



TRANSCRIPT OF PRESS CONFERENCE

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SECRETARY OF THE TREASURY
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SECRETARY MILLER: Good morning ladies and gentlemen.

Let me start off by announcing the substance of what we are going to propose today. This morning the Administration is sending to the Congress a proposal for financial assistance for the Chrysler Corporation. We are proposing authority for Treasury to issue loan guarantees of \$1.5 billion, conditioned upon there being new financing and concessions of an equal amount of \$1.5 billion so that Chrysler would have the availability of a \$3 billion financing package.

The federal assistance will be in the form of guarantees for loans. The additional financing will consist of either new loans or financial credits or from the infusion of additional equity or from the disposal of assets not essential to the basic automotive business.

Let me give you a little background on how this developed and some of the factors involved in making this recommendation. In this room, on August 9, having been in office for three days, I made a statement about the Administration's willingness to consider assistance for Chrysler. There were special factors that made it appropriate for us to consider financial assistance to Chrysler. We expressed willingness to consider it in the context of a financing and operating plan developed by Chrysler which would show how it could become a viable corporation in the future.

On September 15, Chrysler submitted a preliminary plan. We met here with its Board of Directors that day and reviewed the plan. After that meeting, it was agreed that further work was necessary. On October 17 Chrysler presented a revised plan. We have been working with considerable resources to

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analyze that plan, to make adjustments which appeared appropriate and to decide whether the plan was the basis for a proposal along these lines. Our consultants were Ernst & Whinney, one of the country's leading accounting firms. Their senior partner, Joe Keller, has been active in supervising this work. He has assembled a highly qualified team to work on this, some two dozen of his partners and associates, and their work is substantially complete. In addition, we retained John Secrest, a retired financial vice-president of American Motors, and his views have been most helpful to us. We came to the conclusion that we have made enough progress in our analysis to put forward a proposal.

There are several key considerations that led us to our recommendations: first, the automobile industry is an important industry. It deserves attention from the federal government. Should Chrysler be unable to continue, there could be serious impact on localities around the country--not only where Chrysler has plants but in places where automotive suppliers and dealers operate along with others who have an interest in this business. There is also risk of substantial unemployment and economic distress.

A second consideration is the alternative costs in case Chrysler should experience difficulty in finding necessary financing. Alternate costs to the government would include unemployment compensation, welfare payments, loss of local taxes and loss of federal revenues arising from curtailment of economic activities and incomes.

A third consideration is the importance of this industry to our international position. It is important to us as a nation to maintain a strong automotive industry. It is a worldwide business--if we do not produce autos at home, we will buy them abroad. We must take those steps that most assure that this industry remains a vital part of our economy.

Fourth, we must also maintain a competitive auto industry. Without Chrysler, the two remaining major automobile producers would provide a very narrow U.S. competitive base.

There are several factors since August 9 that have led to our recommendation for significantly larger aid to Chrysler. One is the changed outlook for the auto industry. Not only ourselves, but independent forecasters now project reduced levels of activity in this industry. This is partially because of the cost and availability of gasoline and energy supplies, and also because general economic conditions are more uncertain now.

Lastly, there is Chrysler's own situation. Chrysler reported a third-quarter loss of \$460 million yesterday. Its outlook clearly calls for greater resources than were apparently required in August. We now have the benefit of an in-depth analysis of the future outlook of this company, and based on that, we have greater confidence in the degree to which assistance will be required. It is apparent to us that any financial assistance plan should be adequate and sufficient to accomplish the purpose. We must make sure Chrysler is able in the future to operate as a viable company and can operate on its own resources and be a constructive contributor to our economy in the years ahead.

Now I would be happy to answer a few questions.

[Q and A portion of Press Conference to come later.]

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Q: Do you feel that without Federal assistance (inaudible)

Secretary Miller: I think the credit availability of the company is -- from what we've seen -- is being strained and I think they would have a difficult road ahead without assistance. And obviously what we're saying is if we believe that in the coming period of years they need availability over that time of a total financing of \$3 billion, it is obviously our view that they cannot continue at the levels of production of a major automotive company without that.

