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# House of Representatives

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## Transcript of Proceedings

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### COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

SUBCOMMITTEE ON ECONOMIC STABILIZATION

Hearing on

H. R. 5805

CHRYSLER CORPORATION LOAN GUARANTEE ACT OF 1979

- - -

Washington, D. C.

WEDNESDAY, NOVEMBER 7, 1979

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25STATEMENT OF:PAGE

HON. RUSSELL B. LONG,  
United States Senator from the State of Louisiana

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HON. G. WILLIAM MILLER,  
Secretary of the Treasury

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Hearing on

H. R. 5805

CHRYSLER CORPORATION LOAN GUARANTEE ACT OF 1979

- - -

WEDNESDAY, NOVEMBER 7, 1979

U. S. House of Representatives,

Committee on Banking, Finance, and  
Urban Affairs,

Subcommittee on Economic Stabilization,

Washington, D. C.

The subcommittee met at 9:15 a.m. in room 2128 of the  
Rayburn House Office Building; the Honorable William S.  
Moorhead, chairman of the subcommittee, presiding.

Present: Representatives Moorhead, Blanchard, Lundine,  
Vento, Ashley, Hubbard, LaFalce, Evans (Indiana), Oakar,  
McKinney, Kelly, Green, Shumway, Hinson, and Paul.

Also Present: Representatives Reuss, St Germain, Leach,  
Bethune, Cavanaugh, Stanton, and Barnard.

\* \* \*



1 Mr. Moorhead. The Subcommittee on Economic Stabilization  
2 will please come to order.

3 The Subcommittee is pleased to welcome a very distinguished  
4 guest from the other body, Senator Russell B. Long, United  
5 States Senator from the State of Louisiana, and also Chairman  
6 of the Senate Finance Committee.

7 Won't you come forward, Senator.

8 STATEMENT OF RUSSELL B. LONG, UNITED STATES SENATOR,  
9 STATE OF LOUISIANA.

10 Senator Long. Mr. Chairman and Members of this very  
11 distinguished Committee, let me say that it is a please to  
12 be here before this Subcommittee, and as you know I am  
13 interested in the question of providing financial assistance  
14 to Chrylser Corporation.

15 At this moment I have not yet decided whether financial  
16 aid should be given, but I have publicly stated my strong  
17 belief that any such financial assistance should be tied to an  
18 employee stock ownership plan for Chrylser employees.

19 In this statement, I have been joined by the Senator  
20 Majority Leader, Robert Byrd; by Senator Donald Steward of  
21 Alabama; Gravel of Alaska; Nelson of Wisconsin; and Mathias  
22 of Maryland.

23 In addition, Senator Don Riegel of Michigan has introduced  
24 a bill in the Senate to provide financial assistance to  
25 Chrylser, and this bill contained a requirement for the



rmg 2 1 inclusion of a stock ownership plan as part of this relief.

2 I believe that the sentiment of the Senate is clear. If  
3 an American business wants to receive this type of financial  
4 aid from the United States Congress, we should not simply go  
5 along providing a windfall benefit to that company's existing  
6 shareholders:

7 Rather, that business should be required to share this  
8 financial assistance with its employees through a stock  
9 ownership plan.

10 I am aware that the Secretary of the Treasury had proposed  
11 his own version of the legislation to provide assistance, and  
12 I am also aware that this proposal contains absolutely no  
13 reference to employee stock ownership. And I deeply troubled  
14 because of this.

15 Frankly, Mr. Chairman and Members, I do not believe that  
16 I can support a legislative proposal to provide this type of  
17 relief for an American business unless the employees of that  
18 American business are going to share in the benefit.

19 I don't mean that they should share in it simply by the  
20 fact that they keep their jobs. I believe that they should  
21 share in the benefit by acquiring a significant stock ownership  
22 in the company.

23 I understand that the Chrysler Corporation and its  
24 employees have agreed that a representative of the employees  
25 will serve on the board of directors. I think that this is a



rmg 3

1 good decision. However, I don't think that this is as nearly  
2 so good a step as it would be for the employees to acquire  
3 substantial ownership positions.

