whether or not we are going to make a commitment to the future of an industry that has been an integral part of creating a strong economy and a middle class of America over the years. And I hope you will join with us to support what is on the floor now and that you will join us in making a commitment to American manufacturing for the future.

Chairman DODD. Senator, thank you very, very much, and you are always welcome in this Committee, and we thank you for your patience as well.

Let me now invite, if I can, our witnesses, first of all, Mr. Ron Gettelfinger, President of the UAW. Prior to becoming the President of the UAW, Mr. Gettelfinger in 2002 served as the Vice President of the UAW. We welcome you to the Committee, Mr. President.

Our next witness is Alan Mulally, President and CEO of the Ford Motor Company, a member of the company's Board of Directors. Prior to joining Ford in 2006, Mr. Mulally was Executive Vice President of the Boeing Company and President and Chief Executive Officer of Boeing Commercial Airlines. And we thank you, Mr. Mulally, for joining us.

Our next witness is Robert Nardelli, Chairman and CEO of Chrysler LLC and a member of the Board of Managers. Mr. Nardelli spent nearly three decades at General Electric in a number of leadership positions. Mr. Nardelli served as Chairman, President, and CEO of The Home Depot prior to joining Chrysler last year.

Next we will hear from Mr. Richard Wagoner, Jr., who has been Chairman and CEO of General Motors Corporation since 2000. Mr. Wagoner also serves on GM's Board of Directors. Previously, he served as President, Chief Operations Officer, and Chief Financial Officer of GM.

And our final witness is Dr. Peter Morici. Dr. Morici is a professor at the University of Maryland's Robert H. Smith School of Business, a well-recognized expert on international economic policy, World Trade Organization, and international commercial agreements. Prior to joining the university, he served as the Director of the Office of Economics at the U.S. International Trade Commission.

You have all been very patient, but I hope what I said a moment ago was received in the spirit in which it was offered, that it may have been worthwhile for you to hear from our colleagues here, both Democrats and Republicans, coming across the spectrum ideologically as well as geographically. I think that can be worthwhile at a moment like this to give you a flavor of how they feel and the reflection of how their constituents feel about these issues. So, again, we are very grateful to you for being here this afternoon.

I am going to take all of your statements and any supporting documentation you think would be worthwhile for this Committee to have. But it has been suggested by Senator Corker—and I think it has some value here. Normally, we put clocks on. You have heard a lot of the questions, and I have read all your testimony. But I would like you, if you could, maybe on a more informal basis here—your testimony is going to be part of the record, and if you want to just read the testimony, you can do that. But you heard some of these very direct questions about what needs to be done, and I would like you to take a little bit of time and respond to those, if you will, in your testimony, and then we will get right to the questions.

So I am not going to put the clock on you as we normally do for 5 minutes here. We will give you a bit more freedom in terms of expressing your thoughts on these matters—not unlimited time, I would say as well, but a chance to have a far more responsive, I think, conversation. We know you prepared the testimony in advance, but you did not have the benefit of hearing my colleagues in advance. And I think in light of that, it might be worthwhile for you to respond. Several of our colleagues here on the Republican side of the dais up here have strong reservations about doing anything at all. Others I think are willing to consider some ideas. But they want to know what needs to be done to retool. Some want to know whether or not you are willing to acknowledge any mistakes by the industry at all in the last number of years that brought us to this point. And I agree with those who said the testimony did not really reflect that at all.

So you have heard some of these points that I did not find necessarily in your testimony, but we would like you to comment on them if you would, anyway.

With that, let me begin with you, President Gettelfinger, and we thank you for coming before the Committee. You have to pull that microphone right up to you as well.

STATEMENT OF RON GETTELFINGER, PRESIDENT, INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE, AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA

Mr. GETTELFINGER. Thank you, Mr. Chairman. Thank you for the opportunity to testify today on the state of the domestic auto industry.

First of all, I just want to say that UAW strongly supports the legislation to amend EESA to 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.

I believe and the UAW believes—and we have brought in outside experts—Stephen Girsky, who was a top auto analyst for 17 years in a row, knows the industry extremely well—brought him in to assist our union to analyze the situation. Without question in our mind, it is dire, it is critical, it is a crisis.

As has been mentioned, as we all know, the sales plummeted to the lowest level in 25 years, 10.8 million for the month of October.

I am going to step away from my prepared remarks here and try to address some of the things that I have heard. But I do want to mention this: In regards to the retirees from the Detroit-based companies, their spouses, and their dependents—and we are talking about a million people here—they 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 of these who are younger than 65 and are not yet eligible for Medicare. So if the auto makers' pension plans are terminated, the PBGC, as Senator Stabenow pointed out, 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. And there is no question—it has already been stated about the impact on the economy as a whole.

But I do want to address point blank—and I think the American people and the Senate of the United States as well as the entire Congress has a right to know—what the UAW has done. And I am not going to go back beyond 2005. But a mid-contract year for us as a union, a commitment, a vow made to retirees that they would not have to contribute to their health care. But in mid-contract, our union negotiated a Voluntary Employee Beneficiary Association with these companies. That was a difficult decision for us. It was the hardest decision that I have ever made as a leader in our union. But we did that because, again, we brought in outside experts to help us analyze the situation and say as a union what should we do to help these companies be more competitive.

We asked our workers at that time—again, mid-contract—to give up a 3 percent wage increase. We put in current operating agreements to address the work rule issue that was brought up here, and Ford alone, a year from those current operating agreements, is a billion dollars in savings. But we have done business a lot differently. As a union and with the company, we have continued to build a strong relationship to be as competitive as we possibly can in this environment.

When we went into the 2007 negotiations, we had a lot of discussion about taking the entire VEBA off of that company's books. By so doing that, we have reduced, effective January the 1st of 2010, we have eliminated their OPAB obligation, or other post-employee benefit obligation, by 50 percent. That is major to them. For 4 years, workers at General Motors, Ford, and Chrysler have a negotiated agreement that they will not receive an annual improvement factor, a wage increase. We settled for bonuses. We diverted COLA to help pay for health care, both for retirees and for active workers. Again, both unprecedented in the terms of our agreements and what we as a union have been willing to do to help these companies.

Furthermore, I would just want to mention to you as well, we work hard on productivity every day, and the men and women of the UAW are proud to go to work and receive a fair day's wage in exchange for a fair day's work. And that is what they do. Safety records at our facilities, second to none. We work extremely hard because that is a major savings to the corporation if we reduce injuries in the workplace. And the quality, we are proud of the ratings that we got from J.D. Power, and we have made continued improvements in all of these areas.

I may have even gone a little bit over my 5 minutes here, but I am willing to come back in the questions and take more because, point blank, there are a lot of misconceptions about our union.

The last one I want to close on is about the articles that we read and hear about in regards to jobs banks. Since September of 2005 through September of 2008, we have lost 47,000 workers at General Motors. By the same token, during that period of time and with that loss, we have all but virtually eliminated our jobs banks at all three companies. We recognize that in order for these companies to be competitive, we had to make the tough calls. We had to take the political heat for these kinds of decisions, and we did it. And we are proud as a union—workers, men and women, and I as a union representative, as well as all of our board—to work with these companies to make sure that the consumers get the absolute best quality product that we can give them.

Thank you very much.

Chairman DODD. Thank you very much, President Gettelfinger. We appreciate it very, very much.

I mispronounced your name earlier and I apologize.

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

Mr. MULALLY. Thank you. Thank you, Mr. Chairman, Senator Shelby, and Members of the Committee. I appreciate the opportunity to be here today 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 that 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 I believe has a very bright future.

There are two fundamental questions that I think we are dealing with 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 is yes.

As a relative newcomer to this industry, I have the benefit of seeing the auto industry and its transformation in a much different light. I see parallels to what I 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 of Ford is even more aggressive, and the progress we are making is even more remarkable.

Our plan for the past 2 years has been consistent: Aggressively restructure to operate profitably at the current lower demand and the changing model mix. Accelerate the development of safe, fuel-efficient, high-quality new products that our customers want and truly value. 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 everyone involved.

Few companies have restructured more aggressively. We have taken out that excess capacity that we talked about earlier, closing 17 plants and reducing our workforce by 51,000 employees. We negotiated a new contract with the UAW to improve our competitiveness, many of the features of which Ron delineated earlier. We shifted to a balanced product line-up offering high-quality, proven-safe, and good-value cars, utilities, and trucks, small, medium, and large. 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 the actions in just 1 week alone. Tomorrow, at the Los Angeles Auto Show, we will introduce two new all new hybrids. Our new Ford Fusion hybrid beats the Toyota Camry hybrid by at least 6 miles per gallon. Today we are submitting our application for direct loans authorized by Congress last year to help us speed advanced technologies and vehicles to the market. On Friday, we end large SUV production at our Michigan truck plant, and we begin converting to fuel-efficient, small-car production at that plant.

To fund our new products and restructuring, we went to the capital markets early, and we divested all of our non-core assets. In addition, our Ford credit business has consolidated abroad to preserved capital in support of our U.S. customers and dealers.

We appreciate the recently introduced asset-backed commercial paper funding facility and anxiously await the administration's term securitization facility being considered.

In the same way, 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 and well on our way to sustainable profitability before the economic and the credit crisis hit. And we have taken now decisive action to deal with this new crisis. We have reduced production. We have further reduced employment. We have eliminated all raises and all bonuses through 2009. We took these measures while protecting the heart of our company, the new vehicles that will secure our future.

Now, we believe we must join our competitors today in asking for your support to gain access to an industry bridge loan that would help us navigate through this difficult economic crisis. We suggest that the loans be structured in a revolving format so that the exposure to the taxpayer would be limited—and, if used, we would repay, of course, with interest. We at Ford are hopeful that 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 devastating ripple effects across the entire U.S. economy.

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

Thank you very much.

Chairman DODD. Thank you very much, Mr. Mulally.

Let me turn to you, Mr. Nardelli. Thank you for being with us.

STATEMENT OF ROBERT NARDELLI, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, CHRYSLER LLC

Mr. NARDELLI. Thank you, Mr. Chairman, Mr. Shelby, and Members of the Committee. I really appreciate this opportunity to be here today and we are asking for assistance for one reason: To address the devastating automotive industry recession caused by our Nation's financial meltdown.

With the credit markets frozen, the average working American just can't get competitive financial to purchase or lease a vehicle. Our dealers don't have access to market competitive funding to place wholesale orders for new vehicles, which result in severe constriction of cash inflow to the auto manufacturers.

At the same time, Chrysler has billions of dollars in cash payment obligation to pay wages, pay suppliers, to pay health care, pensions, all in the range of about $4 to $5 billion a month. Therefore, without an 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 auto maker in bankruptcy to overhaul the economy, and the impact, as Senator Stabenow said, would be devastating.

Now, you asked the question on why bankruptcy is not a good idea. It is not a good option for Chrysler, and more importantly, for the auto industry or the broader economy for some following reasons.

One, we believe that retail sales will plummet dramatically. We saw this happen, sir, when all options were put on the table when our previous owners announced they were going to divest Chrysler. Sales fell 37 percent. Consumers were leery of buying vehicles from manufacturers whom they didn't think were going to be in existence. Our existing inventory, some over 400,000 units out in the field, would require heavy, heavy discounting to convince a customer to buy them.

Given our common supplier base, the bankruptcy of any one automotive manufacturer, we believe threatens the viability of all auto makers.

Our factories would likely be idle for a significant period of time while we negotiate contracts with literally thousands of suppliers and our primary lenders. This would put severe pressure in having to pay COD or cash up front and would turn the whole financial equation upside down, where we would have to pay for material prior to assembly, wait through the assembly process, collect our funds. So we think it would be a more costly solution than what we are asking for today.

The overall amount of costs of financing and restructuring, as I said, would be significantly higher in a Chapter 11 process than the working capital bridge that we are asking for and presenting to this committee.

And finally, we just can't be confident that we will be able to successfully emerge from bankruptcy.

That is why as an industry, collectively, we are requesting $25 billion of working capital to survive this liquidity crisis. We are willing to provide full financial transparency. We welcome the government as a stakeholder, including an equity holder, and we are fully prepared at Chrysler to comply with all the current conditions and policies under the recently enacted Emergency Economic Stabilization Act.

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

Being new myself to the auto industry, I recognize the need to challenge the *status quo* and seek significant improvements throughout the business. For example, you asked some questions.

Since August of 2007, when we emerged as the first privately held auto manufacturer in 50 years, we have reduced and taken out 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 along the way toward achieving that goal. This year alone, we have reduced our fixed costs by $2.2 billion. And unfortunately, by the end of the year, we will have furloughed over 32,000 employees. Twelve thousand of those employees are salaried employees.

Mr. Chairman, through the first half, we were meeting and exceeding all of our performance targets. We had generated over $1 billion in VEBA, and we closed the first half with over $11 billion in cash, both restricted and unrestricted.

So it is equally important that the lack of liquidity to provide loans and leases to customers and financing to dealers is addressed immediately. We talked about our financial companies. It is imperative that our affiliate financial companies receive access to competitive liquidity and financing capacity. At Chrysler, 75 percent of our dealers rely on Chrysler Finance to finance their business, and 50 percent of all customers finance their vehicles through purchases at Chrysler Finance. Now, 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.

With immediate financial assistance, the lifeblood of the U.S. economy will continue to flow and Chrysler will be able to continue to pay its current levels of obligation, $6 billion in annual wages, $2 billion in annual pensions, $20 billion in health care commitments, $35 billion annually to suppliers, and $3 billion annually in capital reinvestment back into our company for new energy efficient and environmentally friendly products.

Clearly, Chrysler's plan to emerge from the current downturn as a lean, agile company, and we are and will continue to be what I will call the quintessential American car company. Why is that, Mr. Chairman? Seventy-three percent of our sales are in the U.S. Sixty-one percent of our vehicles are produced in the U.S. Seventy-four percent of our employees work in the U.S. Seventy-eight percent of our material is purchased in the U.S. And 62 percent of our dealers are based in the U.S.

Now, Chrysler has a strong pipeline with product renaissance scheduled for 2010, and in September, we revealed three electric-driven vehicles, one for each brand, and they will be launched by 2010. I recognize that this is not an insignificant amount of money. However, I believe that this request is the least costly alternative considering the options that we have faced with less impact on human capital and one that would provide stimulus as opposed to further depression in the economy.

Thank you for your attention.

Chairman DODD. Thank you very much, Mr. Nardelli.

Mr. Wagoner, welcome to the Committee.

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

Mr. WAGONER. Thank you very much. I really appreciate the opportunity to appear in front of you, Mr. Chairman, and the Members of the Committee, as well, and appreciated your comments.

I would just like to comment briefly about the state of affairs as we see them for the domestic auto industry and General Motors. I would like to start by acknowledging for the Committee that I represent and am privileged to represent a number of important constituents today. We directly employ approximately 96,000 people in the United States. We have 6,500 dealers who employ another 340,000 people. We have more than 2,000 suppliers located in 46 States. We purchased $30 billion of goods and services from them last year. Our pension plan covers 475,000 retirees and spouses. Our health care benefits extend to about one million Americans. We have about 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. To the comments made by one of the Members of the Committee, I can assure you that I feel very personally responsible for every one of them.

As recent news coverage has made abundantly clear, many people have a picture of GM that has not kept pace with our efforts and with our progress. In fact, GM has made a lot of progress in transforming our business in recent years, progress which is absolutely necessary for our survival.

Since 2005, we have reduced our annual structural cost base or fixed cost base in North America by 23 percent, or $9 billion. We expect to reduce them by 35 percent, or $14 to $15 billion, by the year 2011. Within that, a little bit of a different number. Between the years 2003 and 2010, we will reduce our U.S. hourly labor costs, expense off our income statements, from $18 billion to $6 billion, and I think this does really indicate that President Gettelfinger has made some very tough calls and worked with us in order to make sure that we can have a competitive labor cost situation. We, as he mentioned, negotiated a landmark agreement last year which will enable us to virtually erase the competitiveness and cost gap. We have addressed pension and health care retiree costs in the U.S. We have spent over $103 billion on those expenses over the last 15 years. As a result of these and other actions, we are now matching or beating foreign competitors in terms of productivity, quality, and fuel economy, and by 2010, we will match them on labor costs, as well.

On the product side, we are building vehicles that consumers really want to buy. Senator Stabenow referred to her Cadillac CTS, the Motor Trend 2008 Car of the Year. The Chevy Malibu, the 2008 North American Car of the Year. And while we have been doing that, we have made huge progress developing advanced propulsion technologies, which I know you were so interested in.

In 2009, GM will offer 20 models in the U.S. that get at least 30 miles per gallon highway. That is twice our nearest competitor. We will have nine hybrids next year. We have more than three million flex-fuel vehicles on the road in the U.S. We have established the world's largest hydrogen fuel test fleet right here in the United States, and we are running all out with all of our capabilities to get the Chevy Volt extended range electric vehicle to market as soon as possible.

In short, we have addressed what we think were definitely competitive shortcomings and we have moved as aggressively as we could to position GM for long-term success and felt that we were, as my colleagues mentioned, well on our road to turning around the North American business. Just last October, following the negotiation of the new labor agreement that Mr. Gettelfinger mentioned with the UAW, our stock price climbed to almost $43 a share based on analysts' views that we had finally overcome the cost competitiveness gap with foreign manufacturers.

Since then, the industry and the economy, of course, has been hit hard by global financial markets and the crisis therein, and the recent plunge in vehicle sales threatens not only GM's ongoing turnaround, but, in fact, our real survival.

In response, we moved quickly to keep our company on track. Since June, we have taken steps to—further steps to further reduce our North American manufacturing capacity, further shift production to cars and cross-overs, sell off parts of the company, suspend dividend payments, reduce head count, eliminate raises, discretionary bonuses, and 401(k) matches for salaried employees, and eliminate health care coverage for salaried employees after they reach age 65. These and other actions are designed to improve GM's liquidity by $20 billion by the end of 2009, and they obviously affect every employee, retiree, dealer, supplier, and investor involved 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, is not our business plan, is not our employees and their willingness to work hard. It is not 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, which represents America's real economy, Main Street, needs a bridge to span the financial chasm that has opened before us. We will use this bridge, and we will use it effectively to pay for essential operations, new vehicles and power trains, parts from our suppliers, wages and benefits for our workers and suppliers, and taxes for State and local governments that help deliver essential services to millions of Americans. And in the process, we will continue to reinvent the automobile and to improve the Nation's energy security through development of advanced technologies like those in the Chevy Volt.

What would it mean if the domestic industry were allowed to fail? You heard Senator Stabenow, so I won't repeat other than to say the cost would be catastrophic in jobs lost, income lost, government tax revenue lost, and a huge blow to consumer and business confidence. I believe it is fair to say that such a level of economic devastation would far exceed the government support that our industry needs to weather this current crisis.

That is why this is all about a lot more than just Detroit. It is about saving the U.S. economy from a catastrophic collapse. 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. We want to continue to play the vital role we have played for America for the past 100 years, but right now, in today's circumstances, we can't do it alone.

You can help us through this crisis. In return, we will repay the taxpayers' faith and support many times over for many years to come.

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

Chairman DODD. Thank you very much, Mr. Wagoner. We appreciate it.

Mr. Morici, we welcome you to the Committee.

STATEMENT OF PETER MORICI, PROFESSOR, ROBERT H. SMITH SCHOOL OF BUSINESS, UNIVERSITY OF MARYLAND

Mr. MORICI. Thank you, Senator. My name is Peter Morici. I am an economist and professor at the University of Maryland. I am the sole panelist here to speak against the bailout. I guess three CEOs and a president of a labor union, one Terrapin, I think it is a pretty fair match-up, actually. I feel sort of like the mouse that stowed away on the Titanic.

The automobile industry has two major components, the Detroit Three and the Japanese, Asian, and European transplants that assemble vehicles here. Both contribute vitally to our national economy and ensuring that these companies have the means to compete is of the most important national interest.