Q: (inaudible) ... on the loan guarantee other than listed in the letter such as the mix of cars, more smaller cars and that sort of thing.

Secretary Miller: We are dealing with a situation where it has not been possible because of timetable and because of the nature of this to work out the details of the financing plan in advance. What we are therefore proposing is the level of our support, the level of outside support needed, and we will negotiate all of the conditions, including the operating plan, and the financing plan for the operating plan, as part of our effort to put this package together. The statute requires that any loan guarantees -- the proposed statute that we are sending up -- the proposed bill -- requires that any loan guarantee be subject to the finding by the Secretary of the Treasury that there is an operating plan and a financing plan that would support the successful operation of the company through lb83 with this assistance and beyond that without new federal guarantees.

Q: Two weeks ago today, Chrysler submitted their modified plan which called for \$750 million in federal aid and a bit less than \$1.5 billion in financing they would raise on their own. That same day Mr. Carswell sent a letter to Representative Moorhead saying that plan met one of your key objectives of keeping the amount of government loan guarantees to \$750 million. What has happened in the last weeks to cause you to double the amount of the proposed federal assistance?

Secretary Miller: What has happened are the factors that I mentioned that we now have the in-depth analysis of that plan. The particular submission on October 17th indicated a possible need of financing of \$2.1 billion, but in the alternative, financial consultants for Chrysler had fixed the figure of \$2.8 billion, and so the

plan that was submitted by Chrysler of \$2.1 was supplemented by data that showed that to assure the vitality of the company in the future that it probably would take \$2.8. The Chrysler Corporation asked for a minimum of \$750 million of loan guarantees plus standby of another \$700 million. So they asked for a million and two-fifty. Our analysis over this time indicates that the more appropriate number for total financing to be certain of success, more certain of success -- you can never be certain of anything except death or taxes -- more certain of success would be \$3 billion, of which we feel it is more likely if that can be accomplished with a loan guarantee program for 50% of it, and other financial assistance and concessions of the other million and a half.

Q: What additional concessions are you asking the United Auto Workers to make?

Secretary Miller: We are asking that all of the parties who have an economic stake in Chrysler combined to make up the billion -- \$1.5 billion -- of additional financing additional to the loan guarantee financing. That means that banks, other creditors, suppliers, dealers, states where Chrysler operate, cities where Chrysler operate, unions, employees, stockholders, will all have to make some concessions to make up that \$1.5 million package. We have no specific target for any one of those constituencies. Our purpose is to get on the table a financing arrangement that allows us then to become specific -- the company and ourselves -- to work with those constituencies and find the appropriate levels of participation so that the total will add up to \$1.5 billion.

Q. The company has already made a number of concessions in the contract -- I think it totals about \$400 million for their pension waiver and through the wage concessions -- does that count towards \$1.5 billion now?

Secretary Miller: Well, the concession on the wage reductions will have an impact on this \$1.5 billion. You know that in the Chrysler plan submitted to us, they had included labor costs during this period that were equivalent to the General Motors settlement. So any concession below that will be part of the \$1.5 billion that we are needing to put this together. There was a question here that was interrupted.

Q: Can you describe the relationship between the government and Chrysler over this operating plan in a little more detail. In other words, will the government have the right to suggest management decisions, such as maybe Chrysler should not be a full product line company. What is the authority there?

Secretary Miller: Well, I think the authority comes in the fact that we have to be satisfied with the plan, and if it is not one that we believe will result in the company achieving its objectives and being able to have a reasonable prospect of meeting its targets and repaying its debt and becoming self-financing -- if we believe that we'll have to ask that the plan be revised or we will rehold the loan guarantee. We have two features to loan guarantees. One, we'll be able to negotiate and make a commitment for a loan guarantee program based upon submissions in the immediate time ahead. And second, each time there is an actual giving of the guarantee, we will re-examine the plan to be sure that it is then still workable. So you not only need to be satisfied at the time of a commitment, but actually at the time a loan is made. So we will be constantly -- not be the managers of the company -- but we will have to, as any good lender, to be sure that the management program is one that gives reasonable prospects for the return of our risk here.