4 Over the past seven years this Congress has enacted eight  
5 laws to promote employee stock ownership. I am sad to say  
6 that at the time we provided financial assistance to the  
7 Lockheed Corporation, I was not thoroughly familiar with stock  
8 ownership plans.

9 Had we required that the Lockheed Company establish an  
10 employee stock ownership plan as a part of the financial relief  
11 and the transfer of stock for its employees, the value of the  
12 stock held by the employees today would be over 10 times what  
13 it was when we provided that assistance.

14 This would not be a case of the rich getting richer.  
15 Rather, it would have been a situation in which the employees  
16 who never had an opportunity to acquire ownership of corporate  
17 stock would have been given the ability to do so and to acquire  
18 the major stake in the future of their company.

19 My proposition is this: That as a part of this type of  
20 legislation, we should require that the company establish  
21 an employee stock ownership plan and give its employees a  
22 significant ownership in the company. By doing so we will be  
23 enhancing the possibility of Chrysler's revitalization and  
24 recovery.

25 One of the essentials for recovery is productivity on the



rmg 4 1 part of Chrysler's employees. An employee stock ownership plan  
2 helps to provide motivation for that productivity. In addition,  
3 several senators and congressmen have asked whether this will  
4 simply be a free gift to employees.

5 My opinion is that it would be fair for us to require  
6 that the employees themselves make a meaningful contribution to  
7 the plan. This could be done by requiring that the employees  
8 purchase additional Chrysler stock with their own money, or  
9 by requiring that they either forego a part of their wage  
10 increases or take a part of those increases in stock instead  
11 of cash. By doing so they would have a very strong financial  
12 incentive to help the company recover.

13 I also feel that we should require a greater financial  
14 commitment from Chrysler's suppliers, dealers, and creditors  
15 as a part of this legislation. Only if all the parties to this  
16 problem -- the company, its employees, shareholders, creditors,  
17 suppliers and customers make a genuine commitment for the future  
18 of the company can this endeavor succeed.

19 Thank you very much, Mr. Chairman.

20 Mr. Moorhead. Thank you, Senator.

21 I notice, looking over the testimony of the Treasury  
22 Department, they say, "We are not opposed to these programs,"  
23 meaning stock ownership programs, but do not favor conditioning  
24 this guarantee legislation on employee ownership.

25 Would you care to comment on that?



rmg 5 1 Senator Long. Well, the one thing a company can do for  
2 its employees that does not raise its cost or increase its  
3 expenses is to provide the employees with some stock in the  
4 company. That is not inflationary. That is about the only  
5 employee benefit that I know of that is not inflationary.

6 Now, if the Treasury understood -- and I think we ought  
7 to help the Treasury understand -- when they come up here asking  
8 for taxpayers' money to help a private corporation, that they  
9 had better have the employees in on this deal. They wouldn't  
10 bring them up here without the employees in on it.

11 For example, at some point we ought to make it clear to  
12 them -- I wish we had done it with the Lockheed situation;  
13 if it had occurred to me at that point, I would have insisted --  
14 in offering and then saying, if we are going to take this  
15 risk for the government, we want the employees to be a part  
16 of the action.

17 Of course, part of what this whole situation has to do  
18 with the productivity you get for workers. Well, let's look  
19 at the second part of it.

20 The second part of it is government policies over a period  
21 of 200 years, whereby 15 percent of our people own 85 percent  
22 of all the wealth, and 85 percent of the people own the other  
23 15 percent. 16 percent own nothing, less than zero, and  
24 another 35 percent own only 5 percent of what we have in the  
25 country.



rmg 6 1 93 percent of the people own no corporate stock, and  
2 therefore when they work for a company, that is those other  
3 guys, that is those so and so's over there that we are nego-  
4 tiating with.

5 When you have people feeling as though they are working  
6 for themselves, that they are part of what they are working  
7 for, you just get a lot more productivity. And we have studies  
8 from the Labor Department that says that, and it is not close,  
9 it is a tremendous amount of additional productivity.

10 In fact, America's secret weapon is how hard little people  
11 will work to make their business succeed. They will work  
12 overtime. They will work just like beavers putting a sacrifice  
13 putting it.

14 I couldn't help but think when I was over in the Soviet  
15 Union some years ago, you see those little plots of land that  
16 people were farming for themselves. Now, that was less than  
17 1 percent of what they had in production, and they were producing  
18 about 15 percent of what was being produced over there on their  
19 farmlands, or more.