The gradual erosion of the market shares of the Detroit Three over the last several decades stems from higher labor costs, having origins in wages, benefits, work rules, poor management decisions, and less than fully supportive government policies. Although the government has been sympathetic to the needs of this industry, the industry has fallen victim to currency manipulation and other forms of protectionism, predominately in Asia, in Japan, Korea, China, India, and elsewhere.

The Detroit Three are rapidly running out of cash and face filing for Chapter 11 reorganization. It is my position that it would be better to let them go through that process and reemerge with new labor agreements, reduced debt, strengthened management that would permit these companies to produce cars at costs comparable to those enjoyed by their Japanese and other foreign competitors assembling vehicles in the United States.

Circumstances today are dramatically different than in 1979, when Chrysler received assistance from the Federal Government. In those days, the challenge for Chrysler was to become competitive with Ford and General Motors, and Lee Iacocca had a clear plan to achieve that objective. Today, the Detroit Three have achieved remarkable progress in improving productivity and lowering labor costs thanks to a new agreement with the UAW, but they still don't have costs quite as low as the Japanese transplants.

This is an industry with very thin margins. I have heard over and over again, for example, when Ford decided to locate a small car factory in Mexico, that the UAW had tried to persuade Ford that it could be competitive enough in the United States. There is no such thing as competitive enough in the automobile industry. Either you hit the mark that Honda hits in Indiana or you are not competitive. The margins are too thin. There is too much excess capacity. Either the costs are the same or they are not. There is no such thing as almost as competitive.

By assisting the Detroit Three, Congress can delay one or all of them from going through Chapter 11 reorganization, but sooner or later, one of them will march down that path. Twenty-five billion dollars to tide over firms would create another AIG. I ask you to consider the promises that were made to you when that happened.

I realize that was really the Federal Reserve that did that. If things are so dire that they have to come here and submit to a government oversight board, government ownership, is $25 billion really enough in the grand scale of things? I would suggest that if you give them $25 billion this month, they will be back.

Without a new labor agreement that brings wages and benefits absolutely in line with those at the most competitive transplant factories, without reduced debt and other liabilities, the Detroit Three will continue to lag in innovation and build too few attractive vehicles because their higher costs, debt, and other liabilities require them to spend less on new product development than they should.

General Motors makes about the same number of cars globally as Toyota. It simply has a smaller product development budget because of the costs it bears. They have very fine engineers. They are capable of producing very good cars. The same applies at Ford. If you have less money to develop product, you put fewer products on the street. They have a longer life. For example, the Impala was a great car, but it was left sitting out there for 7 years. Camry recycles every four.

If Chapter 11 is put off, the industry will continue to shrink, and inevitably when it happens and we go through the process, fewer jobs will be saved because fewer jobs will be there to be saved. Sooner or later, this industry has to go through the ultimate reorganization that brings its cost structure absolutely in line with its competition. It may not be fair. It may not be what we would want to see. But it is inevitable.

In my mind, Chapter 11 is viable. The assets of these companies are needed by the domestic automobile market. They make over 40 percent, near 50 percent depending on which estimate you use, of the cars driven in America. They can't go out of business completely. The factories can't shut down completely and then there be adequate cars to be sold. Someone is going to run these factories.

They have creditors. To the creditors, the companies are worth more operating than they are shuttered because the assets of the companies will be worth more if the companies continue to operate than if they are permitted to fall merely into Chapter 7. That is where the debtor and possession financing lies, in the existing creditors. Not enough attention has been given to that option simply because, unfortunately, we have created in America what my profession calls moral hazard. Now that AIG has been able to put a pistol to the head of the country and say, "If you don't bail us out, the credit markets will collapse," we face the same kind of issue with the Detroit Three.

When Americans buy automobiles from the Detroit Three, more is contributed to the vitality of the U.S. economy than when Americans buy cars that were assembled here by transplants or when they buy imports. These vehicles have more U.S. content in terms of job, engineering, and profits and so forth, and the vitality of manufacturing to a strong American economy cannot be underestimated and it has too long been neglected by the people who live and work in this city.

The Congress could take steps to improve the attractiveness of making cars and parts in the United States by improving the public policy environment. This would include finally addressing directly and forthrightly undervalued currencies in Asia, currencies kept cheap by massive government intervention in foreign exchange markets.

In addition, assertive efforts could be made to address foreign protectionism. It is very difficult to sell a car in China that is not made there. It is very difficult to make a car there with imported parts from the United States. So General Motors is criticized for encouraging its parts manufacturers to move there. It, frankly, has no choice. It is high time that we take that trade policy imperative quite seriously.

Congress could provide substantial product development assistance to U.S.-based auto makers and suppliers. I would say include Toyota, Nissan, and Honda in that process in the interest of fairness and our WTO obligations, battery makers and suppliers, to accelerate the production of high-mileage cars. I would condition that assistance, though, on all the participants sharing what patents they develop with one another at fair patent fees, the Japanese model that was employed in the 1970s and 1980s.

In addition, we could have a clunker rebate program. Bring in a Tahoe, trade it in for a Volt and we will give you a big rebate. Bring in a small Chevette that is 30 years old, you get a small rebate. The newer the car, the more miles you save, but the only part of the deal has to be it has got to go through the crusher. It has got to go through. You can't recycle them and put them on the street.

There are things that we can do to provide incentives for Americans to drive fuel efficient cars that we have not done, and there are things that we could do to improve the environment in the United States. But I don't think that giving these guys $25 billion right now is a smart idea.

Thank you for your time.

Chairman DODD. I would call you the mouse that roared here.

[Laughter.]

Chairman DODD. You did pretty well, Mr. Morici, I will tell you. Thank you all very, very much——

Senator SHELBY. Mr. Chairman, maybe a lion.

Chairman DODD. Yes. Well, let me open up a question here and then we will move right along pretty quickly. But one of the things that struck me, and Mr. Wagoner, you began to address this in your comments and I appreciate them, but in most of the testimony I went through and read, we talk about the economic implications, and I want to read for you, because Hank Paulson the other day, in fact, he is quoted in, I think it is today's *Wall Street Journal* speaking why he is reluctant.

Let me first of all say, as someone who was directly involved in the writing of the Emergency Economic Stabilization Act, there is no question in my mind whatsoever that within that Act, within that authority we extended, the authority exists to respond to this issue. Now, it doesn't require it. It doesn't mandate it. But I think even the Treasury has acknowledged that if they wish to respond to this situation, they could do so, and so I want to at least as one of the coauthors of that bill state clearly that that authority exists.

Now, he has taken the position, however, though, that the purpose of this bill, and I quote him here, "I don't see the purpose," talking about the automobile situation, "of the bailout program, which is intended to stabilize jittery financial markets and get lending flowing more freely, which eventually should help revive the ailing economy."

The point I want to make here is that I don't think we have addressed as effectively as we could and as you could the financial implications, because that is the argument he is making. They are not financial implications to the conditions facing the automotive industry.

I wonder if each of you would begin, and Mr. Wagoner, why don't we begin with you, to talk about the financial implications. We know about job losses. We know about all of these other elements. But what are the financial implications if your company fails, your company goes into bankruptcy, putting aside the questions that Professor Morici has raised. And then, Mr. Nardelli, if you would go down the line, and then Mr. Mulally, if you would also comment on this, and Ron, if you would, too, what are the financial implications of a failure.

Mr. WAGONER. I think they are numerous. I would start by saying, obviously, we all have captive finance companies. In our case, it is 49 percent owned. I think it is fairly clear that difficulties in one or another of the manufacturers would significantly impact the finance company, which in every case are huge borrowers, and affect the financial system.

The inability of any one of us or all of us to meet our post-retiree obligations, pensions and health care, I think would have a significant effect on financial markets, and I suspect the inability to make supplier payments and what I believe would be a domino of bankruptcies through the supplier community, which as Al Mulally said, is very integrated for all of us, would have a huge impact on their ability to meet their financial obligations.

And finally, I suspect it would affect State and local governments and their ability, in fact, in some cases, to service their obligations in communities that are heavily vested in the auto business.

So I would—my own view is the potential impact on the financial markets would be severe.

Chairman DODD. And may I ask you, Mr. Nardelli, this is talking about systemic risk. We were told here that we had to provide $150 billion to AIG because of the systemic risk issues here. Tell me if you agree by what has been said by Mr. Wagoner, the additional points. Is there systemic risk? I realize there is financial risk, but is there systemic risk with the failures we have been talking about?

Mr. NARDELLI. Mr. Chairman, I believe there is. In our case, for example, if we were to go into bankruptcy or fail, we have over $7 to $8 billion of outstanding payables. Those suppliers, those contractors, those equipment manufacturers basically would be helpless in the recovery of those funds.

We have about 3,600 entrepreneurs, small business owners we call dealers. They have in excess of over $1 billion of inventory in their lots today. They would basically be totally exposed relative to the risk.

I think the systemic risk that we talk about here, of our top 100 suppliers, 96 of them are common to my colleagues on either side. And given the fragileness of that supplier base today, because we basically have taken—the industry has basically contracted equivalent to the U.S. production that both Alan and I ship in a full year. That is the magnitude of contraction we have seen in this industry. So I think the systemic risk would be dramatic across the entire economy.

Chairman DODD. I agree, and again, maybe I am not making myself clear. I am talking about bonds, credit default swaps, these other elements that are part of your business that really haven't been discussed here today. We have talked about exactly what you have just mentioned, but I want to get at this other set of issues that Hank Paulson is raising as an objection for them to deal with this under the existing emergency stabilization bill, and that is these other financial instruments which are deeply involved in your business. Are they at risk? That is the financial risk I am talking about.

Mr. NARDELLI. There is no question that the lenders, the financial institutions, would be at total risk relative to being able to recover their investments in this company.

I would disagree with the gentleman on the left from the standpoint that, again, if any one of us went into liquidation, I would submit to you that there is very minimal recovery, and if you look at the institutions today and how they have remarked their investments, the 20 to 30 cents on the bond, I believe there is absent—there is really no recovery and there would be tremendous impact on the financial institutions.

Chairman DODD. Mr. Mulally, do you want to——

Mr. MULALLY. Mr. Chairman, I think the only thing I would add is I think the most significant risk would be what would happen to the economic development, to the GDP growth, especially with the unemployment and with the debt, because clearly with the interdependence that we have with the supply chain and all of that, they are highly leveraged, also. I think the biggest single risk would be further slowdown in the economic development.

Chairman DODD. President Gettelfinger, do you want to comment on this?

Mr. GETTELFINGER. Well, the one thing I think that is important from our perspective, if one of the big three goes into so-called Chapter 11, the American public is not going to buy an automobile from a company that is in bankruptcy.

Chairman DODD. Let me ask you something. Someone asked me today if it was a prepackaged bankruptcy with Federal guarantees behind it. Is your answer still the same?

Mr. GETTELFINGER. My answer would still be the same. I do not believe it would happen successfully, and more importantly, the way that the supply base is interlaced with all of the big three and even some of the foreign brands, if one of these companies was to go into bankruptcy, I would almost bet it would take two of them or another one with it and possibly all three of them.

But I did want to go back again and point out the risk here to the PBGC with the pensions and then the 45 percent of the retirees who are not Medicare-eligible, so another major addition to our woes, if you will.

Chairman DODD. Yes. Let me ask you something one of my colleagues raised, and I will raise it and they may want to raise it, as well. Again, going back in the early 2003/2005, when interest rates were the lowest they had been in 45 or 50 years, there was a real pushing money out the door. That is when you get to the 17 million, I think, those numbers, which are high numbers, and obviously the oversupply.

The question was raised earlier, aside from talking about obviously the financial crisis we are in, looking back introspectively, what mistakes did the industry make that contributed in addition to this? Is it only the financial crisis, or were there other decisions that were made by the industry that could have helped avoid this or minimized the kind of problems we are looking at today?

Mr. MULALLY. I probably—Bob and I are relatively new and I would never feel qualified to comment too thoroughly on the past strategic decisions, but I think your issue about what the real run rate is, what the real demand is, is a very serious question. And I think in the conversations that we have all had, the direction we are going with the companies, we are assuming that—we should assume that there is a lower run rate. What is the real——

Chairman DODD. What do you think that might be? If it is not 17, what should it be?

Mr. MULALLY. Well, we clearly don't know, but separating out what has happened because of the current financial crisis and economic slowdown has kind of masked that right now. But we are going through vehicle by vehicle, each size, what is the real demand? But I think there is a real possibility that over the long term, it could be a lot less than that 17 million.

Chairman DODD. Yes.

Mr. MULALLY. And we are sizing our companies accordingly.

Chairman DODD. Mr. Nardelli.

Mr. NARDELLI. So, Mr. Chairman, let me answer two or three points, please. First of all, having been there a year-and-a-half, let me share with you what we did find and what we did do. We immediately eliminated four vehicle nameplates because what we found is they were designed for Europe and being sold in the U.S. We immediately put in the first ever Chief Customer Officer. We have identified over 400 line items to improve performance, reliability, durability, and finish. So yes, we have made some mistakes in Chrysler and what we are trying to do is move expeditiously to remedy those. Our warranty costs as a result of that in the last 15 months has gone down 29 percent by focusing on customer first and quality, period.

Your other point, and having spent a lot of time in the housing industry, I can share with you that there was this unbelievable bubble. As you know, people were extracting a tremendous amount of equity, trillions of dollars, and reinvesting and rolling up. The mistake the Chrysler probably made during that period is that we were responding to the customer who wanted bigger, more expensive, higher horsepower vehicles to go with their second homes, their boats, their trailers, and we chased that consumer demand up. Lesson learned for us, and we are moving as fast as we can to make sure our product portfolio is much more balanced, that we have smaller, more fuel efficient, more efficient cars to blend with those things that we are doing, both like Alan and Rick, in producing hybrids, producing electric vehicles, to make sure that we have the appropriate blend as we go forward.

Chairman DODD. Mr. Wagoner.

Mr. WAGONER. I just want—your comment about the 2003, 2004, 2005 period, I think it was a period that in retrospect was definitely fueled by low-cost credit, ready availability of credit to just about anybody who wanted it under, frankly, looser terms than probably would have been appropriate in retrospect. I think the wealth that was in the housing market, or perceived wealth, I think a lot of that was taken out by people with home equity loans and they would trade up and buy vehicles.

And then I would have to say, within the industry, we had a bit of a structural issue, which I know from GM's side we had a lot of employees. We had huge cash obligations. I mentioned we owed $103 billion, or we paid over a certain period that in health care. And so the pressure to keep revenues quite high, and I think the learning from that period is we really have had to significantly reduce our structural costs so we don't have to force, if you will, try to push a string when the market isn't really there.

And second of all, we are all going to have to adapt to a period of, I think, not only much more realistic credit terms, which means much less leasing, needing customers to offer some sort of downpayments, but we are also going to have to stick on this path that while energy prices have plummeted here recently, we don't for a second believe that that is a long-term situation. It is driven by the current credit crisis, and eventually with the growing demand for autos around the world, we have got to stick with the fuel economy.

So, I mean, it was a heady period to a certain extent, and for, like, 5 or 6 years, the industry ran over 17 million. I think, as Alan suggested, for me, a more likely trend volume, if we weren't in a massive credit crisis, and it is probably a million and a half, two million less anyway, rather than if we were normal conditions today we would probably be running more like, I would guess, 15-and-a-half or 16 million units than 17-and-a-half or 18 million units.

And it could actually be lower, and the other lesson we have learned is we are planning our business on a much lower volume than that, and if we have to stretch on the up-side, that is a more fun thing to do, anyway.

Chairman DODD. Let me respectfully suggest, as well, here, in addition to—we are talking about credit as if it were some sort of outside source. I mean, you were providing the sources of credit.

Mr. WAGONER. Right.

Chairman DODD. You were making these decisions involving——

Mr. WAGONER. Sure.

Chairman DODD. So some acknowledgement of the fact that while certainly that was going on in the housing sector, we all acknowledge that, we had 75 hearings on the housing. But in a sense, GMAC is providing that credit at those low rates and so forth at the time.

Mr. WAGONER. Yes. It was——

Chairman DODD. Was there any acknowledgement at the time——

Mr. WAGONER. Sure.

Chairman DODD. ——that what you were doing here was actually going to end up in a bubble kind of situation, that could only end up in the situation we are now facing?

Mr. WAGONER. Fair question. We had at GMAC and continue to track the performance on their loans of consumers. And while we have had some increase in delinquency and stuff, we——

Chairman DODD. Were you pushing them at all? Were we pushing them out the door? Is there any acknowledgment of——

Mr. WAGONER. Pushing loans?

Chairman DODD. Pushing the credit out the door, people coming in and wanting to buy that bigger, faster, heavier automobile. Was anybody saying, wait a minute?

Mr. WAGONER. Well, I think GMAC management was focused on the fact that they needed to be paid back because the margin—to be fair, I can give you the data later, get it, but the consumer payments on automobiles, the records are pretty good. We really haven't seen a huge spike up in losses there. I mean, I don't think—I am not sure I would put the responsibility on GMAC. I think our industry was running to a revenue model to try to make sure we could meet the financial obligations, and so—and by the way, the domestics did it, but the foreign-owned manufacturers, very aggressive on leasing, as well. So it was kind of an industry culture and I think we have had to address it rather painfully here in the last 2 or 3 years.

Chairman DODD. May I ask the other two to respond to my point? And again, I realize you have only been here a short time, but obviously you have followed the industry.

Mr. NARDELLI. Mr. Chairman, I would say, if I understand your question directly, I don't think our captive finance company at the time, which was, of course, owned by Daimler, told customers, no, you should not buy a bigger, more luxurious vehicle. I think the customer came in, had extracted a tremendous amount of equity out of their home, they were financially sound at the time, and therefore the transaction took place. And as Rick indicated, if you look at our delinquency and our repossessions, while they are up, it is modest compared to what we are seeing in the housing industry relative to foreclosure or bad loans.

Chairman DODD. I am going to get back to you, Doctor, in a minute. Finish up here, Mr. Mulally.

Mr. MULALLY. Yes, Mr. Chairman. I would—I think it is a really good point. I would just add in our case, we were just looking at the data, that I would say we didn't offer easy credit because we always had relatively high FICO scores. But to your point, the relative interest rate was relatively low to the consumer. You combine that with the low fuel prices and I think that, along with the lifestyle, that did incentivize a lot of borrowing. It kind of goes back to the issue we all have of kind of living beyond our means, and with a lower savings rate, it just continued to decline. But as far as fueling that with low credit scores, we have not done that. It has been a good business for us, a good prudent business with our finance company.

Chairman DODD. Doctor, you wanted to make a comment.

Mr. MORICI. Yes. I think it is important to recognize that these three companies in the context of the other major Japanese competitors and Korean competitors, no one of them can decide to sit on the sidelines when there is a credit hysteria and not participate because of the loss of market share, then the consequent impact on their product development budgets and so forth. It isn't like they could get together and say, gee, we are making too much credit. You become part of the economy. It is much like the homebuyer in 2005 saying, gee, there may be a bubble out there. I should sit this out. And they sit it out 2 years and they find out the house costs $100,000 more than before. They have to participate.

That said, America is over-car-ed just as it is over-housed. I am a macroeconomist and I know something about this. We can expect to sell fewer cars going forward for a variety of reasons. Credit is going to be more expensive. People are going to be saving more than they have in the past. The cars last longer. They are much more durable. People have been buying cars because they get tired of them, not because they wear out. I drive a Ford truck.

Mr. MULALLY. Yes.

[Laughter.]

Chairman DODD. Why don't you move your chair? Would you sit down over at this end here?

Mr. MULALLY. Ask Mark Fields who sold it to him.