Q: Mr. Secretary, do you have any deadline for Congress to act on this.

Secretary Miller: I believe its important that Congress act on this in this session. And I think that as long as there is progress in Congressional action, I believe that the company will find support from its existing financial lenders and creditors. And therefore I think that we will time to see the legislation enacted. I cannot evaluate, but I believe that it would be somewhat a setback if this proposal were carried over until next year. I think ideally this legislation should be acted before Congress goes home this fall.

Q: Do you have any assurances from the chairmen of the committees, or the leadership, that there will be priority or expedited action on this bill?

Secretary Miller: The House Subcommittee was planning to markup a Congressional bill this morning. I am hopeful that on the basis of our submission that the sponsors of that bill will find it appropriate to substitute our proposed bill and if so, I think the subcommittee is prepared to act rather promptly. I hope that the full Committee will follow up rather quickly and if so, I believe the leadership of the House will be able to schedule it for floor consideration fairly promptly. In the Senate, there is more room because the schedule of the Senate would allow for action a little later. The House is at a time when substantive legislative needs to get to the floor fairly soon.

Q: Policy documents circulating in other industry majors in the auto industry indicate that they are expecting almost an equally rough time by the beginning of next year, largely as a result of current credit constriction and interest rate policies. We also know that when one runs those recent Federal Reserve policies through Riemannian computer models, it indicates that the entire industrial base of the economy is going to face a similar situation. My question is the following: Do you actually see the government going in the direction of setting up this kind of Big Mack for all sectors of major industry -- which would essentially form the function of reducing living standards and contracting industry for the purpose of maintaining what is really a tax on money -- which is what these Federal Reserve policies amount to, and if you do foresee that, why do you think that that is preferable to setting up a two-tiered credit structure where you would guarantee the availability both of consumer credit and credit to industry to maintain the most productive sectors of the economy like the auto industry.

Secretary Miller: I am afraid I don't understand your question. Its too long and too many components. Perhaps we could take it up some other time, but to go into all those facets would take the whole day and we are here to talk about Chrysler.

Q: To re-state her question -- might be you've cited as factors key considerations in your decision, the fact that this is a very important sector of the economy, alternative costs to the government: What in your view makes Chrysler so special and how do you answer Senator Proxmire's question, "Where do we draw the line?", if all that you're really considering is the importance of the automobile sector and the cost to the government. Who's next? What's your philosophical basis for this decision?

Secretary Miller: My philosophical basis is that this is a unique situation. It stands on its own merits as a unique situation. As a philosophical proposition we do not favor general support to private corporations, but because this is an industry that is important, because this is a time when the particular operations of Chrysler would have a negative impact and would have alternate costs equal to or greater than this assistance, and because it is an industry that has only three producers, and the loss of one of those would greatly impair the future competitive structure -- those are unique aspects that we think justify this particular program.

Q: Why are you offering this kind of aid program at this time without any precise concessions, let alone a washout of the shareholders? I find it difficult to understand why the ordinary taxpayer would be bailing out the shareholders. I find that pro bono argument for the workers, and for the enterprise itself, but in the RFC days they took over corporations and shareholders were washed out -- and the government wound up holding them in trust for awhile until they could return them to health and put them back into the private sector.

Secretary Miller: The shareholders will have to make concessions here. They certainly will forego their dividends and we have already seen that. And of course the shareholders are the last on the totem pole. Only if the federal loan guarantees are repaid will there be anything available for shareholders. In that sense, I don't think we are giving any help to shareholders other than giving help to the nation generally. We are not putting any priority position, or any opportunity for shareholders to receive any cash, distributions, -- we are merely trying to accomplish the purposes that I mentioned.