Mr. MORICI. In any case, they are going to last a long time. As a consequence, and this is important, the industry each year needs fewer people to make the same number of cars and it is going to be making fewer cars. Therefore, those severance charges that we see, those special charges, are going to continue for a very long time. What is it, $105,000 per worker? We are going to continue to see severance charges. It is going to be difficult for these guys to balance the books with the cost structure they have in that kind of environment.

When you talk about things like if we let them do Chapter 11 or not, you have to realize that probably at some point there is going to be a crisis over that issue and that if you talk about things like prepackaged Chapter 11 and so forth, it is probably not best to prepackage so it is administered by this body or the executive branch.

You are very good at writing banking regulations, despite what your critics say, but you are not good at reworking companies. That is why we have bankruptcy courts. If we are going to have some sort of prepackaged process, we want to access the expertise that those people have, but we have to do it in a way that mitigates the real issues that are raised. Warranty issues can be resolved. There are such things as third-party warranties and assurances of continued operation. We need to accelerate the payments to suppliers to ensure that they get paid.

This isn't an airline. They do raise a valid point. This is not an airline going under. But it has to be carefully conceived in those terms. This is not a matter of whether it happens now or not at all. Some kind of reorganization process has to happen because of the very issues you are raising.

Chairman DODD. I took a lot of time and I apologize.

Senator Shelby.

Senator SHELBY. Thank you. All of you are here today because you realize, and I think a lot of us realize you are in dire circumstances. You wouldn't be here otherwise. But with both your market share declining and the overall market for automobiles contracting, why should we believe that your firms are capable of restructuring now when you were unable to do so under better conditions, more benign conditions? A lot of people think you have already failed, that your model has failed, that you are here to get life support. You have burned billions collectively, the three of you, the companies have earned billions and billions and billions of dollars in trying to turn around your industry.

What would you do with the money if you were able to get a tranche of $25 billion, and I am sure if you got $25 billion, you would want 25 or 30 or 40 more. What would you do with it specifically, and how would you pay this money back to the taxpayer, which is a very important question for me?

Mr. Wagoner, we will start with you. You are GM.

Mr. WAGONER. Yes, sir. First of all, you said, what is different. I mean, the fact is that our capacity in 2005 was about five million units in North America in total and now that is—or U.S. and Canada, and now that number, by the time we finish the adjustments that we have announced, or around 2010, will be, as I recall, down to about 3.3, 3.4 million units. So we have taken a huge chunk of capacity out, and we have also, we have taken out 47 percent of our workforce over about the last six——

Senator SHELBY. Well, why aren't you making money?

Mr. WAGONER. Because—well, I think two reasons. Our financial results have reflected quite significant costs to restructure, and that has cost cash for sure, but hopefully with the amount we have going forward, we won't have to decrease our capacity another 30 or 40 percent. And the other issue we are obviously facing today is that the market has simply plunged, in part because people who want to buy our cars can't get credit. But we try to run models as accurately as we can. It has been a little tough getting——

Senator SHELBY. Wait a minute. You weren't making money when you had cheap money flowing everywhere a year or two ago.

Mr. WAGONER. When you take away the charges for restructuring the company, from an operating perspective——

Senator SHELBY. Well, I know, but you have to consider the whole.

Mr. WAGONER. Sure. I mean, obviously, we have put $103 billion over the last 15 years in——

Senator SHELBY. You have put over $100 billion in restructuring?

Mr. WAGONER. No, this is just in post-retiree health care and pensions.

Senator SHELBY. OK.

Mr. WAGONER. So there is an amount——

Senator SHELBY. What have you spent on restructuring, sir?

Mr. WAGONER. I am sorry?

Senator SHELBY. What have you spent in the last 5 years on restructuring? You have spent billions of dollars.

Mr. WAGONER. We have. We have spent a lot. I can't give you an exact number, but——

Senator SHELBY. You can't give it to me——

Mr. WAGONER. I can——

Senator SHELBY. Will you furnish that for the record?

Mr. WAGONER. Yes, sir, we can certainly do that. But as we look at the business model going forward, at what I would say conservative industry, so let us say 12 million—we thought was conservative—12 million units next year, which would be a very low number, maybe 13 the following year, and then trending up to, say, level out at 14.5, 15, we believe in a business model that we have got structured today we can be profitable, not as profitable as we would like, so we have more work to do in all aspects of our business. I guess that will never end. But we believe——

Senator SHELBY. What would you say to people, though, that have said, we have heard that before? You are the CEO of GM. We have heard that you are going to be profitable, that you are going to make money off of this——

Mr. WAGONER. Well——

Senator SHELBY. ——but you haven't.

Mr. WAGONER. I mean, I would say, Senator Shelby, if you look at the actions that we have taken, this is hard stuff and it has required a lot of good cooperation with our unions, but I would take as evidence coming out of the labor agreement last year, obviously the people who were frequently critical of us, the Wall Street analysts, said, hey, these guys have gotten their labor costs competitive finally, layered on with the fact that they have got good products now. They are moving hard in technology, quality, productivity, *et cetera.* And so our stock price went up a lot, to, like, $42 a share. I think that was evidence that people felt like if the industry had continued even at 15, 16 million units, we would have had a decent business.

But this has come down pretty quickly. We reacted. We said we will come up with additional steps to save $20 billion——

Senator SHELBY. What are you going to do with that money if you were to get it?

Mr. WAGONER. We are going to use it to continue product programs, because we know over time, as Dr. Morici said, if you don't have competitive products, you don't win. We are going to continue programs like the Chevy Volt, because obviously it is a high priority to be able to meet the fuel economy standards. And we are going to need some of that money to pay suppliers to keep the system going.

Senator SHELBY. Ford? And how are you going to pay the money back? Neither one of you answered that.

Mr. MULALLY. I welcome your question.

Senator SHELBY. Yes.

Mr. MULALLY. We started on this plan. It was a very exciting vision to create, and the most important thing that we had to decide is are we going to create a sustainable automobile company, meaning exactly that, that year over year, are you going to reverse this decline and start to grow again and can you grow profitably so you can continue to invest in the business.

So what we decided, a couple of just really fundamentals. It doesn't sound like rocket science, but the most important thing is we had to make products that people really did want and value. And the four things that we decided is they had to be absolutely the best in quality, they had to be the best in fuel efficiency, they had to be the most safe, and they had to be the best value.

So the first thing we decided was to leverage all of our global assets, because we make, as you know, dynamite smaller vehicles around the world where fuel prices are higher and they are absolutely best in class. So we complemented our best-in-class larger vehicles in the United States by starting to bring in and bring online smaller, more efficient vehicles. Number one thing.

The second thing, on the quality, every year we continue to improve the quality where we are now statistically equal to or better than our Japanese competitor.

Senator SHELBY. Are you making money yet?

Mr. MULALLY. And we made money in the first quarter before we had this economic decline. But let me finish on the strategy——

Senator SHELBY. OK.

Mr. MULALLY. ——because it has got to start with the product. The second thing, on the fuel efficiency, we made a commitment, and it was kind of a highlight for us last year to be asked to participate by Congress in the 2007 Energy Independence and Security Act, and we made a commitment that in every vehicle that we put out going forward, we would be world class in fuel efficiency and we would move right up that CAFE line. So fuel efficiency, we believe has moved right up to the top of the consumer's decision, so we have got to be best in class in that.

And on safety, it is just a given, and right now, the Ford vehicles have more five-star ratings than any other brand. So we are in a good place right there.

Now on the making money and the productivity, all those actions we put in place, starting with the agreement that we made with Ron on getting our costs in line and our work rules and everything we could do on productivity, we ended up with all of that being able to deliver profitability in the first quarter of this year. And then we all know what happened to us after the first quarter. And the only reason that we are here today is that with the market coming down so fast and the credit getting so tight, that we are just overwhelmed by the revenue falling off so much that our liquidity is threatened.

But the key to us going forward is as we go through this, continue to invest in the new products, continue to invest in the new productivity, and we will come out the other side and we are going to be a turbo machine. This is a near-term problem that we are addressing.

Senator SHELBY. Mr. Nardelli.

Mr. NARDELLI. Yes, sir, Senator. One of the questions that was asked and responded to is there is a third-party organization called the Harbour Report and they basically track the number of hours it takes to assemble a vehicle.

Senator SHELBY. I am familiar with that.

Mr. NARDELLI. This year, Chrysler is spot-on Toyota. I noticed that the comment was made from the Committee, but we are spot-on Toyota relative to number of hours. As Ron said, by 2010, Ron Gettelfinger said, our hours, our pay per hour will be competitive. So therefore, on a vehicle production standpoint, we think we will be U.S. and globally competitive.

We are working with our dealer network. We have about 3,500 dealers. We have created a Genesis program where basically we will consolidate dealers and put three brands under one roof to continue to minimize cost. We have taken our overall structure down basically assuming a little more conservatively than what the little two fellows said. We are assuming that our exit rate will be our entrance rate next year, at about 11 million units. We are continuing to de-layer the organization and increase the span of control of our salaried personnel. We are continuing to try and drive efficiency and inefficiency out.

We are adding between $400 to $500 per vehicle on the fit, the finish, and the interior to move us up in the J.D. Power ratings so that we are more competitive with the transplants, so consumers do have a higher reliability confidence level, and in fact, they will see the value of the products that we are producing.

We do all those things, sir, and we would assume to pay you back just like we would the investors——

Senator SHELBY. Not me, the taxpayers.

Mr. NARDELLI. ——the taxpayers——

Senator SHELBY. How would you pay the money back?

Mr. NARDELLI. Because we will generate profit and we will have to return that. Just as we will pay our debt down from our investors, we would pay it back to——

Senator SHELBY. What if you don't, though?

Mr. NARDELLI. Well, sir, we wouldn't be here today asking for this if we didn't have a high confidence level that we could weather this economic trough, continue to resize, make these gut-wrenching decisions to come out the other side leaner, more agile, and for us, a higher quality, higher reliable product.

Senator SHELBY. Doctor, let me ask you this question, the same thing. Why should we believe—we have got the three CEOs here. Why should we believe that they are capable of restructuring, considering their past, their immediate past, that they have burned through billions of dollars trying to restructure? What will be different, and has their model failed, and how are we going to get this money back if we pay it?

Mr. MORICI. I am skeptical that you will get it back.

Senator SHELBY. I am, too.

Mr. MORICI. Let me explain why——

Senator SHELBY. Yes, sir.

Mr. MORICI. ——and it is no disrespect to these fine gentlemen. They really know how to make automobiles. If you go to China, where they have a clean slate, and they are competing with the Japanese there, they do very well. Here, they don't. Even if their labor costs are spot-on, which I don't believe that they are, but even if they are, you are in a perpetual model of downsizing because you get more productivity every year, and we have a chart here that shows that phenomenon from Harbour. Then you are laying people off and you have to pay them $105,000 apiece to leave. You are going to have special charges forever. That is a problem.

In terms of productivity, Chrysler is on a par, according to Harbour, with Toyota. Ford is not by a fairly large margin, about 10 percent, and General Motors is not by about two-thirds of that, according to the data from Harbour as published by the *Wall Street Journal*. If they have better data, I am not aware of it.

So I am somewhat skeptical. It is not that they are not capable managers, but they are burdened by history and they need a labor agreement that truly places them on a par with Honda in Indiana and with work rules that are truly on a par with Honda in Indiana or they can't get there from here because the margins in the industry are simply too thin.

Senator SHELBY. If there is not drastic change, no matter what we spend on it, it is not going to work, is it?

Mr. MORICI. More than that, it is possible to accomplish drastic change. Remember, Chapter 11 reorganization hasn't been seriously considered. What has been seriously considered is the AIG model.

Senator SHELBY. Sure.

Mr. MORICI. Show up here and say, look, if you don't give us this money, the world is going to come to an end. I mean, it has already worked. We have seen it work. AIG has got $150 billion of my money and your money, too.

Senator SHELBY. That is what bothers me.

Quickly, and I know my time has run over, I would like to ask each one, and I will start with you, Mr. Wagoner, I am going to ask three questions, but you can answer them quickly. How many product lines do you currently have?

Mr. WAGONER. We have about—currently about 60 model offerings.

Senator SHELBY. How many?

Mr. WAGONER. About 60.

Senator SHELBY. Sixty. How many of these lines are currently profitable and how many are losing money out of the 60?

Mr. WAGONER. Profitable at what level?

Senator SHELBY. Well——

Mr. WAGONER. I mean, contribution margin, net income—I would say about half at the low industry level.

Senator SHELBY. How long have these lines performed as they are currently performing? In other words, how long have they either been making money or losing money?

Mr. WAGONER. I would say, generally, because of the higher fixed costs for lower-priced vehicles, it is harder to make money, particularly when fuel economy wasn't as highly valued because energy was so cheap here, but I think that is changing over time.

Senator SHELBY. Mr. Mulally?

Mr. MULALLY. Let us see, on the product lines, on brands, the ones that we——

Senator SHELBY. How many product lines do you currently have?

Mr. MULALLY. Right. We have Ford, Lincoln, and Mercury, and we also——

Senator SHELBY. I know that, but how many others?

Mr. MULALLY. We have divested all of the other brands, so we have divested Aston Martin and Jaguar and Land Rover so we could absolutely laser focus on——

Senator SHELBY. How many of these lines are currently profitable and how many are losing money?

Mr. MULALLY. Well, in January, at the end of the first quarter, and the first quarter would be——

Senator SHELBY. We are talking about, say, now.

Mr. MULALLY. Well, we are losing money now——

Senator SHELBY. Sure, you are.

Mr. MULALLY. ——because the volume is way down. But when we completed the first quarter, the larger vehicles made a little bit more money. The ones that were harder to make were the smaller ones, but that is where the transformational agreement with labor comes in that we will be able to make money on all the vehicles on all the sizes.

Senator SHELBY. Mr. Nardelli, quickly.

Mr. NARDELLI. Yes, sir. We have three brands, as you know, Chrysler, Dodge, and Jeep. Today, we have 22 brands, or lines, as you are suggesting. One of the things I mentioned is we eliminated several lines already because they were not profitable and weren't carrying the volume. If you look at the newest products that we just rolled out, the new minivan, the new Challenger, the new Journey, the new truck, the new Liberty, we are making money on a variable cost basis and we are driving our fixed cost per unit down so that we will be making money across the board.

Senator SHELBY. Thank you, Mr. Chairman.

Chairman DODD. Senator Carper.

Senator CARPER. I just observe that your fixed costs per unit, driving it down, you obviously have to sell more vehicles. Your Newark, Delaware, assembly plant where you make the Durango and the Aspen, is selling some of the most highly rated quality products of any SUV, I think, by J.D. Power. In fact, I think they won the award for the best quality vehicle earlier this year. But it is a plant where you can actually assemble about 225,000 vehicles a year. I think last month roughly 3,000 vehicles were sold. And when you try to spread out the operating costs, you know, the fixed cost across 3,000 or 4,000 vehicles as opposed to 200,000 or 225,000 vehicles, we know that it does not work.

I tend to see most glasses as half-full, even when they are almost bone dry. This one is not bone dry. And I want to just lay out what I am hopeful may be a confluence of events and maybe by 2010, and in 2010, Mr. Gettelfinger, correct me if I am wrong, but I think some of the labor savings that you negotiated and gave up with great reluctance to make this work, but some of those labor savings—in fact, quite a few of those labor savings will really kick in in the year 2010. The product mix that sees the Big Three pivoting from largely a light truck/SUV mix to something that includes far more efficient vehicles and a lot more cars, vehicles propelled not just by flexible fuels but also to include hybrids. Anyway, we are going to see a product mix that looks a lot more like what the marketplace is asking for and is demanding.

In 2010, my hope is we are going to see a rebound in the economy by then, and one of the things we know about recessions, we have them from time to time. We know they do not last forever, and history would suggest that when we have them, the sharper it is on the way down, usually the sharper it is on the way back up. So this one, as bad as it looks right now, is not going to be around forever, and we will get through it.

And the last thing that is out there is consumers. A good example. I have the 2001 Chrysler Town and Country minivan, and we have driven the wheels off of it. We have several other vehicles as well. But the Town and Country minivan is in the shop today. It is in for regular maintenance, and they told me that we need to do something to keep the transmission fluid from leaking so that it will go a bit farther. It has 210,000 miles on it. I have been saying I wanted to keep it until we are able to buy one of those flex-fuel plug-in hybrid Chevrolet Volts. I am not sure we will make it that long unless you guys speed up even faster.

But somewhere down the line, and certainly by 2010, all those millions of people that are not buying cars, trucks, and vans are going to finally decide they need one and they cannot keep taking their Chrysler Town and Country minivans, however good they are, back to have it serviced and to keep them on the road.

Some would say that I am being maybe too optimistic, and I think our third witness here, Dr. Morici, your job here, I think, is to be—I do not know if "truth teller" is the right word, but what is unrealistic about what I just suggested?

Mr. MORICI. Keep making these mistakes——

Senator CARPER. Just leave your microphone on.

Mr. MORICI. OK. Well, I do not want to say something in——

Senator CARPER. That is OK.

Mr. MORICI. My feeling is it is unrealistic to expect that on a sustainable basis we will be selling 16 million vehicles a year again, perhaps even 15 million vehicles, simply because the vehicles are too good. They make them too well. They do not break anymore.

Senator CARPER. Like my minivan.

Mr. MORICI. Like my truck. As a consequence, they will be selling fewer vehicles.

Senator CARPER. Except my son wants my minivan.

Mr. MORICI. I understand that.

Senator CARPER. He wants me to buy one of those Ford Fusion hybrids.

Mr. MORICI. I am a macroeconomist, and I do deal with things like population growth rates, GDP growth rates, and things of this nature. And we have been buying cars at a very accelerated pace, and it is reasonable to expect over the next several years, though there might be one blip year, that by and by we will be buying fewer cars than we did in the good days. That does not mean it is terrible. It just means—it is like your refrigerators last a long time these days. As a consequence, they will be requiring fewer and fewer workers to do that job. And with the kind of buyouts the contract requires, that is indeed a significant challenge for the industry if it is going to make cars at the same labor costs as an expanding group of Asian manufacturers in the Southeast who do not, you know, pay $105,000 for people to leave. It is going to be challenging with such thin margins. That is what is wrong with that.

Senator CARPER. All right. Thanks very much.

Anybody else want to comment at all in response to what I just said? Yes, Mr. Gettelfinger, quickly please.

Mr. GETTELFINGER. Please. Thank you. The one point I want to make is the labor cost savings are incremental coming in. As an example, in the parts depots, we took a 5 percent pay cut. We took people out of the defined pension benefit plan, and we put them in a 401(k) health care, and that is for all employees that come in there. Janitor work that used to be work that belonged to the companies is now at a much lower rate of pay, and the work does not even belong to the company. It is going to somebody else.

So the changes that we have made are huge, and I think the one thing the professor on the end there is missing is, just like in General Motors' case, if we look at the value of COLA and wage concessions from 2002 to 2008, that is $700 million. We take the projected value of COLA and wage concessions from 2003 to 2011, that is $1.8 billion. And then when we look at the number of employees that have been reduced, we look at the fact that there is going to be no general wage increase, according to our research department, the cost savings at General Motors from 2003 to 2011 is almost $49 billion.

Senator CARPER. All right. Thank you, sir.

I made a statement earlier. I went back to 1980 when at the time I was State treasurer of Delaware, and I negotiated the State of Delaware's loan to Chrysler, interest-bearing loan, collateralized loan. We made money off of it. We talked earlier about the 1979 bailout of Chrysler where we agreed to make not a loan, but a loan guarantee, and in return for taking on that risk, the American taxpayers something in return. What we got were warrants to buy Chrysler stock. At the time Chrysler stock was selling at 5 bucks. We got warrants to buy it at $13. We exercised those warrants in a couple years. And at the time when we bought the Chrysler stock for $13, we turned around and sold it the next day or the next week for $30 a share, and we made about $300 million. I think that was a pretty good deal for the American taxpayer. I think it was a pretty good deal, frankly, for Delawareans as well.

My question of you is this: If we were to go forward with this, with some bridge loan, how can we turn and honestly face the taxpayers—particularly in States where they do not have these auto assembly operations or parts operations, how do we turn around and say this is a good deal for you, too?

Mr. WAGONER. I think, Senator Carper, the first thing, you almost cannot find a State where it is not relevant. We buy components in 46 States. I assume between us we cover all 50 States. And, second of all, we have dealers in every State who have even more employees than we do. So I think the issue is one that does affect every community in the United States, virtually, is the first point.

The second one, you know, we will—given the opportunity to bridge through this financial crisis, I think you can take our commitments that we will do everything we can to ensure the money is paid back, paid back with interest, and certainly understood that the expectations would be something additional, whether it is warrants or whatever. And we would fully agree to that.

So I tell you our interest would be 100 percent aligned with the shareholders, with the taxpayers, with you all, in making sure that your willingness to support us was rewarded, because that is the way our company is going to survive and prosper in the future.

Senator CARPER. All right. Well, the last question I want to raise deals with the hydrogen infrastructure. We are going to have a new administration in about 63 days. I like to say 63 days, 14 hours, 7 minutes. But we are going to have a new administration soon, and the new administration is going to come in, and they are going to be calling for a major stimulus package. And I think part of what they are going to focus on is infrastructure improvement, infrastructure development, and infrastructure. And one piece of that could be to focus on a hydrogen infrastructure. It could be doing something in the Northeast corridor here. It could be something on the West Coast.

Do you have any advice for us in this regard? Are we getting ahead of ourselves? Is that something that should be in the mix of things that we discuss?

Mr. MULALLY. Just one thing I would offer is that with respect to the use of hydrogen in automobiles, the two key enabling technologies are going to be the fuel cells and the batteries. So along with a commitment on the infrastructure, I would make sure that we have in place a comprehensive technology development plan for those two key technologies, because they are needed absolutely in addition to the infrastructure.

Senator CARPER. Any other comments? Mr. Nardelli.

Mr. NARDELLI. Yes, Senator. The only thing I would say is for us at Chrysler, we did not have the financial strength to look at a variety of different technologies to gain energy independence and environmental sustainability. So when we looked at the infrastructure, we felt what had the highest potential of success was electric, like our new electric minivan that will be rolling out here soon. We wanted to make sure with 6 million plugs out there, we wanted to have technology that was common to the consumer, that did not require a significant amount of infrastructure cost before the technology would be able to be applied into the street.

So I think the only thing I would suggest is to take a hard look at the rate with which the infrastructure and the cost, the fully loaded cost, cost of operation of that on the vehicle might be going forward.

Senator CARPER. All right. Mr. Wagoner, do you have a closing comment?

Mr. WAGONER. I think Dr. Morici did.

Senator CARPER. Dr. Morici.

Mr. MORICI. Yes, if you want a quick bite on energy efficiency, it has got to be electric, not hydrogen. And that is going to require enormous infrastructure investment because what I have been told by General Motors officials is the grid is only—and please correct me if I do not remember this correctly—but the grid is only good for about 1.5 million volts. So we are going to have to invest substantially in the grid.

Now, if we are going to do that in the context of CO2 emissions, it means that President Obama is going to have to sit the American people down and have a long chat about nuclear power.

Senator CARPER. Nuclear power and offshore wind, which New Jersey and Delaware and some others are bit time into.

Mr. MORICI. God bless you, yes, but, unfortunately, the wind does not always blow when you want it to blow.

Senator CARPER. Well, we can use both.

Let me just close with this, my colleagues. In the end, in this country it is all well and good—and I am from a State where we are big in financial services. We have science and so forth. But in here we have got to make something. We have got to make things that people in this country want to buy and that people in other countries want to buy. And we cannot walk away from our manufacturing base. And the question here for me is: Can we do something that is realistic, that provides the resources that these folks and the companies need going forward, to a point in time where they can recover, the market comes back, consumers are ready to buy, they have the technology, the products to offer, and we as representatives of the taxpayers can make sure that whatever risk we take on, there is going to be a reward for taking on that risk? I am encouraged that we can find that and make it—if not this month, in 63 days perhaps we can.

Chairman DODD. Thank you.

Senator Bennett.

Senator BENNETT. Thank you very much, Mr. Chairman, and thank you to the witnesses. This has been a very interesting experience to sit here and listen to you go back and forth. I appreciate the fact that you have clashed a little bit and that the unions have come to the defense of management on some circumstances, and that is kind of historic in and of itself given the past history.

If I can draw this parallel, Mr. Chairman, as we worked on TARP, what we were basically doing was replacing private capital with public capital in the conviction that, once the market was stabilized by virtue of patient capital—that is, the public capital was impatient, would not do it—or pardon me, the private capital was impatient, would not invest anything, but public capital would be patient. And we have put public capital in, and it could wait 2, 3, 5, 7 years, whatever it took, for the toxic mortgages to all be flushed out and everything to be done. And in the end, we would have done the right thing.

I see the parallel here. What we are being asked to do is put public capital into the investments of the automobile industry, specifically these companies, in the belief that, as patient capital, it can be paid back with interest over time. And we have a contrarian here who is saying that is not going to happen.

Now, is that a fair summary of what we are hearing?

Mr. WAGONER. I think it is, yes. As you know, the reason that we need the public capital at this time is that the private market, which we have traditionally relied on, simply has gone away.

Senator BENNETT. OK. Now——

Mr. MORICI. I guess I am skeptical about that hypothesis. My feeling is that the cost structure is not quite aligned. I heard Mr. Mulally this morning, either on Fox or on CNBC——

Mr. MULALLY. CNBC.

Mr. MORICI. Right. I was working out, and you said that the—well, I get information where I can. I do not have much staff.

Chairman DODD. You were driven to the gym in that Ford truck.

Mr. MULALLY. So do we all.

Mr. MORICI. No, I heard with my own two ears, sir. But in any case, that he had narrowed—the labor agreement had permitted him to narrow the labor cost differential. He did not use the word "eliminate." He used the word "reduced" or "narrowed."

Senator BENNETT. Yes, you have made that point.

Mr. MORICI. But I am saying, that is very important. That is very important, because if it was zero—if it was zero, then your hypothesis would be correct.

Senator BENNETT. I recognize the difference between your analysis, but——

Mr. MORICI. At least potentially correct.

Senator BENNETT. OK. We are being asked to put public capital in. Now the question is: Are we going to be able to get it back? Is it going to work? And the thing you have said, Doctor, that I find interesting is that even if the wage is spot on and presumably all of the other elements of the car are the same as you—you used Honda of Indiana. My wife has a Honda that was made in Ohio, so I do not know about Indiana, but Honda of Indiana. As the industry shrinks, by virtue of increased productivity and increased length of time—and I contribute to that, too. I drive a 1996 Oldsmobile, Mr. Wagoner, and I am sorry but it is holding up just fine. That will continue. Uniquely—this is the thing I want to get, is the difference. Uniquely, among these three, they will have to have the $105,000 buyout, and Honda of Indiana will not.

Mr. MORICI. That is right.

Senator BENNETT. Is that the sum and substance of——

Mr. MORICI. That is right, and they have to do other things like fund the VEBA and so forth. Theoretically, those things end at some point. But the issue of having to perpetually pay severance benefits is a real challenge, and also, they still do have work rules in——

Senator BENNETT. Yes, OK. But——

Mr. MORICI. Well, that does make a difference in productivity.

Senator BENNETT. I understand that.

Mr. MORICI. A couple of hours will really do you in.

Senator BENNETT. I understand that. Now, the UAW is saying, no, over time by virtue of the agreements that they have made, there will be subsequent benefits that will flow over time. Are you saying that they are sufficiently strong to overcome the buyout? And will the time ever come when Honda of Indiana will have to have a buyout and level the playing field that way? And if they do, then Kia will come in and undercut Honda of Indiana.

Mr. MORICI. They are not required to pay their workers $105,000 apiece.

Mr. GETTELFINGER. Senator, first of all, as far as productivity goes—and we ran some ads. I hope you saw one of them here in the papers on the Hill. Our plants are more efficient than factories run by our non-union counterparts, including nine of the ten most efficient plants of North America. That is not the UAW saying that. That is a Harvard report saying that.

Senator BENNETT. OK. But address the question of the $105,000 buyout.

Mr. GETTELFINGER. The $105,000—you kind of got me on a curve there. I do not know where that number is coming from.

Senator BENNETT. I have been a CEO, and I know if I have that sitting on my back, I have got a real problem.

Now, the three CEOs, what is your reaction to this argument about the $105,000 buyout? Because if you take the numbers—we cannot repeal the laws of arithmetic, and if there is a shrinking workforce coming as a result of your increased productivity and your deal with the UAW that makes you more productive and, therefore, more competitive, but that every time you get the advantage of becoming more productive and more competitive in the form of a worker who is laid off, instead of getting the advantage of that, that you no longer have a problem, you have a cost of $105,000 which Honda of Indiana does not have.

Square this circle for me. Help me understand exactly where we are.

Mr. WAGONER. Well, there is one other factor. I think he is referring to when we induce people to leave before regular retirement age. So I think it is fair to say all of us, because of the competitive situation, the need to downsize, have encouraged people to leave quite before their normal retirement ages, and so these kind of payments, a little different from company to company, have been made to induce people to do that.

But, you know, in our case we still have a relatively high average age of our hourly workforce, and so for us over time, the model would be, having shrunk the base of the workforce, you know, in our case from 133,000 in 2002 to about 60,000 today, we will get eventually some natural attrition because our workforce—our average workforce age I think is about 47, 48, 49 right now, and a lot of people retire about early 50s to mid-50s. So we are going to get some natural attrition, and that should help us to be able to fund some of this productivity growth that we do need, which Dr. Morici is correct in saying to be competitive.

So hopefully we do not have to rely in the future to the extent we did in the past on these costly bailouts, or at least not to the great extent we have had to pay the last 3 or 4 years.

Mr. MORICI. Will you continue to have to pay them? Will you continue, as you lay off workers, to have to pay people to leave?

Senator BENNETT. Yes, that is a key question. We will not go any deeper. My time is—oh, you wanted to comment?

Mr. MULALLY. I would just like to add one comment. Clearly, if you are in a declining business and you have a cost to separate people, your overall costs are going to be more. To your point, the absolute goal of the automobile industry is to arrest this market share decline and start to grow again. That is why we have to have a competitive set of products. We have to have products in every segment that people really do want and value and we are productive making them. We turn that corner, and then we are growing, and we do not have the costs that are being described by the professor.

Mr. MORICI. You only accomplish that if you have a growing market share if the number of cars purchased every year is relatively fixed, which has already been conceded here.

Senator BENNETT. All right. We could go on, but thank you very much. Our responsibility as stewards of the public money, which would be the patient capital, is to decide whether or not we—not just whether we are going to get our money back, but whether the cost to the country would be greater if we did nothing than if we used the patient capital to prevent a meltdown. And at the moment, everybody is guessing. I think everybody is guessing in good faith, but I think everybody is guessing. And that is the challenge that we have, and regardless of how we guess, we have to go home to our constituents and explain why we were absolutely brilliant in the decision that we made.

Chairman DODD. Let me thank Senator Bennett. He always is tremendously helpful, and I think he done a lot.

I will turn to Senator Menendez for questioning. I was looking at the cash on a quarterly basis that the three companies have gone through in the last quarter, the third quarter, a total of about $27 billion, the cash, if I total up the amounts. I have totaled here, looking at GM, $6.9 billion in cash; Ford, $7.7 billion in cash; and Chrysler, it is about $4 to $5 billion a month. I am going to come back to this in a minute, but this cash burn idea and the $25 billion in terms of a 2010 restructuring, what would be helpful to us as well is if we get a real total number. The 25 is bridge, but I want to hear at some point what you think the total package is you are going to be coming to the U.S. Congress for, not just now but over the coming months. We need to know that.

What bothers most of us a lot of times is we go home and say, well, we did the 25, and then you come back again. We went through this with Hank Paulson last summer on the GSE issue, and you may recall what that was like. And then all of a sudden it was something different.

I am going to let my colleague go because I have been talking a lot, but I want to come back to that point. Bob, why don't you go ahead?

Mr. NARDELLI. Mr. Chairman, can I—I apologize. But when you said $4 to $5 billion, that is what we were paying out a month. I want to make sure for the record that is not what our cash burn is per month. I am sorry.

Chairman DODD. Well, that is another question. That is all right. I had that number here, 4 to 5——

Mr. NARDELLI. I apologize.

Chairman DODD. That is a wrong number?

Mr. NARDELLI. Yes, sir.

Chairman DODD. OK.

Mr. NARDELLI. The right number is in the third quarter we burned about $3 billion, so about $1 billion a month in cash burn.

Chairman DODD. A month?

Mr. NARDELLI. A month.

Chairman DODD. So it is the quarter number?

Mr. NARDELLI. We burned about three—if you relate to the numbers you just cited for GM, Ford, our number would be about $3 billion.

Chairman DODD. OK.

Mr. NARDELLI. Thank you, sir.

Chairman DODD. Go ahead. I am sorry, Bob.

Senator MENENDEZ. Thank you, Mr. Chairman. You just asked the first question that I intended to ask, but I will ask it a little differently because I still don't quite get the answer, and that is, you know, we have gone in this Committee in different contexts, just so you gentlemen understand, from being told that everything in the economy, the fundamentals of the economy were fine, to being told by the Treasury Secretary that he needed a bazooka in order to not use it on behalf of the American taxpayers, a very large check that was largely blank, which he ended up using in Fannie Mae and Freddie Mac, and then to being told $700 billion to purchase illiquid assets, which now have totally been jettisoned out the window. So I hope you understand some of the skepticism that exists here based upon the immediate history that has taken place.

And so that brings me to the question that I think the Chairman was getting at. How did we get to $25 billion as the magic number that is necessary to transition in this period of time or to bridge this period of time? You know, I would like to hear the specifics of it. You know, we did not take a dart and say what can we get or look at the $700 billion and say how much is left and figure out how much can we get. How is it that $25 billion is the number that meets the challenge that you have all described here?

Mr. NARDELLI. Well, Senator, one way that we have looked at it is we look at the cash consumption we have done through the first three quarters. We look at an industry basically that is not——

Senator MENENDEZ. And what is that? What is that? What is the cash consumption of the first three quarters?

Mr. NARDELLI. If you look at our cash consumption, we ended the third quarter with about $6.1 billion in cash, about $6.1 billion. And so we basically have gone——

Senator MENENDEZ. That is what you ended up with——

Chairman DODD. Left with or ended up——

Mr. NARDELLI. Yes. So we basically—our biggest——

Senator MENENDEZ. Which is it? Is that what you ended up with or what you spent?

Mr. NARDELLI. That is what we ended up with.

Senator MENENDEZ. What did you spend in the three quarters?

Mr. NARDELLI. In the third quarter, we went through $3 billion, but as I said, in quarter 1 and 2, we were basically holding our own. We ended the first half at about $9.4 billion, which includes a $2 billion pull-down from our private equity owners, both Cerberus and Daimler at the time. And so——

Senator MENENDEZ. So what is the net amount that you burned through for the first three quarters?

Mr. NARDELLI. We burned through $5 billion.

Senator MENENDEZ. $5 billion.

Mr. NARDELLI. $5 billion.

Senator MENENDEZ. OK.

Mr. NARDELLI. So what we have looked at is what is the production level for the fourth quarter, because we only generate cash through production. We have used that number against what we are getting from our field relative to sales and wholesale reorders. We then extend that through 2009, and as I said, we become dangerously close to a minimum liquidity level by the end of the year.

And that is why we are asking for the immediacy of cash infusion. We believe that cash infusion, given a very conservative industry number and retaining our share, which we have been able to hold share over the past several years, comes to a number that is part of the $25 billion that we are asking for.

Senator MENENDEZ. The other gentlemen from the other companies, how do you all come here and say $25 billion?

Mr. WAGONER. Basically, this is obviously—the key assumption is to estimate what you think the industry is going to run at in 2009, and so as I said, we have used $11.7 million light or $12 million total industry, and on that basis have tried to be, you know, as conservative as we can in figuring out what might be the cash outflow next year. I believe each of us supplied that to the people writing the legislation, and they added it up and came up with the 25.

Senator MENENDEZ. So what was your figure? Mr. Nardelli gave me a figure. What was yours?

Mr. WAGONER. Our cash burn for the first 9 months, we burned about $3 billion each of the first and second quarter. As Senator Dodd mentioned, $6.9 billion in the third quarter, and we indicated we expect the fourth quarter to be more like the first and second quarters.

Senator MENENDEZ. So the total number you are projecting is?

Mr. WAGONER. For the year it will be in the range of—sorry I did not do that math, but around between—let's say in the range of $15 billion.

Senator MENENDEZ. So 15 and 5 is 20. That only leaves 5 for Ford. Is that the case?

Mr. WAGONER. Sorry. That was 2008.

Senator MENENDEZ. Well, but you are looking forward, right?

Mr. WAGONER. We have obviously taken——

Senator MENENDEZ. Do you expect your burn to be less?

Mr. WAGONER. We do, yes, sir, because we——

Senator MENENDEZ. How much dramatically less?

Mr. WAGONER. Well, we have taken significant cost-cutting actions, and we have reduced capital spending.

Senator MENENDEZ. You must have a figure. You are a CEO.

Mr. WAGONER. Yes.

Senator MENENDEZ. And I am a fiduciary to the taxpayers in my State and the country.

Mr. WAGONER. We would expect to be able to reduce it by at least $5 billion.

Senator MENENDEZ. By at least $5 billion, so that is $10 billion that you would still burn.

Mr. WAGONER. Right.

Senator MENENDEZ. And your $5 billion is still intact, what you are looking at next year as well?

Mr. NARDELLI. Between 5 to 7.

Senator MENENDEZ. All right. So now we have between 15 and 17.

Mr. MULALLY. I think we went about it maybe a little bit different way, but when we announced our third quarter results and provided our forward guidance, we said that our plan was that we are going to enhance our cash position by actions that we could take between $14 and $17 billion, so that we could slow down this cash burn rate to be able to make it through this.

Senator MENENDEZ. So what is it that you expect to have to draw upon if you get the $25 billion?

Mr. MULALLY. Well, yes, that depends on the assumption for the industry and whether it is—how much it slows down. Sol what we did, our best assessment is that the industry was not going to be any better in 2009 than it is in 2008, and we—our best estimate is that we would finish the year at a run rate of around 13.7 million vehicles. And so our assumption is, it is not going to get better in 2009. And then whether it is——

Senator MENENDEZ. What does that all equate to at the end of the day in terms of money that you are going to be seeking, your best projection?

Mr. MULALLY. Well, we can't give forward guidance in public more than what we already have.

Senator MENENDEZ. Well, here is the problem. You asked us to give you $25 billion of the taxpayers' money. We have to have a sense of how that, in fact, takes you to a time period that gets you past what you all described as your major challenge, which is the credit freeze and the economy. I don't think there is any economist in this country who suggests that we will be out of the doldrums that we are in, to put it mildly, for a year, year-and-a-half, which means that I don't hear this figure taking you to where you need to be in order to achieve your goal, which is where the Chairman is at, saying are you going to comeback?

And let me just say that I know that several of you said that you were new to the industry, and I appreciate that, but part of the problem, Mr. Chairman, we have here is a credibility issue with the industry. In the 1970s, all of the domestic manufacturing auto makers argued that enacting fuel efficiency standards would force them to make nothing but subcompact cars. Well, we know that, in fact, we did it anyway and we had the fuel efficiency standards raised and we were flooded with sport utility vehicles.