Q: Are the dividends officially frozen as part of this package. No dividends paid until they return all the loan guarantees and get out of the woods?

Secretary Miller: The proposed legislation will have restrictions on dividends.

Q: How much further does Chrysler have to go to get the full \$1.5 billion you mentioned that the UAW part sacrifices count towards that? How much more?

Secretary Miller: I think the whole package has to be put together -- they really haven't got any significant part of it -- it means that they will have to be negotiation with banks, with other creditors, with dealers, suppliers, with states, cities, with the union, with all of the constituents, to see if this can be put together, and I think it would be premature to be able to judge just what component of a \$1.5 is contributed by any one constituent.

Q: If the UAW has already made these concessions in advance of your announcement today, couldn't the banks come back tomorrow and say that they have already made concessions and that they should be counted as well?

Secretary Miller: No, we have a date in the proposed legislation, and we have to retain all of the present resources of the company plus achieve \$1.5 of additional financing from the date of Chrysler's plan. Chrysler submitted a plan on October 17th that contained certain assumptions as to cost and its from that point forward that we must get the additional \$1.5 billion. We cannot count anything that was done prior to that date, we cannot count any sales of property made prior to that date, because they are already accounted for in the plan that we believe shows a need for \$3 billion. So, its only from the date of the plan forward that we can give any credit.

Q: Do you encourage Chrysler to sell off some of its assets, such as Chrysler Financial or its transmission plant in Syracuse or its electronic plant in Huntington?

Secretary Miller: Chrysler will be able to count toward its \$1.5 billion, let us say the disposal of any properties or assets that are not needed in its core business. At this point, it would again be inappropriate for me to decide which if any of those assets might be candidates, or which fit into the total strategy and create more for the company's future success. The Financial Corporation has certain relation to the distribution of product. Other assets will have to be looked at.

Q: (inaudible)

Secretary Miller: We will have to agree on the financing package and what counts for the \$1.5. In normal financing of this type, regardless of the initial plan, there will be affirmative and negative covenants that do create among the lenders, including ourselves, certain approvals to changes in outlook for the company. Major acquisitions or dispositions of assets, are normally are in financings, subject to creditor consultation, and that may or may not be part of this but normally would be a part of the financing.

Q: Mr. Secretary, there seems to be significant business opposition to the Chrysler loan guarantee from the NAM and I believe Mr. Jones of General Electric has talked against it, on the theory that it should be allowed to go through a chapter 11 reorganization and let the regular unemployment compensation and other things take care of any casualties. How do you answer that argument?

Secretary Miller: Well, these difference of viewpoints will undoubtedly surface because not everyone will agree 100%. The choice is perhaps a difficult one, but in our view, the alternate costs are more onerous to our country than the risk of the loan guarantee. On the one hand, if we make a loan guarantee under a program that is successful, we provide a bridging opportunity for the company to return to its vitality as a wholly, privately financed, wholly privately-owned corporation. If it goes through reorganization, we undoubtedly don't involve ourselves with potential risk of guarantees, we involve ourselves with immediately costs to the federal government of substantial magnitude. And I think those have to be weighed one against the other to see what is best. Our judgment is the public interest is more-served better -- by providing this assistance for all the unique reasons. We are -- let's remember -- we are making a major transition from the concept of the American automobile of a few years ago to the concept of the American automobile of the future. And that transition is a very burdensome transition for all automotive companies, and for whatever, right, wrong, or indifferent, certainly falls heavily on Chrysler. And I think in terms of a strategy -- economic strategy -- it does make sense to take this way of assuming a financial risk, against the assurance of financial losses and achieve from it a newly constituted company with cars of the future -- automobiles of the future -- to provide a competitive element in the total picture -- not not domestically but internationally.

Q: (inaudible)

Secretary Miller: I have no knowledge of any political support of anyone. This has been approached by us merely as a financial program -- we have done it as professionally as we can -- we have used professional people to analyze it, we have done it as a Treasury matter, of looking at alternate possibilities, and I have had no consultations of anybody on the question of political aspects.