In the 1990s, the big three made a deal with the Clinton administration for over $1 billion to help commercialize hybrid technology. In exchange, the Clinton administration reportedly did not push for higher fuel efficiency standards. But when President Clinton left office, that deal was broken and you stopped pursuing the technology. Now Japanese auto makers have at least a 7-year head start developing hybrids.

And these are not isolated instances. You know, I was one of those who voted for the $25 billion to help you restructure and provide for the new higher fuel efficiency cars, but when I hear you not being able to give us how this $25 billion takes you to that place in time in which you will be able to not only repay the taxpayers of the country, but at the same time have met the challenges that you have described, it is a difficult proposition. I am inclined to be helpful, but I have got to hear a better fundamental of how it is that this gets you—why this number wasn't just picked out of the sky and said, this is a good number to try to go for, and how it gets you to where you need to get.

So that is what I was trying to add up here, to give a sense of time. Now, you can't tell me how much, but there is not much left in that package after your two colleagues here projected what they need. So I just don't see how the $25 billion is finite and gets you there. I hope we get better accounting, Mr. Chairman, in order to be able to decide——

Chairman DODD. Well, the point is, and this is the point we are trying to get at, because you are looking at 2010, I think, in terms of Senator Menendez makes the point that our economy is not going to recover quickly here, and so we are going to have a period of at least a year or longer of recovery. And we are talking about the restructuring efforts really beginning to take hold by 2010, I think is what we are now talking about. So we have got all of 2009 to go through, and these numbers look like, if you take the totality of the three companies, they look like basically good for about a quarter, is my concern.

Senator MENENDEZ. Mr. Chairman?

Chairman DODD. Yes?

Senator MENENDEZ. One last point, if I may.

Chairman DODD. Yes.

Senator MENENDEZ. The energy bill that we passed that had the $25 billion that is now in the regulations of the Section 136 program, I understand that Ford announced that it applied for the loans today, which I applaud. What about Chrysler and GM?

Mr. NARDELLI. Sir, we applied the first day it was available by five o'clock.

Mr. WAGONER. We applied Monday morning at 8:43 a.m.

Senator MENENDEZ. OK. I am glad to hear it.

Chairman DODD. You knew that number.

[Laughter.]

Senator MENENDEZ. I am glad to hear those answers because that certainly appears to be a viable program that is necessary. I do hope that the history of the industry as it relates to fighting the Congress about fuel efficiency is an issue of the past, not the present. I hope that we are going to hear from you that you are not going to fight, for example, California's waiver the other States are looking for, as well, and use the resources that we may very well give you here in the Congress to fight against such proposals. I hope that we will be partners at the end of the day in this regard and not be adversaries.

Chairman DODD. Senator Corker? You sure you don't want to move up a little bit? You are so far away.

Senator CORKER. I couldn't abandon my friend the cameraman here.

[Laughter.]

Senator CORKER. Mr. Chairman, thank you for this great hearing. I appreciate all of you being here and understand the tremendous problems this is creating in all of our States. We have one of our most respected business people here tonight. That is one of your dealers who has 300 employees, and we understand about all the many workers and much employment. So I do have some tough questions, but I want you to know I do understand the turmoil that this is creating throughout our country.

We have talked a lot about the TARP program and we talked about the fact that we were willing to, quote, "bailout" the financial institutions. But one of the things that is occurring in the TARP program that is not happening here is that the OCC that regulates these banks, or the FDIC if that is the case, has to certify to Treasury that these are strong institutions and they actually make recommendations to Treasury as to which institutions are the strong banks, the good banks, and should succeed.

I find it really interesting that we, quote, have the big three here, if you will, because I know that all three of you are in different circumstances, and my sense is if the OCC was performing the same ordeal, if you will, on you all, some of you would not be recommended to get credit.

My sense is that Ford has done a better job and is in a slightly stronger position, that GM has made some changes but is spiraling downward and in serious trouble, and my sense is, and I could be wrong, I know it is a private company and results aren't available, but that Chrysler just barely has a heartbeat. So I do wonder why we are talking to three companies in very different situations about all being treated the same way. It seems to me that that premise to begin with is very flawed.

Now, obviously you all have created a pact. You wouldn't share with Senator Menendez how much each of you have asked. I know that one of you shared with us that you have given those numbers to Levin. But I would like to know exactly what each of you has asked for, and I think that is only fair, and I think dancing around that is incorrect.

And then I would like Mr. Gettelfinger, if he would, since he says he went in and looked at these companies, to tell us which of these three should survive and which shouldn't. But I would like to have the numbers first.

Mr. NARDELLI. I would be happy again to say——

Senator CORKER. I just want the numbers. Just give us the numbers that you gave to Mr. Levin to create the legislation.

Mr. NARDELLI. Seven billion.

Senator CORKER. Seven billion. What is the number from GM?

Mr. NARDELLI. Seven billion.

Senator CORKER. And the number from GM?

Mr. WAGONER. Senator, sir, I think you have to be fair and look at it——

Senator CORKER. I just want——

Mr. WAGONER. ——what industry——

Senator CORKER. Of the $25 billion that you have asked for, how much of it have you guys decided at GM——

Mr. WAGONER. We felt that if we get our proportionate market share of that——

Senator CORKER. Just give me the number.

Mr. WAGONER. ——which would be in the $10 to $12 billion, that we would have a very——

Senator CORKER. And how much is Ford getting in this three-way pact?

Mr. MULALLY. Seven to $8 billion.

Senator CORKER. Seven to $8 billion. So it is seven, seven to eight, and ten to 12. Those are the numbers.

Mr. Gettelfinger, you have been in to these three companies. They are all three in different positions. Some of them are stronger than others for lots of reasons. Rank them, one, two, three.

Mr. GETTELFINGER. In being in the best shape to the worst?

Senator CORKER. Yes.

Mr. GETTELFINGER. I would rank them Ford, Chrysler, and General Motors.

Senator CORKER. OK. I have to say that we have gone to ten million sales a year in our country and there may not be a need for three auto makers. I just want to say that we are going down this road in a really odd way in that when we went through the financial mechanisms, we actually had the OCC go in and make sure these were going entities. I just want to say, if we are going to try to do something this week, we are bypassing something that to me is an incredibly important thing for us to do as it relates to the taxpayers.

We have mentioned Section 136 and some people have said that maybe that is the vehicle we ought to use to fund the auto makers if we do it. There are two provisions there. One says that you have to be making alternative types of vehicles or alternative energy-type vehicles. The other is you have to show that you are a going concern and that you are going to survive.

I assume that when you applied at 8:43 and the others of you the same day, that you put in place—there was a plan that was submitted that showed you to be going concerns, is that correct, because that is one of the stipulations of 136.

Mr. WAGONER. It is part of the process, yes. I am not sure that all has to be submitted up front, but yes, we are all aware of it and we are all doing that analysis.

Senator CORKER. I would just say to the Committee that it seems to me that we would like to at least look at those prior to putting money into these firms.

Chairman DODD. Look at what Bob—what do you want?

Senator CORKER. Well, they are going to have to submit for their 136 applications——

Chairman DODD. Right.

Senator CORKER. ——they have to submit something that lays out a business plan that shows that they are a going concern, that they can be successful, that they can pay this money back.

Chairman DODD. Very good point.

Senator CORKER. And it seems like that before we would rush to take action this week, we could at least see those, because it is pretty evident, I think, to all of us in this Committee that $25 billion was sort of thrown up on the wall and it stuck. There has not been any real thinking behind that number. It is what might be attained today. I think we all know if that occurs, they are going to be back. I don't think there is anybody on this Committee that believes otherwise.

So it seems to me that we would be so much better off to actually see these submittals that you are going to have to submit to get the 136 money you are already after. We should judge those and we should see if you are actually going concerns.

Now, I was just in Russia last week and noticed that General Motors was opening a plant there, I guess the next day after I was there. And I understand that you make money in Russia and you make money in other places, but you don't make money here. I would just like to ask a very blunt question, if it has something to do with your relationship with Mr. Gettelfinger or the UAW. I mean, what is it that allows you to make money in all these other countries but not make money here?

Mr. WAGONER. Well, each market, to be fair, has its own circumstances, but in general, we have done quite well in most markets outside the U.S. recently. Part of the reason is a little bit of the issue we discussed earlier, very rapid growth. Frankly, it is easier to make money when things are growing than when you have to shrink, and it is fair to say that if you look back over the last 10 or 15 years, as I mentioned, we have had a fairly significant cost to restructure our business in the U.S. And so that is a fair point. I think the point we were trying to make today in our earlier comments is that a lot of that is behind us.

Senator CORKER. It is a pretty big point, but let me just say you all have been very careful, and I appreciate this. Mr. Gettelfinger, I want you to know I have been a card-carrying union member and been a trustee and I don't have a major issue. I do with card check, of course, but they keep saying that by 2010, they are going to be competitive and it makes me think that what we are doing is loaning these guys possibly money so that at some point in the future, they are going to be competitive because of agreements that they have with you. And I would ask, why not 2009? Why not 2008? Why don't you go ahead and make the changes you need to make to make them competitive now?

Mr. GETTELFINGER. Well, just one example, Senator. The Voluntary Employee Beneficiary Association, we had to go through a court process after the negotiations. That is a Federal court-approved settlement. Just transferring that over to the union, we have had two trustees meetings to this point in time. But this is major. Because of the time that it is going to take for everybody's eligibility, we have to set up a complete structure, because what we are doing is we are creating the Voluntary Employee Beneficiary Association, which has more independent trustees than it does UAW trustees, and we are going to be responsible for everything. So just the magnitude. We are on a push now to get this through to 2010.

Senator CORKER. Yes. Mr. Nardelli had a representative in our office earlier today that was sharing that even when they are not making cars, when there is not a demand for cars, in their plants, they have to operate at 80 percent regardless, and I would like for you to acknowledge whether that is true or not and then I would like to ask you, Mr. Gettelfinger, why that would be the case.

Mr. NARDELLI. Senator, I am not sure, when you say operate at 80 percent, if you are suggesting that we——

Senator CORKER. I understand you have agreements in place. Mr. Jim Press was in our office earlier today explaining that, in fact, even when your plants are not needed, they have to operate. There have to be some issues that still cause you to lose money unnecessarily.

Mr. NARDELLI. Maybe what he was referring to, Senator, is that there is a contractual obligation that when we have to idle a facility, that we do have to continue to pay wages at about 95 percent. I think Ron can be more specific than that——

Senator CORKER. That seems kind of problematic to me, I mean, just on the surface, and it seems to me that you are asking us for $25 billion to support a clause that in no other business in this country would be tolerated. I understand the good job Mr. Gettelfinger is doing on behalf of the employees that are not working but still being paid, but I find it very difficult that you would be in here asking us for $25 billion, which we know is just the beginning, when you have an agreement in place like that that causes you to have to pay 95 percent of the workers that are not working. Could you elaborate, or Mr. Gettelfinger, could you all change that tomorrow before you make another application?

Mr. GETTELFINGER. Senator, first of all, I gave some numbers here earlier on. General Motors, 9/30/05, had 110,000——

Senator CORKER. I know what you have done. I am talking about this——

Mr. GETTELFINGER. But they are not getting paid, is the point. We were able to reduce that——

Senator CORKER. I know what you are talking about, about the bank, but this is a different issue. This is a different issue.

Mr. GETTELFINGER. You are talking about the sub-pay.

Senator CORKER. Mr. Nardelli, do you want to explain to him the issue?

Mr. NARDELLI. I think what he may have been alluding to, Ron, is, for example, if we have to idle a facility that we have ongoing labor contractual obligations to pay those employees.

Mr. GETTELFINGER. That is their unemployment plus——

Senator CORKER. For how long?

Mr. NARDELLI. Ron?

Mr. GETTELFINGER. I would have to look at the contract.

Senator CORKER. You have got to be kidding me. I would like to know, and I would like to know at what expense that is to the companies. But it seems like things like that—let me go back to prepackaged bankruptcy. I have to tell you, I don't understand the stigma that would come with prepackaged bankruptcy, where you knew that there was money coming if certain things happened. You lay out a plan, either in 136 or some other way that laid out how all that would happen. And these changes that are so necessary to cause these companies to be competitive were put in place overnight, not in 2010 or 2011.

And again, I have got to believe that there is a piece of each of you as CEOs, which I respect, I really do, and I respect the challenges you are going through, that would almost like to see that happen, but you can't say it. I don't know how that could possibly be detrimental.

You have 7,000 dealers across this country. People that sell the same amounts of cars have, like, 1,200 dealers across the country. It seems to me that that is highly problematic and that State laws keep you from doing things that you feel like you really would like to do but you can't. It seems like those things are very, very important and very tangible and things that we ought to be talking about today and I would love a response.

Mr. WAGONER. Well, if I could start, Senator, I am not an expert in bankruptcy, but I have seen research by an independent party as recently as this summer which said that 80 percent of consumers, and it was broken out by brand, so maybe it was 60 for Honda and I think it was 90-plus for one of the brands here, it was about 80 percent for us, would not consider—would not consider—buying a car from a company that was in bankruptcy. Eighty percent. If any of us had an 80 percent reduction in volume, then this idea of a prepackaged bankruptcy is pure fantasy.

Senator CORKER. Would the industry be——

Mr. WAGONER. You would be talking—excuse me. You would be talking about a Chapter 7 liquidation——

Senator CORKER. No, no, no——

Mr. WAGONER. ——which would affect the supply base, affect the other two, and ripple across this economy like a tsunami that we haven't seen, and it seems like to me a huge roll of the dice to weigh that, the risks of that, which I personally believe are very high, against the request we are making here today. So I——

Senator CORKER. Well, today, but you are going to come back for more, and I think you all—let me ask you this. Would you all make the pledge that if you get the $25 billion, you will never be back to see us again?

Mr. WAGONER. Well, I think——

Senator CORKER. I don't think you are under oath, but I would love it if——

Mr. WAGONER. Sir, if you could make the pledge to us that the U.S. economy will turn around on a certain point in time, then—and the financial markets will rejuvenate, then we would be glad, based on that data, to come back to you and give you——

Senator CORKER. You are going to be back, aren't you? You——

Mr. WAGONER. ——our exact best estimate of how much financing we think we need, sir. We will be very glad to do that.

Senator CORKER. I thank you all.

Mr. NARDELLI. Senator, may I answer your question?

Senator CORKER. Yes.

Mr. NARDELLI. We did look at—two parts to your question, if I may, sir. We did look at prepackaged. We looked at prenegotiated. We have looked at almost every alternative within Chrysler as a privately held company before we came here and asked for support to provide a bridge, if you will, through this economic trough, and to a certain degree, all of these take an extensive amount of time, certainly in a prenegotiated. We have to get all of the players, all of the suppliers, all of the lenders, all of the labor, and you can imagine, sir, that would take an extensive amount of time to be able to renegotiate that, and in fact, we are in a very fragile position, Chrysler is, point one.

Point two, I think I would be remiss as being the newest guy in the auto industry if I didn't respond favorably to your challenge. Chrysler, again, has been looking for partnerships. We are looking for alliances. We are looking for opportunities to make the auto industry, either within the United States or globally, more efficient. I don't think there is any question that there are opportunities for more synergies. There are opportunities for more sharing, whether it be in technology in 136, for example, to create a National Science Center where rather than paying each of us a dollar to develop the same technology we would pay one dollar. That technology would then be transferred over to the auto companies. It would make the

$25 billion go further. It would be more cost effective. If it became a wholly owned affiliate, you could get private equity to invest in it and then market that.

So there are many creative ideas, I think to your point, that the auto industry could look at, but the immediacy of why we are here today is to give us a chance to get through this period and then to look at those on how the U.S. auto industry can be more formidable, can be more competitive, not only to be profitable here in the U.S., but on a global basis.

Senator CORKER. I know you are alluding to the fact that you would like to see a merger between GM and yourselves. I don't know that, again, Mr. Chairman, that things like that we shouldn't force to happen if they are going to get this money. But I will stop. I know I have taken my time. I thank you.

Chairman DODD. No, I thank you.

Senator CORKER. And I asked tough questions. I respect the problems you are going through and I thank you for coming today.

Chairman DODD. We thank you, Senator.

Let me just turn to Senator Casey, but I can't resist commenting on this idea of providing some compensation to employees in an idle plant. I don't think that is outrageous at all. I mean, these are people we hope will be back at work in a facility that is not working, and the idea that we take care of people, the assumption somehow we just get rid of them without taking into consideration their needs, I am not going to—I don't know all the details of the contract, either, Mr. Gettelfinger, or in the case of Mr. Nardelli, but I just, for my part, I don't find that offensive at all. I think that is taking good care of people who work damn hard for our country, and the fact that you are able to provide some benefits for them during a downtime in their lives is not something that I think we ought to deplore. I commend you for it.

Senator Casey.

Senator CASEY. Mr. Chairman, thank you very much, and thank you for calling this hearing. We have had a number of hearings the last couple of months that tried to shed some light on the financial crisis that grips the country. It is affecting each of your companies as well as the broader economy, but I want to thank Chairman Dodd for making these opportunities available.

I really have two fundamental questions, two broad questions for the three CEOs, Mr. Mulally, Mr. Nardelli, and Mr. Wagoner. The first pertains to the dollars if the Congress were to pass legislation which would provide $25 billion. A broad question, which I think you could probably amplify for the record later, as to how you would spend the money and what are your most urgent needs maybe by way of a list, an itemization.

And second, on the question of the environmental questions, the question of environmental technology, fuel efficiency, that whole set of questions, how far advanced are you? Where are you? Give us kind of a status report.

But first of all, with regard to how you would spend the money, because as you know from my opening, I propose that if this were to go forward, that there would be a monthly accounting on cash, on expenditures by category, a whole host of monthly reporting and justifications for the further expenditure in the next month of public dollars. But maybe we will just kind of go left to right on what you need the money for and the environmental progress.

Mr. MULALLY. Sure. One, just, question for clarification, because clearly, each of our businesses are in different States. But in our case in Ford, we believe we have sufficient liquidity to make it through this slow-down in the economy, and we took action pretty aggressively over a year-and-a-half ago to go to the markets and raise money. But clearly, none of us know what the market is going to look like going forward, and you could argue pretty easily that it looks like things could deteriorate further. There is more risk of that than it getting better.

Senator CASEY. I don't want to interrupt your answer, but can you put a timeframe on that?

Mr. MULALLY. Yes——

Senator CASEY. In terms of what you think, what period of time you can get through.

Mr. MULALLY. Yes. Our assumption was that if the market doesn't deteriorate significantly more than how we came out of 2008, that we could get through 2009, assuming that the economy started to come back in 2010. But clearly, there is a significant risk that the economy is going to continue to slow down. I mean, like you have pointed out, we are all a little disappointed that some of the actions we have put in place have not—we haven't seen the immediate benefit of that.

So the reason we are here together is that this is a really important industry, and if any one of us gets to the place where our financial viability is at risk, we are putting the entire industry at risk. So we believe together, absolutely together, that we should put in place this bridge loan capability and then draw on that as we need it.

Now, each of us will be in a different situation. How much we would actually draw would be dependent on the situation, what happens in the economy. But we are not asking for a lot of money right now. We are asking for the money as we need it.

So against that backdrop, I would like to answer your other question on the enabling technology. Just to kind of back up a little bit, we are really pleased for the work that we did together with the Congress last year on the 2007 Energy Independence and Security Act, and we know there is a lot of history about standing up for things but not standing up for what you really stand for, and we took a stand together that we absolutely believe in energy independence, energy security, sustainability, fuel efficiency, and we wanted to be part of the answer.

And we were very gratified with the debate that went on and the recognition to accelerate that advanced technology and those fuel efficient vehicles. That was a substantial investment. So we are also very pleased with what was put in the 136 to allow us to access that money to accelerate the fuel efficient vehicles, and as you heard, we are all aggressively applying for that.