Q: Mr. Secretary, in structuring the Chrysler aid program, I think the Treasury and other parts of the U.S. government -- they have looked at similar aid the U.S. Government gave to private industry -- and it might be interesting to give us a little experience of the U.S. government in helping big or small corporations -- what factors -- what elements did go into this Chrysler plan?

Secretary Miller: I am not sure but the sound system that I got exactly what you were saying -- it was very hard for me to hear you. I think I may have gotten the essence of it. I believe you were saying what has been the experience in helping other companies? Is that what you're saying?

Q: The U.S. Government experience in helping other companies. The U.S. Government experience so far -- and I am thinking of Lockheed -- in providing guarantees, and so forth.

Secretary Miller: The U.S. Government has I think in my memory, followed the course of looking generally not favoring aid to private corporations. But there have been periods of exceptions. One was during the depression when the reconstruction finance corporation did provide assistance. As far as I know, I believe there may have been individual losses in the RFC, but I think that in the aggregate the RFC did not lose any money, so that it was able to earn and achieve fees that covered that. And what happened in that instance was that because of the special circumstances of a major economic dislocation, government assistance was used for a period to help industry revive. And that was successful. There have been other instances, such as the Lockheed guarantee, in which the government ended up making net profit, because, as you know, that was successful. The guarantee ended without any government losses and the fees and charges were enough to give the government a profit. And, I must say, in case you all don't know, that there is through the Economic Development Administration, EDA, a continuing program of somewhat smaller scale, of assisting around the country in economic development in regions that have more difficulty. This program is administered by the Commerce Department and has generally been successful. And I think that's another exception, the exception in that case being parts of the country that have special requirements and have abnormally high unemployment and need some kind of help to get industry going. Now, as a philosophical matter, you all know that parts of the country, regions of the country, communities, quite often go on an industrial development program -- attract, provide financing, provide support to build jobs in their localities. So this is not entirely unusual. It is in the Federal Government a case where we move very cautiously and would expect to provide such assistance only in rare and unique circumstances.

Q: How many foreign subsidiaries does Chrysler have? How sound is each one of them? And are foreign host governments expected to share in this bailout? Specifically, has Canada, for instance, offered any help to Chrysler?

Secretary Miller: I am sorry, I have trouble with hearing the sound system, but I think -- I don't think it would do too much good to hold everyone here to recite every subsidiary of Chrysler. Its fundamental business that we're talking about -- its automotive production. It has a series of subsidiaries, that generally are profitable in non-automotive areas. I think in the aggregate they contribute a significant amount of profit as I recall each year. They have disposed of a great deal of their foreign subsidiaries and operations in the automobile industry. They still have some in Mexico, some here and there, small -- the Mexican operation is profitable. They have an operation in Canada. I think as a part of financing package, it would not be beyond the realm of possibility that Canada would, with its existing economic assistance program, may provide some assistance there. This happens as a matter of routine in Canada, and I would expect Chrysler might be looking to that area.

Q: Is the \$1.5 billion absolute ceiling of the 4 years? Might it go above that if Chrysler comes down, say a year or two from now, seeking more money?

Secretary Miller: We must make a specific proposal to Congress. I don't think it would be proper to have an open end. Our view, our judgment is that \$3 billion of financing will allow this company to accomplish a transition and be profitable and successful. We are there for proposing \$1.5 billion, and we would have no authority to grant loan guarantees beyond.

Q: Mr. Secretary, we have a company teetering on the edge of bankruptcy that has just concluded a new contract settlement with its workers -- that calls for over a three year period a wage increase estimated somewhere between 30-35%, depending on the rate of inflation. First, do you consider that to be a responsible settlement, considering the circumstances? If you do not consider it a responsible settlement, can you give us some idea as to what would be a responsible settlement, and I mean specifically, is the Administration willing to accept that settlement as acceptable and grant the loan guarantees, and if not, can you give us some idea as to where you would be willing to draw the line?