Now, each of us is in a little bit different place, but generally, this is led by technology. This is high tech and we all understand it, and so the fundamental building blocks are if we continue to improve the internal combustion engine, and there is lots that we can do on that, on turbocharging, direct fuel injection, you know, a 20 percent improvement in fuel efficiency, a 15 percent reduction in CO_2 right off the top of that technology which we can get across all of our vehicles, across all of the engines.

Then we go to alternate fuels, and we all believe, and we have been taking action to make our vehicles compatible with alternative fuels like ethanol. Then you move to electrification. We all believe that moving to hybrids was a natural first step, but the real goal is to get rid of two power trains and move to all-electric vehicles, and each of us are working that really hard.

Then as the Senator mentioned about hydrogen, clearly, there is another technology later on with hydrogen and really capable fuel cells and new batteries that you could have a hydrogen alternative, also.

So none of us know which one is going to be the dominant one, and each of us have our plan to deal with that. But we are dealing with all those technologies. But in Ford's case, we are trying to make the biggest impact we can on fuel efficiency by making a significant improvement in the internal combustion engine as it is today, followed by working on the research to make the other ones come true, too.

Senator CASEY. I have some follow-ups, but I will resist them for now.

Mr. MULALLY. OK.

Senator CASEY. Mr. Nardelli.

Mr. NARDELLI. Senator, if we are granted the opportunity for this cash infusion, fundamentally, we will use it for operating cash-flow. One of the things you talk about is a monthly or quarterly report. We do it every week. We have a cash call review. We look at—we have gone back to the old days where the owner-operator signs the check so they basically know where the funds are going. We have gotten down to that level of granularity, and our CFO, who is here with me today, basically runs a cash committee meeting once a week. We bring in all the requests. We prioritize those requests and then we make those distributions. And we are looking at how we can conserve cash in every opportunity.

So those funds fundamentally would go for ongoing operations. They would go for, as my colleague said, Alan, we will continue to drive for a new product portfolio. We have to make sure that after the separation from Daimler, that we make a major cash infusion in new product portfolio, new product cadence, product performance, product quality, reliability, and durability.

So simply said, that is where the majority of the funds will go if we are granted the opportunity from this Committee.

Mr. WAGONER. Senator, I won't repeat. I would just add on the—because I think all of us have similar kinds of buckets, pay suppliers, pay employees, keep product programs on schedule, and bring forward these new technologies. I would say the other thing that we are doing a lot of work in, we have done a lot of work as part of the Energy Security Act, is gone back and relooked at our whole product portfolio. So even in this time of cutbacks, and we have had to cut back quite a bit to get where we need to be, but we have continued our pull forward most of the smaller vehicles. Chevy Cruise would be a good example. So if we have had to delay vehicles, we have basically put some of the, frankly, less fuel efficient vehicles on the back burner for now, and frankly, some of those may not continue in the market over time.

Senator CASEY. Thank you. What I will do for the record is follow up with some questions about—maybe you can provide kind of a progress report in writing as to where things are. And I know I am out of time and Senator Tester has been very patient waiting.

Just one last point, and it is not by way of a question, but Mr. Gettelfinger, I want to make sure that I highlighted some of your testimony which I think is important to highlight with regard to retirees. We have talked a lot about bottom lines and budgets and all the important matters we have discussed today, but I think it is important to point out some of the points that you made in your testimony on a whole host of fronts, but in particular with regard to retirees.

I am reading from page four. Taken together, the changes made by the 2005 and 2007 contracts reduced the companies' retiree health care liabilities by 50 percent. And then you made the point earlier on page three with regard to the potential adverse impact to retirees that a loss of retiree health benefits would be devastating to the roughly 40 percent who are younger than 65 and thus not eligible for Medicare.

I want to commend all of you for the work you have done to try to reduce those costs, but also to remember the human impact that these decisions have on people. If we had more time, I would ask you to amplify on that, as well, but thank you very much for pointing that out in the testimony.

Senator CASEY. Thank you.

Chairman DODD. Senator Tester.

Senator TESTER. Thank you, Mr. Chairman. I have a few questions. I hope you can make your answers short because I am sure your bladder feels about like mine does right now.

[Laughter.]

Senator TESTER. First of all, I appreciate you guys' time here today. This has been—we are going on 4 hours here pretty quick. I guess the first question is, for each one of you, will this money be spent here in the U.S.? This was part of my opening statement.

Mr. WAGONER. Yes.

Mr. NARDELLI. Yes, sir. We are primarily a U.S.-based company.

Mr. MULALLY. Yes.

Senator TESTER. OK. There was a question earlier asked by one of my fellow Senators here that said that, I think it was GM, you are making some dough in Russia. Why not take the money and invest it in Russia if that is where you are making the money?

Mr. WAGONER. Well, we make money in other markets. China might even be a bigger example where we did initially years ago, 10 or 12 years ago, invest a significant amount, but that business is profitable, so with the profits, they are able to continue to invest, to expand the business there and actually send dividends back to the U.S. So most of the business models we have outside the U.S., they have been able to get to be self-sufficient.

Senator TESTER. OK, and I will go to Ford here in a second since Chrysler is mainly here in this country, but how would we know? I mean, you are a big company. How do we know that you just don't take it from one pocket to the other and put it somewhere else? I am really—I want to see you guys succeed. I have the impression from each one of you that you are happy with the way each one of your companies are going. You would like to see the market and liquidity and the credit. But how do we know? I mean, I am a farmer. If I am making more money somewhere, I usually go there and make it.

Mr. WAGONER. So the question is how do you know that we are going to spend the money here?

Senator TESTER. How do I know that you are going to spend it here and not just shuffle it around and go somewhere else with it?

Mr. WAGONER. We would be glad to work on source and uses of funds——

Senator TESTER. On accountability, and Ford——

Mr. WAGONER. ——and find a way to ensure that for you, yes, sir.

Mr. MULALLY. Plus, I would add that the fact that we operate globally, that we get the scale of that globally, which even brings us more competitiveness to the United States.

Senator TESTER. OK, so let us take it the other direction. Why not bring some of those funds from those profitable markets over here?

Mr. MULALLY. We do. We operate globally and the profits that we make, we use together to further invest in the future——

Senator TESTER. OK——

Mr. MULALLY. ——in all of those markets.

Senator TESTER. So do you really need the money? If you are global and you are able to take money from other areas, other countries, and bring it back here, can't you do that in the short term to get through this, hopefully, out of this gully economically?

Mr. MULALLY. I understand your question. I think that the reason we are here is from a total enterprise point of view. Clearly, with all of the markets slowing down worldwide, we are giving you a status of the companies.

Senator TESTER. OK, but——

Mr. WAGONER. Senator, maybe if I could just take it from our side——

Senator TESTER. Yes, go ahead.

Mr. WAGONER. ——we have tried to, to the extent we can, repatriate money from other businesses, but I would like to reemphasize what Mr. Mulally said. Basically, we see kind of with 2 or 3 months' time lag what has happened in the U.S., where the cutoff of credit led to really additional plummeting of the U.S. market. That played out over the last 60, 90 days in Western Europe and literally as we speak today is playing out in Brazil. So while we have been able to be, for example, very profitable in Brazil up until now this year and be able to remit some money to the U.S., we see this, unfortunately, this crisis as we did in the financial markets roll around the world. We are seeing the availability now affecting auto sales around the world, as well.

Senator TESTER. So you anticipate the profit margin in those countries where you are profitable is also going to—OK.

Mr. WAGONER. Yes.

Senator TESTER. Do you think there should be any strings attached? The President-elect has talked about increased CAFE standards with any sort of bail-out. Would you have a problem with that? And all three of you can answer that.

Mr. MULALLY. Well, I think on the CAFE, on the fuel mileage itself, I think the work we did last year was very, very good work. We completely stretched the enabling technology to be able to meet the fuel efficiency improvement requirements that we have outlined. I don't think we know of any more technology that we could bring to bear that would accelerate that.

With respect to other strings——

Senator TESTER. So how far are you going to exceed the CAFE standards that we passed a year ago?

Mr. MULALLY. We are absolutely committed to meeting those requirements.

Senator TESTER. Those—OK. Go ahead. Keep going.

Mr. MULALLY. And they are, as you know, when we all negotiated together that those are tremendous stretches using all the enabling technology that we have.

Senator TESTER. And those are fleet-wide averages, and I am here to tell you from personal experience, in 30 years, the mileage increase in light trucks is very, very minimal. That is my experience.

Mr. MULALLY. I personally would be glad to sit down with you. We think the data, the improvement we have made over the last 35 years in trucks, because we have improved the fuel mileage tremendously in trucks, also. Now, you are absolutely right in the recent experience. In our case, we let the fuel mileage of our recent trucks not improve as fast as what we should have——

Senator TESTER. I am talking half-tons.

Mr. MULALLY. Oh, OK. Well, that would be something good to compare notes on.

Senator TESTER. I mean, it is one of the things I think is a very good marketing tool for domestically made vehicles that you need to pound on, and if you get those up, your CAFE for your fleet average would go up significantly because I know each one of you are making fuel efficient cars.

Mr. MULALLY. I agree. We are making—just like the last trucks that we are introducing, we are making tremendous improvement——

Senator TESTER. Getting back to the question, though, you would be opposed to any sort of strings attached for increased CAFE standards with any kind of bail-out, is that correct? Is that a correct assumption?

Mr. WAGONER. I think it would—from our perspective, we are stretching to meet the requirements as they are, so we understand there will be strings and expectations——

Senator TESTER. OK——

Mr. WAGONER. ——but from our perspective, it would be tough to increase them.

Senator TESTER. I see the head nod from Ford and Chrysler.

Mr. NARDELLI. Sir, I might say it a little different. I would say that obviously, given our situation, we would be open to any requirements that you felt appropriate. I would have to obviously come back and be candid with you whether our ability to schedule inventions beyond where we are, but the short answer is, in our position, we would be open to any of those discussions.

Senator TESTER. OK. Back in 1979 when we bailed out Chrysler, it has probably been pointed out to you already at some point in time, Lee Iacocca said that he would take one dollar in executive compensation until those companies became—until Chrysler became a profitable model. Where are you guys at on a proposal like that?

Mr. NARDELLI. I would be willing to accept that.

Mr. WAGONER. I would be willing to contribute to the sacrifice. A couple of years ago, I cut my own salary unilaterally 50 percent, so I am willing to be part of the solution.

Senator TESTER. I understand that, but 50 percent of $20,000 is a whole lot less than 50 percent of a six-digit figure.

Mr. WAGONER. Agree.

Senator TESTER. OK.

Mr. MULALLY. I absolutely respect the intent of your question as a symbolic gesture.

Senator TESTER. Yes.

Mr. MULALLY. But it is a symbolic gesture.

Senator TESTER. That is correct.

Mr. MULALLY. We have absolutely taken action on all the salaries. We have no more merits. We have no bonuses. We have no incentives because for the entire company, we believe this is the right thing to do during this critical period. We also need to make sure that we can keep fielding a skilled and a motivated team to deliver this plan that we are talking about.

Senator TESTER. That is right.

Mr. MULALLY. So I think that I sure respect the intent of it, but I think the most important thing is that we not degrade our ability to be competitive and deliver this plan.

Senator TESTER. You guys are down the line a little bit, but I will just tell you, from my perspective, when you see things that happen with AIG—you are not AIG, thank God for that, but when you see things that happen with AIG, with what they have done, and I can go through the list, when I go back home, they ask me why I give money to anybody, including the auto manufacturers, because of what those executives have done. That is just a side comment.

The last thing I will say is this. You all talked about—I believe you all talked about at some point in time that credit was a problem selling your vehicles at this point in time. I believe for every $1 billion invested of Federal dollars, it creates about 47,000 jobs. Wouldn't it be better just to throw the money into jobs building infrastructure, whether that is research and technology infrastructure that would help the auto industry or whether that is highways and bridges and roads, that would employ people and they would have money to go out and buy your vehicles? Just your thought on that. And by the way, that could hit the ground very quickly, some would argue quicker than a check.

Mr. WAGONER. From my perspective, we really have three issues if we want to get the industry back in the position we would like. First of all, because of the complete failure of the credit system, the auto companies need support to be able to survive. At least over some period of time, we need direct funding support.

Second of all, the auto finance companies do need to be able to continue or to increase their ability to finance consumers.

Senator TESTER. Yes, OK.

Mr. WAGONER. And third, there needs to be, I believe, some way to improve the consumer sentiment toward buying cars and other products.

Senator TESTER. OK. The same question.

Mr. NARDELLI. I would agree with those three points and only add that certainly providing job opportunities for hard working men and women here in the country is a great idea. My only concern, Senator, would be the time lag between actually getting that started, and again, I only reemphasize the sense of urgency, hopefully that you are hearing from me and my two colleagues.

Senator TESTER. Yes. Go ahead.

Mr. MULALLY. And the only thing I would add is that what you are really—the question is, how quickly can we get this economy going again, and so I would applaud every effort we do on that. I think that, like you said earlier, I think we know there is a lot of work to do to get that going, so it is back to the time lag, because we are here because of a near-term challenge.

Senator TESTER. OK. Doctor, go ahead.

Mr. MORICI. I know you like to talk about strings, and I would admonish you, whatever solution you come up with, don't try to micromanage these companies from here. Although I understand your concern about fuel economy, if you want to talk about strings, the most significant string you could tie to resurrect these economies would be on some of that money from the Federal Reserve to the nine largest banks to get them back into securitizing the debt that their finance companies generate.

Senator TESTER. OK. So just the last point, and that is a very good point, but the last point is, in your opinion, has the $300 billion that has been spent by the Treasury so far done anything to help your business from a credit standpoint? Yes or no would be fine.

Mr. WAGONER. I—yet, we haven't seen any measurable change, except for we have had the capability to use the commercial paper facility at the Fed, so that has helped some.

Senator TESTER. OK.

Mr. NARDELLI. Not at this time.

Senator TESTER. OK.

Mr. MULALLY. I agree.

Senator TESTER. Thank you, gentlemen, very much. I appreciate your time.

Chairman DODD. Thank you, Senator, very much.

Just a couple of points I want to raise, and again, you are very patient and I thank my colleagues, as well.

Our colleague from Maryland, Barbara Mikulski, has raised an issue, and I won't do her justice by getting into the details of it, but I am reminded of it with a comment I think Mr. Wagoner made, and that is her suggestion is to provide a tax deduction for the purchase of new automobiles. The idea is to encourage consumption. I think the total cost of it, her package, is around $8 billion. It involves a deduction for sales taxes and the like. Do you have any quick comments on that idea, and I am not doing it justice, but just to conceptually the idea?

Mr. NARDELLI. Mr. Chairman, we have heard that idea and obviously we would be the last to turn down any offer of help. My concern, back to my testimony, was that before you could get the credit, you have to be able to buy the vehicle, and today, relative to the crisis, the liquidity crisis, the FICO scores that are necessary to qualify, my concern would be that it would—while it would be great if we can get consumers into cars, our biggest immediate challenge is to get our affiliate finance companies, whether they get bank holding company status——

Chairman DODD. The point the Doctor just made.

Mr. NARDELLI. ——or ILCs, sir, we must get—it is a parallel path. We have got to get the financial companies healthy. We have got to get cash infusion to our companies. And certainly then the tax credit would be beneficial, but I don't think in and of itself would be enough.

Chairman DODD. And I agree with the point that Dr. Morici has made, and that is, of course, to try and use this money to get lending going so we get securitization moving, and I think that is a very important point, as well.

There are some of these, and I agree, as well, on the notion about micromanaging. It is one of the reasons why we wrote the Emergency Economic Stabilization Plan. We stayed away from micromanaging to give flexibility and latitude so they could respond to the situation. So I appreciate that point.

But let me come back to the executive compensation issue, and I will tell you why. And again, you heard Senator Tester talk about Montana. I have got to say, just last weekend in Connecticut, we went to get lunch at a little diner, stood in line, and constituents came up. The only issue they had for me about the economic stabilization was about executive compensation. I hear it every day.

I know it is symbolic, but I want to suggest to you here, and again, I know the compensation packages that you all have are pretty rich ones. Mr. Nardelli, I think you got $200 million when you left Home Depot. At least that is reported. I think, Mr. Mulally, you got last year some $28 million in compensation as the Chief Executive Officer of Ford. And I don't know, Mr. Wagoner, what your compensation is.

We are going to be talking about assistance here, and I am one who believes we ought to try and do this, but I think it is very important you understand the public's reaction to all of this. And while you can make a case that there is not a direct correlation to this, it is the concern that people have that somehow they are subsidizing this. And so I would strongly urge you, because I would certainly would write things in about golden parachutes and the like, but I can't begin to tell you what sort of reaction there would be from the public if you on your own would be willing to take some steps that would reassure the American public that their dollars that are going to be forthcoming are not going to be used in any way to provide exorbitant salaries and fees to people.

You are asking an awful lot, and I suspect what Senator Corker raised, this $25 billion is not going to be the end of it. We are going to be asking for more at some point here. And I would like to tell you that in the next couple of days, this is going to happen. I don't think it is. You heard a lot of negative reaction to any ideas of providing help at this table. And I know that Senator Reid, the Majority Leader, would very much like to achieve this if he could, but I think it is going to be difficult under the circumstances.

So we will have to regroup and decide how to move forward. We understand the magnitude of the problem. But I wouldn't want you to leave here without a clear idea, at least from this member, as to the difficulty of getting something done in the next few days on this matter. There are a lot of unanswered questions that our colleagues will have and we will have to work our way through this. And I am prepared to roll up my sleeves and work through it with my colleagues, as well. I am ready to stay here every day as long as it takes because of the magnitude of the problem and the implications.

Inaction is not a solution. That is not an answer to this Member. And it may be an answer to some, but I think the majority of my colleagues would like to take some action to help out here, to move forward.

So on that note, I thank you immensely. You have been very, very patient. I want to thank Ron Gettelfinger, as well, and you, Dr. Morici. You were rather an eloquent spokesman on the other side. We thank you for your testimony.

We will leave the record open for a few days here for additional questions that may come and additional comments you want to make in response to some of the questions that have been asked here today.

Again, I thank you all very much for being here. With that, the Committee is adjourned.

[Whereupon, at 7:05 p.m., the hearing was adjourned.]

[Prepared statements and response to written questions supplied for the record follow:]

PREPARED STATEMENT OF RON GETTELFINGER

PRESIDENT,

INTERNATIONAL UNION, UNITED AUTOMOBILE, AEROSPACE, AND AGRICULTURAL IMPLEMENT WORKERS OF AMERICA

NOVEMBER 18, 2008

Mr. Chairman, my name is Ron Gettelfinger. I am President of the International Union, United Automobile, Aerospace, and 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 state of the domestic 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 auto makers 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 auto makers, 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, "pre-packaged" 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 auto makers' 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 percent 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.

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 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 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 percent. Furthermore, new hires will not be covered by 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 50 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 auto makers.

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.

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 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 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 state of the domestic auto 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.

PREPARED STATEMENT OF ALAN R. MULALLY

PRESIDENT AND CHIEF EXECUTIVE OFFICER,
FORD MOTOR COMPANY

NOVEMBER 18, 2008

Thank you Mr. Chairman, Senator Shelby 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 2 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 2 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 5 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 head count 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 4-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 CO_2 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.

- Tomorrow 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.
- Also today, Ford is submitting 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 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. Our Ford Credit team is optimistic that recent announcements from the Administration will help unfreeze the term securitization markets with the same success we have seen lately in asset-backed commercial paper markets.

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 percent 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 percent is well above the low point of 4.4 percent 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 percent 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 percent of banks have tightened standards for consumer credit in the most recent survey.

During the last 6 months, light vehicle sales fell at a 45 percent annualized rate, the worst slide since mid-1980. In October, the annualized sales rate for the U.S. 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. But importantly, despite our best efforts, our industry's ability to weather this storm has been directly affected by the external financing environment.

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.

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. We have eliminated merit raises and bonuses in 2009, and we continue not to pay any dividends to our shareholders.

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 percent of Ford's entries in these segments will be shared between Ford North America, Ford Europe, and Ford Asia Pacific by 2010, with 100 percent 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.

If any one of the domestic companies should fail, we believe there is a strong chance that the entire industry would face severe disruption. 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. 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 percent of our top 1,500 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 auto makers, 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 be structured in a revolving format so that the exposure to the taxpayer would be limited—and, if used, we would repay with interest.

The Public Interest

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. Auto makers 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.

PREPARED STATEMENT OF ROBERT NARDELLI

CHAIRMAN AND CHIEF EXECUTIVE OFFICER,

CHRYSLER LLC

NOVEMBER 18, 2008

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 auto maker 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 auto maker 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.

PREPARED STATEMENT OF G. RICHARD WAGONER, JR.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER,

GENERAL MOTORS

NOVEMBER 18, 2008

Good afternoon, 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.

I'd like to acknowledge for the Committee the audiences that I represent: General Motors directly employs approximately 96,000 people in the United States. We have 6,500 dealers across the country, who employ another 340,000. 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 one million Americans. We have about one 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 recent news coverage has made abundantly clear, many people have a picture of GM that has not kept pace with our progress. In fact, GM has made tremendous progress transforming our business in recent years. Since 2005, we've reduced our annual structural costs in North America by 23 percent, or $9 billion—and expect to reduce them an additional $3–4 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 auto makers 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. In 2009, GM will offer 20 models in the U.S. that get at least 30 miles per gallon highway—twice our nearest competitor—and nine hybrids. We have more than 3 million flex-fuel vehicles on the road in the U.S. We've established the world's largest hydrogen fuel-cell test fleet here in the U.S. And we're running all-out to get the Chevy Volt extended range electric vehicle to market as soon as possible.

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 auto makers. 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 taken steps to: reduce our North American manufacturing capacity; further shift production to cars and crossovers; sell off parts of the company; suspend dividend payments; reduce headcount; eliminate raises, discretionary bonuses, and 401(k) matches for salaried employees; and eliminate health-care coverage for U.S. salaried retirees after age 65.

These and other actions are designed to improve GM's liquidity by $20 billion by the end of 2009. They 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, which represents America's real economy, 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 that help deliver essential services to million of Americans. In the process, we'll continue to reinvent the automobile, and improve the Nation's energy security, through development of advanced technologies like those in the Chevy Volt.

And what would it mean 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 3 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. That's why this is about much more than "just" Detroit, it's about saving the U.S. economy from a catastrophic collapse. 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. We want to continue the vital role we've played for America for the past 100 years, but we can't do it alone. You can help us through this crisis. 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.

Ken W. Cole
Vice President
Global Public Policy
and Government Relations

General Motors Corporation
25 Massachusetts Avenue, N.W.
Suite 400
Washington, D.C. 20001
Tel 202-775-5090
Fax 202-775-5023

November 18, 2008

The Honorable Christopher Dodd
Chairman
Committee on Banking, Housing and Urban Affairs
534 Dirksen Senate Office Building
Washington, DC 20510

Dear Mr. Chairman:

I am writing to request that the attached information be included in the official hearing record for today's hearing on Examining the State of the Domestic Automobile Industry. It complements the testimony of G. Richard Wagoner, Jr., Chairman and Chief Executive Officer of General Motors Corporation who is testifying at the hearing today.

If you have any questions or need additional information please do not hesitate to contact me.

Sincerely,

Joseph B. Trahern
[illegible] of Legislative &
Regulatory Affairs

Tel 202-775-[illegible]
Fax 202-[illegible]
joseph.[illegible]

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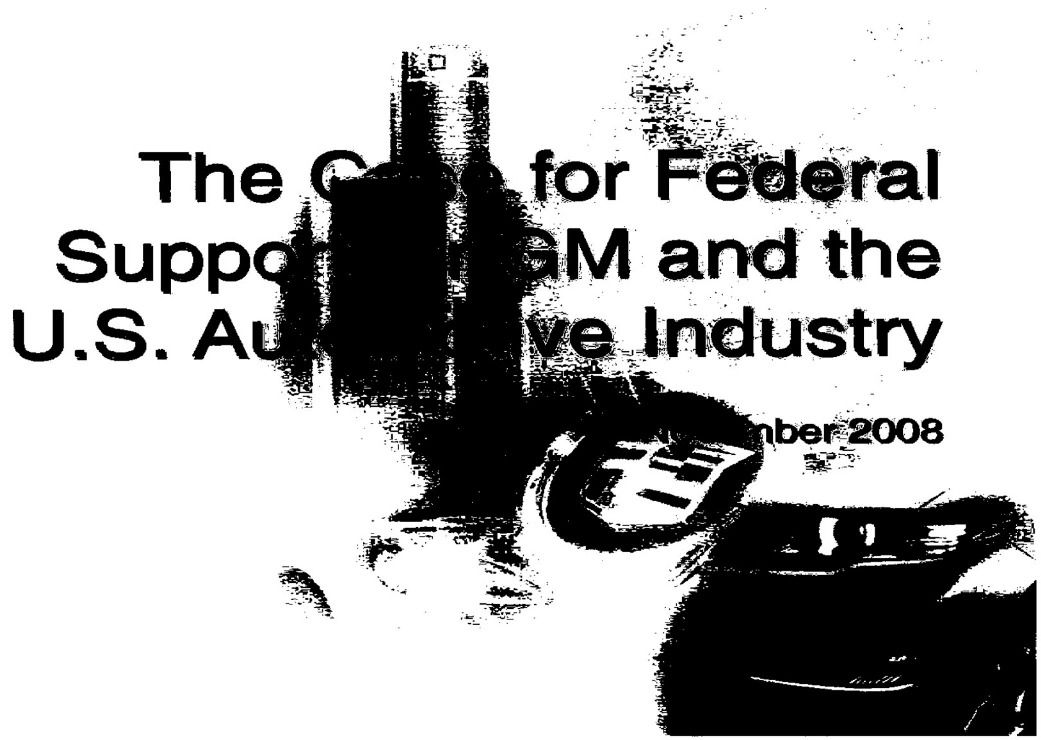
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Overview

- GM has taken far-reaching actions over the last several years to restructure, be more competitive, and position its U.S. business for future viability and success
  - Dramatic cost reductions
  - Excellent product execution
  - Significant technology advancements
- However, the credit crisis is overwhelming operating plans -- weakening U.S. vehicle market and closing off financial market funding
  - Wall Street crisis has moved to the real economy -- "Main Street"
- Bankruptcy filing would be catastrophic for the nation; would have massive and far-reaching systemic economic and social costs
- GM and U.S. automotive industry require immediate liquidity support

GM Has Taken Bold Actions to Achieve Competitiveness

Cost Competitiveness & Productivity in North America

- Reduced structural cost by $9 billion from 2005-2007 (down 22%) with plans for further reductions of $5 to $6 billion by 2011 (down ~35%)
- Rightsized manufacturing capacity: From year-end 2004 to year-end 2007, GM removed 1.3 million units of assembly capacity (24% net reduction)
  - Further rightsizing planned with reduction of 0.7 million units by year-end 2010 (total net reduction of 36%)
  - More than 60% of remaining capacity at year-end 2010 will be dedicated to fuel efficient cars and crossovers
- Streamlined U.S. operations: Total headcount reduced from 177,000 in 2002 to 93,000 today (47% reduction)
- 2007 UAW Hourly Labor Agreement provides basis for competitive manufacturing base in U.S. by 2010
- Historic agreement with UAW to fund retiree health care obligations with independent VEBA trust, eliminating majority of risk related to U.S. retiree healthcare starting in 2010
- GM leads in manufacturing productivity in 11 out of the 20 North America segments in which it competes (2008 Harbour Report)
  - GM also has 5 of the top 10 best rated engine plants in North America, and the #1 transmission plant, <u>all located in the U.S.</u>

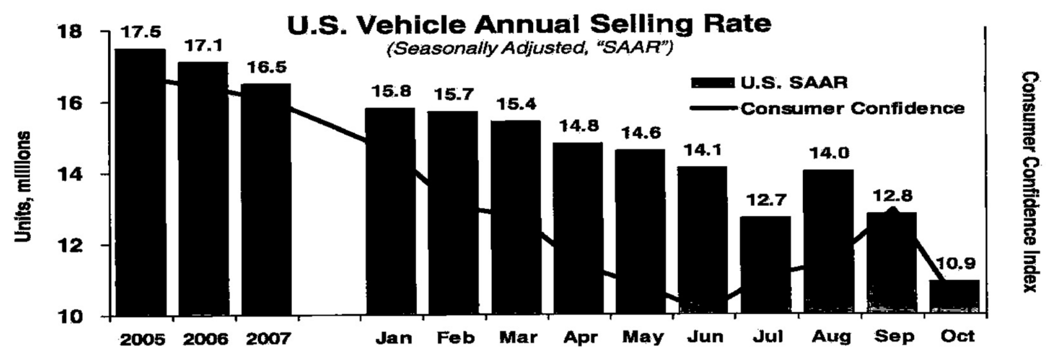
GM Has Taken Bold Actions to Achieve Competitiveness (continued)

Product & Technology Excellence

- Commitment to Product Excellence broadly recognized
  - North America Car of the Year: Chevrolet Malibu and Saturn Aura
  - Motor Trend Car of the Year: Cadillac CTS
  - European Car of the Year: Opel Insignia
  - Green Car of the Year (LA Auto Show): 2-Mode Hybrid Chevrolet Tahoe
  - 11 of last 13 U.S. launches have been cars or crossovers
  - J. D. Power Initial Quality Survey: In 2008, GM had more segment leaders than Toyota or Honda, and GM has improved overall survey performance by 25% in last 5 years
  - Reduced number of warranty repairs by 40% over the last 5 years, and are on track in 2008 to achieve a further 15% reduction vs. 2007 levels
- Growing leadership position in fuel economy and advanced propulsion technologies
  - 20 GM vehicles with EPA highway fuel economy of 30 mpg or better (most of any manufacturer, domestic or import)
  - World leader in bio-fuel vehicles with over 3 million FlexFuel vehicles on U.S. roads today, with commitment to reach 50% of annual GM volume by 2012
  - 6 hybrids in U.S. today, and 2 more by year-end 2008 (most hybrid models of any automaker)
  - Largest hydrogen fuel cell vehicle test fleet in the world
  - Chevrolet Volt (E-REV) production on schedule to begin in 2010

Rapid Decline in U.S. Consumer Confidence Due to Credit Crisis, Leading to Low Industry Vehicle Sales

- Falling U.S. home prices, mounting foreclosures and subsequent credit/financial crisis led to dramatic decline in consumer confidence
- October U.S. auto sales fell to levels not seen in more than 25 years and, after adjusting for population, the lowest levels since World War II



Most Difficult Business and Credit Environment in 70 Years

- Housing price decline in U.S. and Europe precipitated financial turmoil which has spilled over to the broader global economy, leading to widespread uncertainty and volatility
  - U.S. economic downturn, declining employment, falling real income
- Worst financial/credit crisis in more than 70 years impacts auto business from all sides
  - Consumer and dealer financing are severely restricted
  - Suppliers under increasing pressure as volumes decline
  - Capital markets are essentially closed to GM and suppliers
  - Asset sales challenged because buyers also cannot find financing
- Coordinated global government measures are welcomed and have had some effect, but credit markets are far from stabilized and measures have not yet helped the real economy ("Main Street")

GM

U.S. Auto Industry Is Significant Contributor to U.S. Economy

- Directly employs nearly 240,000 people
- Provides healthcare to 2 million Americans and pension benefits to 775,000 retirees and spouses
- Supports another 5 million jobs at dealers, parts suppliers and service providers
- Comprises nearly 4% of U.S. GDP
- More than $225 billion invested in U.S. over last 2 decades, including $10 billion in 2007 alone
- $12 billion spent annually in U.S. on R&D, exceeding aerospace, medical equipment and communications
- Purchased $156 billion in U.S. auto parts in 2007, supporting jobs in all 50 states
- Largest purchaser of U.S. steel, aluminum, iron, copper, plastics, rubber and electronic chips

Massive Employment Impact from Detroit 3 Collapse

	Full Collapse: Detroit 3 Cease Manufacturing in 2009			Partial Collapse: 50% Reduction By Detroit 3		
	2009	2010	2011	2009	2010	2011
Detroit 3 Reduction	100%	100%	100%	100%[1]	50%	50%
Direct Employment	-239,341	-239,341	-205,611	-239,341	-119,671	-119,671
Supplier Employment	-973,969	-795,223	-544,598	-795,371	-491,719	-311,488
Indirect Employment	-1,738,034	-1,427,452	-1,021,354	-1,427,663	-886,345	-574,434
Total Employment	***-2,951,344***	***-2,462,016***	***-1,771,563***	***-2,462,375***	***-1,497,735***	***-1,005,593***

(1) Assumes supplier disruptions would initially shut down all Detroit 3 carmakers

Direct Employment:	Jobs at Detroit 3 carmakers
Supplier Employment:	Jobs at companies that sell commodities, products or services directly or indirectly to Detroit 3 carmakers
Indirect Employment:	Expenditure related effects in general economy, representing loss of economic activity due to reduced spending of employees of Detroit 3 and their suppliers

Source: *Center for Automotive Research Memorandum: The Impact on the U.S. Economy of a Major Contraction of the Detroit Three Automakers, Nov. 4, 2008*

GM

Chapter 11 Would be Catastrophic

- Successful Chapter 11 filing would require both preservation of revenue (especially in a high fixed cost industry like the auto industry) and successful financing while in bankruptcy
- Filing would precipitate massive and rapid desertion by customers
  - Automobiles are the second largest purchase for most individuals, and purchase decisions are impacted by consideration of warranty, service, parts and residual value
  - Customers have other options: a June 2008 survey by CNW Research indicated that ~80% of customers would not purchase a vehicle from a bankrupt manufacturer
- In today's credit market, financing while in bankruptcy would be very difficult – especially if the company was not able to protect its revenue base
- Significant negative effects on U.S. automotive industry, broader economy and global credit markets

GM Taking Significant Actions in 2008 and 2009 to Generate and Preserve Cash Through Downturn

- In light of ongoing global credit crisis, GM has planned conservatively and is expecting U.S. industry volumes significantly below trend for several years
- In July 2008, GM took difficult actions to generate and preserve cash through 2009, announcing a combined $15 billion of operating and other actions that relied mostly on "self help"
  - $4 billion of North America structural cost, including idling truck and SUV assembly plants and the elimination of executive bonuses
  - $2 billion from working capital by slashing inventories
  - $1.5 billion reduction in capital spending
  - $2.5 billion by suspending the dividend and deferring payments to UAW VEBA
  - $5 billion of asset sales and capital markets activity (to date, unable to execute)
- GM recently announced further tough operating actions to preserve an additional $5 billion through 2009. Actions include cutting capital spending by delaying certain vehicle launches, taking out more North America structural cost and further reducing salaried headcount
- Importantly, GM has protected or increased spending for critical advanced technology and fuel economy programs (Chevrolet Volt, Chevrolet Cruze)

GM and Industry Need Liquidity Bridge to Cover Expenses Through Downturn

- GM needs federal funding as a bridge for engineering and technology spending, capital spending and operating requirements that cannot be covered in the current depressed industry conditions

Engineering and Technology Spending

- Research for fuel economy and safety technologies, advanced batteries, and telematics developments
- Development of new vehicle models and powertrains, updates to current models

Capital Spending

- Machinery and equipment investments for new products
- Modification of infrastructure; upgrading infrastructure, information technology

Operating Requirements

- Paying suppliers for production parts, components and materials
- Paying wages, salaries and benefits of workers
- Taxes

GM Is Executing Its Plan to Build a Winning Auto Company for the Long-Term

- GM is building a winning auto company for the long-term
  - Using its global scale and scope to bring products that consumers want to every market GM competes in with industry-leading quality, safety, fuel economy and design, including the U.S. launch of the new compact Chevrolet Cruze in 2010
  - Landmark agreement with UAW provides new operating flexibility today, competitive U.S. hourly labor costs in 2010, and caps GM's hourly retiree healthcare liability
- GM building the best cars in its 100-year history, with a resurgence in quality and styling across its entire product portfolio
  - Targeting fuel economy leadership in every class of vehicle we introduce
  - Cars and crossovers comprise 11 of last 13 U.S. launches, and 14 of next 15
  - Success of recent launches such as Cadillac CTS, Chevrolet Malibu and Buick Enclave provide confidence in product plan
- GM committed to pursuing industry leadership in fuel economy and advanced vehicle technology
  - 20 GM vehicles with EPA highway fuel economy of 30 mpg or better (most of any manufacturer, domestic or import)
  - World leader in bio-fuel vehicles with over 3 million FlexFuel vehicles on U.S. roads today, with commitment to reach 50% of annual GM volume by 2012
  - 6 hybrids in U.S. today, 2 more by year-end (most hybrid models of any automaker)
  - Largest hydrogen fuel cell vehicle test fleet in the world
  - Chevrolet Volt (E-REV) production on schedule to begin in 2010
- GM is reinventing the automobile – and the company

PREPARED STATEMENT OF PETER MORICI

PROFESSOR, ROBERT H. SMITH SCHOOL OF BUSINESS,
UNIVERSITY OF MARYLAND

NOVEMBER 18, 2008

My name is Peter Morici, economist and professor at the University of Maryland School of Business. Thank you for inviting me to provide testimony today.

The domestic automobile industry has two major components—the Detroit Three and the Japanese, Asian, and European transplants that also assemble and source components in the United States and Canada. Both contribute importantly to the vitality of our national economy. Ensuring these companies have the means to compete globally is vitally important.

The gradual erosion of the market shares of the Detroit Three over the last several decades stems from higher labor costs—having origins in wages, benefits, and work rules—poor management decisions, and less than fully supportive government policies. Although the U.S. government has been sympathetic to the needs of the industry, the industry has fallen victim to currency manipulation and other forms of protectionism in Japan, Korea, India, and China.

The Detroit Three are rapidly running out of cash and face filing for Chapter 11 reorganization. It would be better to let them go through that process and reemerge with new labor agreements, reduced debt and strengthened management that would permit these companies to produce cars at costs comparable to those enjoyed by their Japanese and other foreign competitors assembling vehicles in the United States.

Circumstances are dramatically different today than in 1979 when Chrysler received assistance from the Federal Government. In those days, the challenge at Chrysler was to become competitive with Ford and GM, and Lee Iacocca had a clear plan to achieve that objective and succeeded. Today, the Detroit Three, though improved in productivity and with lower labor costs thanks to concessions from the United Auto Workers, are still not as competitive as the Japanese transplants.

Margins in automobile manufacturing are thin and there is no such thing as being competitive enough. Either a company is competitive or it is not—either it accomplishes the cost structure enjoyed by Toyota and Honda, operating in the United States, or it will continually cede market share and run into financial difficulties.

By assisting the Detroit Three, Congress can delay one or all of them going through Chapter 11 reorganization but sooner or later one or all will face reorganization. The communities and suppliers dependent on these companies would be better off going through that process now than by delaying it with assistance from the Federal Government.

Without a new labor agreement that brings wages, benefits and work rules in line with those at the most competitive transplant factories, and without reduced debt and other liabilities, the Detroit Three will continue to lag in product innovation and field too few attractive new vehicles, because their higher costs, debt and other liabilities require them to spend less on new productive development than they should. Also, they are inclined to field products with less desirable content to compensate for higher costs. As consumers find vehicles made by Japanese and other transplants more attractive, like those imported from Korea and eventually from China, the Detroit Three will cede market share of one or a few percentage points each year.

If Chapter 11 is put off, the successors to GM, Ford, and Chrysler that emerge from a bankruptcy reorganization process will be smaller and support fewer jobs than if these companies endure this difficult transition in 2009.