Secretary Miller: You know, we still have a private enterprise system, and contracts between workers and employers are a matter of private negotiation. And I think that's the way we want to keep it. We will have a plan, if Congress enacts it, which will allow us to make loan guarantees, provided a series of concessions and financing are made available. And as far as we're concerned, we are not going to judge among the merits of any constituency as to whether that constituency has done more or less than someone else. We are only gauge whether the plan is there and works. And I think for me to say whether the terms of a bank loan are proper or better or should have been different or a union contract should have been different, or a purchase or sales contract from a supplier, or whether Volkswagon is selling engines to Chrysler at the right price -- I think that's an endless debate that I couldn't answer. I think its whether the total thing when you add them all up gives Chrysler time. And, you know basically, we want a situation where private companies have to make their decisions. If they make bad decisions, they won't get the financing. And if they make adequate decisions to give us a guarantee that we are going to have this amount of money, then we're not going to argue whether it was Volkswagon's price or UAW's price, or the bank interest rate price or some other price that was better or worse than someone else's. But I think -- this young lady hasn't been heard from at all. Let's give her a shot.

Q: Thank you. Does your proposal specifically spell out that the government has preference in terms of its credit extended to Chrysler in its \$1.5 billion loan guarantees as compared to other creditors who would come in -- private \$1.5 billion half of the package. In other words, is the government have preference over all of their new creditors who will help Chrysler?

Secretary Miller: The proposed legislation will provide that we have appropriate security on the loan guarantee portion, and will give us the opportunity to waive that if we feel that it is necessary to put the package together. And if additionally, we feel that there is a reasonable prospect for repayment, and therefore, adequate reason to believe that our loan guarantees will be protected.

Q: (inaudible)

Secretary Miller: The proposal going to Congress, which is not yet law, will say that loans made with guarantee would have a secured position.

Q: You made clear that this is a \$3 billion program for the company at this time. Now, on the basis of your analysis of its financial position, can you say at this time that this amount would be enough for the company to recover and that, barring total collapse of the economy, that no more money should be needed, and if it is, it is mismanagement, and shouldn't be granted.

Secretary Miller: Well, let's divide your question into two parts. Our judgment is that this is adequate financing for the company to carry out an operating plan that would return it to a profitable, viable, corporation, able to finance itself. Yes, that's our judgment. Absent wars, new events that we can't predict. What would cause a variation that I don't want to get into -- because I don't know -- it could be all kinds of things.

Q: I would like to try to abbreviate my earlier question. Why would it not be preferable to go in the direction of keeping credit throughout the industrial and productive parts of the economy as a whole. Granted that Chrysler might need some special treatment in the interim, but what you just said, in terms of barring some major change, is already directly in the cards as a result of the Federal Reserve's policies for the economy as a whole.

Secretary Miller: Well, I don't think so. The changes could come from all kinds of things in the world that we can't predict. But in terms of whether overall economic policy should be re-directed, we must remember that we have a serious problem of inflation in this nation, we are dedicated to a program to control that inflation, we intend to pursue policies that include fiscal discipline, that have appropriate monetary discipline, after all, it's not the place to discuss it because this is not the subject which brought these people here. But monetary policy, if successful in the new mode, will see us in conditions of more appropriate interest rates in a time frame, that is a result of curtailing inflation and inflationary expectations. I think to begin to assume -- in fact, I think answering your question is rather impossible for me, because I would have to make a lot of assumptions and spend about half an hour going through economic theory, and I really think this is not the place for that. But I don't believe that we could bring about excessive credit allowance in our economy without unleashing inflation and I don't think that's the way to solve Chrysler's problem.

Q: Did you say a moment ago that the government might waive its appropriate security in order to put the package together. Can you elaborate on that a bit?

Secretary Miller: The bill as submitted to Congress will say, among other things, that the loan subject to guarantee should have positions of security, and the Secretary of the Treasury will be able waive that if he feels that it is necessary to do so to complete the financial package, and, and that there will be reasonable prospects for repayment of the loan in any case.