More jobs can be saved among GM, Ford, and Chrysler and their suppliers if bankruptcy reorganization is endured now than in the future.

When Americans buy automobiles from the Detroit Three, more is contributed to the vitality of the U.S. economy than when Americans buy vehicles assembled here by transplants or imports. These vehicles have more U.S. content in terms of jobs, engineering, and profits than do foreign nameplate vehicles.

The Congress could take steps to improve the attractiveness of making cars and parts in the United States by improving the public policy environment. This would include finally addressing, directly and forthrightly, undervalued currencies in Asia—currencies kept cheap by intervention by foreign monetary authorities in China and elsewhere. In addition, assertive efforts to develop fuel efficient vehicles could strengthen the industry and create export strength.

For example, Congress could offer an incentive for car buyers to trade in their gas guzzlers—the newer and the bigger the clunker, the more the car buyer would receive under the condition the vehicle is destroyed. This would raise the price car makers receive from selling smaller vehicles.

Congress could provide substantial product development assistance to U.S.-based auto makers and suppliers. The latter includes Toyota, Nissan, and Honda, as well as the Detroit Three, battery makers and other suppliers to accelerate the production of innovative, high-mileage cars.

The condition for assistance would be that beneficiaries do their R&D and first large production runs in the United States, and share their patents at reasonable costs with other companies manufacturing in the United States. The huge U.S. market would help attract producers from around the world and rejuvenate the U.S. auto supply chain.

PREPARED STATEMENT OF ROBERT A. FICANO

WAYNE COUNTY EXECUTIVE,
DETROIT, MICHIGAN

NOVEMBER 18, 2008

My name is Robert Ficano, and I serve as County Executive for the tenth largest county in the United States, Wayne County, Michigan. Southeast Michigan is home to the "Big Three" domestic automotive companies. I appreciate the opportunity to submit testimony for the Committee's consideration. As the Committee begins to examine the state of the automotive industry, I would like to bring to mind a quote from automotive pioneer, Henry Ford, to help set the stage for a Congressional response to the automobile industry's need for increased financial assistance: "Coming together is a beginning. Keeping together is progress. Working together is success."

Thank you and congratulations to Members of Congress for working together to pass the most recent economic stimulus package. The legislation allows the automotive industry to secure low-interest loans for retooling plants and moving forward with research and development. This is one step forward in stabilizing the industry. However, more direct assistance is necessary—the automobile industry remains in a perilous economic position, which has a significant, negative impact on the State of Michigan and, in particular, Wayne County. More direct financial support and intervention are needed as the auto industry continues to suffer and millions of jobs are in jeopardy.

Congress correctly perceives this as a national problem with severe consequences. The automotive industry is the largest sector of our manufacturing industry in the United States. According to the National Center for Manufacturing Sciences, government assistance to the automotive industry for research and development will enable innovation of infrastructure into all sectors of manufacturing. New products and technology, frequently cultivated in the automotive sector, have spun off to other industries such as green technology, alternative energy, medicine, and aerospace, to name just a few. The assistance from the Federal government should be viewed as an opportunity to infuse new growth. Building new infrastructure can also lead to better safety and security of intellectual property.

Wayne County is home to nearly 2 million residents, as well as Ford, General Motors, and 17 automotive plants. According to the Southeast Michigan Council of Governments (SEMCOG), Michigan lost more than 87,000 automotive manufacturing jobs between 2000 and 2008. The total job loss, including suppliers and spin off businesses, for the region was 13 percent or 254,000. As widely reported, unemployment rates in the region are significantly higher than the national average since 2001, 8.5 percent compared to 6.1 percent nationally. Over the past 7 years, nearly 160,000 people have moved out of Southeast Michigan. The loss of automotive jobs triggers tremendous ripple effects on business, housing market, and Michigan has experienced a severe decline in its tax base. SEMCOG has forecasted that the loss of another 50,000 jobs in the automotive manufacturing sector will have an immediate and severe impact totaling in an additional loss of 7 percent or 190,000 jobs.

According to the Center for Automotive Research (CAR), immediate collapse of the industry would result in nearly 3 million lost jobs. An estimated 239,341 jobs would be lost at the "Detroit Three" and another 973,696 indirect or supplier jobs and 1.7 million related jobs also would be lost. Federal assistance is much needed and should be viewed as an opportunity to stabilize the industry and prevent the economy from faltering further. According to General Motors, the cost to local, state, and Federal governments could reach $156.4 billion over three years in lost taxes, unemployment, and health care assistance.

Some define this Federal assistance as a bail-out, while it is really a loan to be paid back. I also urge Congress to view this as I do—and see it as opportunity to re-structure and grow the industry. The Federal government previously intervened, with great success, on behalf of Chrysler in 1980 and, more recently, the airline industry. The government's investment prevented these companies from going bankrupt, which would have negatively affected employee pensions, vehicle sales, suppliers, dealerships, and related industries.

On a final note, I want to mention one underlying problem that perhaps escaped much scrutiny. I urge Congress to commit once again to tackling the health care cost and access problems facing our Nation. Our public leaders across the board must commit to making health care more affordable. Skyrocketing health care costs are affecting business and government equally. It is time to reevaluate our national health care policies before all businesses are forced to seek government assistance.

We in Wayne County strongly advocate bipartisan Congressional Leadership and intervention to assist the automobile industry. Attached to this statement is a letter I sent last week to the President and President-Elect as well as House and Senate Congressional Leadership. The collapse of one or more of the "Big Three" auto makers could put millions of jobs across our country at stake. As a Nation, we cannot allow such a vital systemic part of the American economy to collapse under the current financial crisis. To successfully survive the global credit crunch, it is imperative that auto makers receive financial assistance to remain viable and competitive. Henry Ford stated that "most people spend more time and energy going around problems than in trying to solve them." On behalf of our people, thank you for your timely consideration on such an important issue for the citizens of our Nation, Michigan, and Wayne County.

Robert A. Ficano
County Executive

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November 13, 2008

The Honorable George W. Bush
President of the United States
1600 Pennsylvania Ave., N.W.
Washington, D.C. 20500

The Honorable Nancy Pelosi
United States House of Representatives
235 Cannon House Office Building
Washington, D.C. 20515

The Honorable Barack Obama
President-Elect of the United States
The Office of the 2008 Presidential Transition
Washington, D.C.

The Honorable Harry Reid
United States Senate
528 Hart Senate Office Building
Washington, D.C. 20510

Dear President Bush, President-Elect Obama, Speaker Pelosi, & Majority Leader Reid:

We in Michigan appreciate your speedy response to the automobile industry's need for increased financial assistance. Currently our nation's automobile industry is in a perilous economic position which has had a significant negative impact on the State of Michigan and, in particular, Wayne County. While we applaud the effort in retaining the $25 billion direct loan program for automakers that was included in the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act (P.L. 110-329), more direct assistance and intervention is needed as the industry continues to suffer and millions of jobs are in jeopardy.

As you are aware, Wayne County is the home of two major corporations in the domestic automobile industry – General Motors and Ford Motor Company. General Motors, for example, is doing its part to bring alternative fuel and advanced technology vehicles, like the Chevy Volt, to the market. The current market and economic conditions threaten progress. This also affects other automakers and suppliers, who make critical components and contribute significantly to our nation's economy.

We strongly urge Congressional and Presidential leadership and intervention to assist the automobile industry. Just last week General Motors announced that it may not have enough capital readily available to operate its business into the middle of next year. The collapse of one or more of the "Big Three" automakers could put three million jobs at stake. We cannot allow such a vital systemic part of the American economy to collapse under the current financial crisis. To successfully survive the global credit crunch, it is imperative that automakers receive financial assistance to remain viable and competitive.

Thank you for your timely consideration on such an important issue for the citizens of our nation, Michigan, and Wayne County. Please do not hesitate to contact me if you have any questions or comments, or if we can assist your efforts in any way.

Sincerely,

Robert A Ficano

Robert A. Ficano
Wayne County Executive

Cc: Michigan Congressional Delegation

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM RON GETTELFINGER

Q.1. Mr. Gettelfinger, the Big 3 auto makers have all posted sizable losses over the last few years. GM alone has lost more than $70 billion since 2004. This record of unprofitability indicates that if the Big 3 do not make significant changes to their business model, any Federal investments in the auto makers might not improve their long-term profitability and could result in substantial losses for U.S. taxpayers.

What new steps is the UAW willing to take to help return the Big 3 to profitability? Are you willing to support additional wage and benefit cuts? Are you willing to support significant job cuts?

A.1. As indicated in the UAW's testimony, workers and retirees have already stepped forward and made enormous sacrifices. In 2005 the UAW accepted cuts in wages for active workers and health care benefits for retirees. In the 2007 contract, the UAW agreed to slash wages for new workers by 50 percent to about $14 per hour, and to exclude new workers from the traditional health care and pension plans. The UAW also allowed the companies to outsource cleaning work at even lower rates. Furthermore, under the 2007 contract, beginning January 1, 2010, the liabilities for health care for existing retirees will be transferred from the companies to an independent VEBA fund. The changes in the 2005 and 2007 contracts reduced the companies' liabilities for retiree health care benefits by 50 percent. As a result of the 2005 and 2007 contracts, workers have not received any base wage increase since 2005 at GM and Ford, and since 2006 at Chrysler. All of these workers will not receive any increase through the end of the contract in 2011. Workers have also accepted reductions in cost of living adjustments. New local operating agreements at many facilities have provided dramatic flexibilities and reductions in classifications, saving the companies billions of dollars. Reforms in the 2007 contract largely eliminated the jobs banks. And since 2003 downsizing by the companies has reduced their workforce by 150,000, resulting in enormous savings for GM, Ford, and Chrysler.

As a result of all of these changes, the labor cost gap with the foreign transplant operations will be largely or completely eliminated when the contracts are fully implemented. Industry observers have applauded the sacrifices made by workers and retirees, and described the 2007 contract as being "transformational."

The UAW is continuing to negotiate with the domestic auto companies on an ongoing basis over ways to make their operations more efficient and competitive. We recognize that the current crisis may require all stakeholders to make further sacrifices to ensure the future viability of the companies. We are prepared to do our part.

As a result, the UAW recently announced that we were willing to immediately suspend the jobs banks programs, and that we were willing to defer the contributions owed by the companies to the retiree health care VEBA fund. Furthermore, as indicated in our testimony, the UAW is fully prepared to participate in a process that will require all stakeholders to participate in a restructuring of the companies outside of bankruptcy. This can ensure that there is fairness in the sacrifices, and that the companies will be able to continue as viable business operations.

Q.2. Mr. Gettelfinger, you contend that the UAW contracts are not to blame for the problems faced by the Detroit Three. Yet those contracts contain detailed pledges by GM to build specific products at specific facilities for a specific term.

Have these product commitments impaired the flexibility of GM to respond to changing market conditions and will they in the future?

A.2. No. The product commitment provisions in the contracts contain an express exemption for situations that "may arise that are beyond the control of the Corporation (*i.e.,* market related volume decline, act of God), and could make compliance with this commitment impossible." Thus, the flexibility of the companies to respond to the recent drop in auto sales has not been impaired, since this clearly qualifies as a "market related volume decline". Thus, for example, even though GM had made a product commitment for the Janesville, Wisconsin, facility, because of the decline in sales volume GM has announced the closing of that plant.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM ALAN R. MULALLY

Q.1. Mr. Nardelli makes the case that the domestic auto companies are so interconnected that if one firm fails, the remaining two firms would be substantially harmed.

Wouldn't any harm be fully offset by the increase in demand for your cars that would result from the loss of your competitor?

A.1. No, for several reasons the sudden failure of one of the companies would have an incredibly disruptive impact on our supply base. While the supply base can react to gradual and managed changes, a dramatic failure would have a very negative effect.

First, the auto sales volume is depressed to levels not seen in decades. This is true for domestic and foreign producers—all of which are scaling back production to try and keep up with rapidly falling demand. As a result, even if one company's volumes were to be seamlessly redistributed among the surviving auto makers, this would not return sales to the levels needed to negate these bridge loans.

Second, a failure by one company will not allow for a seamless redistribution of the failing company's sales. Before a vehicle can be sold, it must first be produced. Just-in-time production means that there is limited inventory and that parts must be continually received from suppliers. Because of the shared supply base, one company's failure will dramatically cut revenue to its suppliers. Suppliers are already financially stressed, just like auto makers themselves, and a further fall in revenue will push many into their own bankruptcy. These supplier bankruptcies will in turn choke off the supply of needed parts from the other auto makers they supply—domestic and foreign alike. Further one company's bankruptcy will send the entire supplier community to their auto maker customers to demand immediate or greatly accelerated payments—this will create a "run" on the auto makers and quickly burn their remaining capital. In short, the limited volume of sales means that the redistribution of one company's sales would not bring industry volumes up to the levels needed to remove the need for these loans and such a process would not be seamless in any case: there would be a widespread chain of bankruptcies throughout the industry before even a reallocation of greatly reduced sales would take place.

Q.2. Wouldn't the same interconnectedness facilitate a merger between two or three of the American firms?

A.2. The issue of interconnectedness and mergers need to be considered separately. Mergers should be based on a business case, not simply a shared supplier base. Interconnectedness is not a reason for not having consolidation, it means that changes need to be managed giving time for the suppliers to reach.

Q.3. Please explain in detail how each of your companies will use any Federal loans provided by Congress and how the loans will enable your companies to return to sustainable profitability? Will you use the proceeds to close unprofitable production lines, terminate unprofitable dealers, or pay down debt?

A.3. Ford has been clear and consistent: we do not feel that we need loans at this time. Our plan for restructuring the company—which is already in progress—is not predicated on these loans for its success. Because we began taking the hard steps toward restructuring already, much progress has been made and we are realizing the effects. For that reason, we have been seeking potential assistance is a safeguard against a worsening economy. In short, we have been doing the things necessary to restructure the company, not waiting on the incentive of government loans to take these actions. In our case, loans would not be a means to continue operating as in the past but as a backstop in the event that the current severe economic downturn continues longer or deepens further than currently foreseen.

Q.4. Earlier this month, Mr. Mulally, you stated that Ford has "sufficient liquidity to make it through this downturn."

Why does Ford need government money now?

A.4. Ford does not believe that we need money immediately. As stated in the previous response, we are merely seeking a safeguard at this time—not a disbursal. We believe that the near-term loans are important for the industry because of the supply base that we share with our domestic competitors. Without near-term loans to our competitors, they may become insolvent and would not have the ability to restructure. Our competitors' collapse would pull down many suppliers we share with them—and suppliers that the foreign auto makers also use, though their heavy reliance on imported parts makes them less exposed to this risk. Ford believes the bridge loans are important to the industry and that an allocation of additional capital could be an important backstop against a deepening economic downturn for Ford.

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM ROBERT NARDELLI

Q.1. Mr. Nardelli, you make the case that the domestic auto companies are so interconnected that if one firm fails, the remaining two firms would be substantially harmed.

Wouldn't any harm be fully offset by the increase in demand for your cars that would result from the loss of your competitor?

A.1. The question assumes the survival of the other two firms. The fragile state of the economy and the historic low demand in the automotive marketplace has led to record declines in sales among all auto makers, and Toyota is forecasting its first annual operating loss in over 70 years. As such, it should not be assumed that the other firms would survive, and therefore benefit from the elimination of a competitor. At Chrysler, 96 of our top 100 suppliers are common to Ford and GM—the bankruptcy of any one domestic auto maker would place enormous pressure on an already vulnerable supply chain and, consequently, that company's competitors.

Q.2. Wouldn't the same interconnectedness facilitate a merger between two or three of the American firms?

A.2. The domestic U.S. auto industry has excess manufacturing capacity and lacks a method of creating synergy and efficiency in R&D and new technology investments. These factors, more than supplier interconnectedness, highlight the need for further partnership, restructuring and consolidation for the industry to be viable in the long-run. Chrysler welcomes the opportunity to have an open discussion with the new Administration and Congress on a collaborative approach to restructuring that will ensure any Government resources invested in the industry are used efficiently and help achieve important national public policy objectives.

Q.3. Please explain in detail how Federal funds will be used, and how will loans enable your company to return to sustainable profitability. Will you use the proceeds to close unprofitable production lines, terminate unprofitable dealers, or pay down debt?

A.3. The bridge loan will allow Chrysler to return to sustainable profitability by continuing the significant the restructuring it began in 2007, which has included the elimination of 32,000 workers, capacity reduction of 30 percent, reduction of $2.4 billion in fixed costs, and sale of non-earning assets. The loan will also allow Chrysler to continue to invest in its future product plan (24 major launches from 2009 through 2012) that features high-quality, fuel efficient cars and trucks that people want to buy.

From January 1, 2009, through March 31, 2009, Chrysler anticipates making payments to the following parties:

Summary of Quarter 1, 2009

Major Expenditures	($Billions)
Parts suppliers	$8.0
Other vendors	1.2
Wages	0.9
Healthcare/legacy	0.5
Capital expenditures	0.5
Other expenditures	0.5

Summary of Quarter 1, 2009—Continued

Major Expenditures	($Billions)
Total expenditures	$11.6

RESPONSE TO WRITTEN QUESTIONS OF SENATOR SHELBY FROM PETER MORICI

Q.1. Dr. Morici, industry analysts have indicated that each firm has too many brands, car models, dealerships, factories, and workers for its market share. In other words, as currently constituted, the firms' size are not aligned with economic reality.

How much of each of the brands, models, dealerships, factories, and workforce need to be reduced to align with the present economic situation?

A.1. For January through November 2008, market shares for the Big Six were as follows:

- GM (excluding Saab)—21.9 percent;
- Ford (excluding Volvo)—14.3;
- Chrysler—11.0;
- Toyota—16.8;
- Honda—10.9;
- Nissan—7.2

GM (excluding Saab) has six brands and Toyota four. It is clear that GM has more brands than it needs. Moreover, Toyota brands have much clear identities. Toyota is the commodity brand, Lexus the luxury brand and Scion the youth brand. GM lacks such clarity for cars, other than Cadillac. Regarding trucks, it is not clear why GM should sell both Chevy and GMAC trucks. One truck brand should be adequate. GMAC trucks could be sold by Chevy dealers.

Ford (excluding Volvo) has three brands of cars. I don't know that it needs more than two. Mercury adds little extra value. Ford's real problem, though, is that Lincoln is not differentiated enough from Ford and Mercury offerings.

Chrysler has two brands of cars, sells trucks under its Dodge brand, and has Jeep. As Jeep has particular value that brand should stay. The real question is does Chrysler need both Dodge and Chrysler cars and minivans? Moreover is Chrysler viable as a stand alone company or should another company purchase its Jeep and Minivan franchises?

The fate of Chrysler (or even Jeep and Minivan franchises) is not easy. Ford does not want either Chrysler or Jeep/Minivan, and GM is already too big.

Once the issue of brands is resolved, all three companies could be slimmed down-production workers, dealerships, *etc.* However, I would not include engineering in that. I don't have estimates for what their employee, factory and dealership numbers should be.

Q.2. Dr. Morici, the world looks to the U.S. on how to conduct economic policy. The actions we take set precedents that other countries follow to when they are devising their own economic policies. When the U.S. is unwilling to take the tough steps necessary to ensure sustainable, long-term economic growth, we should not be surprised if other countries follow our example and resist our calls for economic reform.

If other countries follow the U.S. and begin to actively bail-out their own domestic industries, what impact would it have on the competitiveness in the global economy and on long-term global growth?

A.2. We certainly want to make sure our businesses and workers compete on a level playing field with foreign entities, and make appropriate trade and industrial polices to that end.

Each industry and bailout is different and should be judged on its own merits. In the case of automobiles, the industry has and continues to inflict harm on itself. The government should make any assistance to the industry contingent on reforms in management and labor agreements to ensure that taxpayer money is not wasted.