20 They said that land wasn't getting any fertilizer --  
21 that is what they said. But if it wasn't getting fertilized,  
22 it was sure getting all the tender, loving care that people  
23 could put into something that was his, and that was the  
24 tremendous productivity that you get when people feel that they  
25 are working for themselves.



rmg 7

1 Mr. Moorhead. Mr. Kelly.

2 Mr. Kelly. Senator, it is a real excitement for me to  
3 have an opportunity to have a conversation with you, because  
4 you certainly are one of the people that I recognize as a  
5 great national leader and have for some time.

6 But it becomes my lot to ask you a couple of questions  
7 that occur to me:

8 If bailing out Chrysler is a lousy idea, then why would  
9 we try and make it better, or how would it be better with what  
10 I think is another lousy idea?

11 In this country, we have a system, an ESOP that involves  
12 a guy working hard, saving his money, and buying anything he  
13 wants to. And a worker in this country has an opportunity  
14 to own the whole plant if he has got the grit to hold himself  
15 together while he gets the job done.

16 Now, I think that the suggestion that you make here this  
17 morning looks like we are getting ready to give somebody  
18 something at the taxpayers' expense. Now, we are tieing it  
19 to the Chrysler program, but this is just another opportunity  
20 for the members of Congress to give something to somebody at  
21 the expense of the economy and the taxpayers and the people  
22 of the United States in general.

23 That may not be justified. It may be that I don't  
24 understand what is going on. But this is the concern I have,  
25 and I wonder if you would address yourself to that concern.



rmg 8

1 Senator Long. Well, if we do what we ought to do,  
2 Mr. Kelly, this thing will work. Now, if it doesn't work then  
3 all of us will look like a bunch of idiots for having anything  
4 to do with it; I would be the first to agree with that.

5 But if we do what we ought to do, we would insist that  
6 management do its part, and that the workers do their part,  
7 and that the government should do a part in a helping role.  
8 All we would do is to endorse a note on behalf of this govern-  
9 ment in an enterprise that we think would work, and because  
10 it did work, I am led to believe that that is worth about \$2  
11 billion to the U.S. government or something like that.

12 It is worth a lot of money to the government.

13 Mr. Kelly. Then let me ask you this:

14 It occurs to me that if the unions, for instance, that have  
15 a great deal at stake, because they are highest paid industrial  
16 workers in the country, they have got the best industrial  
17 jobs they are --

18 Now, if they had taken the 25 percent pay cut in this  
19 particular company, they would have provided \$1 billion a  
20 year to Chrysler, and there wouldn't have been any problem  
21 about their finances. And if they had worked hard they could  
22 have put Chrysler on top of the heap.

23 Now, they would have done that themselves. We would have  
24 increased productivity, and we wouldn't have started another  
25 welfare program.



rmg 9

1 But it seems to me, Senator, that what we are doing is  
2 saying, look, it is going to cost us a lot more in welfare if  
3 we don't bail Chrysler out. So we will substitute this welfare  
4 program that won't cost quite so much for another welfare  
5 program that will cost us a lot more.

6 And I am just not real sure with what's going on in the  
7 Middle East right now that we need another welfare program --  
8 maybe a few more divisions and a little more productivity, but  
9 I am not real keen on the idea of another welfare program.

10 Senator Long. Mr. Kelly, if you think it is a welfare  
11 program, you ought to vote against it; I know I would.

12 Now, please, understand this. I am not proposing something  
13 for nothing. I am proposing that these workers receive some-  
14 thing for the work that they do.

15 Now, let me give you a simpler illustration of this thing  
16 which I think people can understand.

17 Some time back, over at South Bend, Indiana, you had a  
18 lathe company. Those are high paid workers. The company was  
19 going broke. I believe Studebaker had it before it went on its  
20 own. And so the workers tried to save their jobs.

21 They put up the money themselves. They borrowed what they  
22 could. The local people put money into it. And I personally  
23 called Ben Maisel and asked him to make a loan on behalf of  
24 the EDA to help them get some capital with which to operate.

25 They took that company over and it has made a profit from



rmg 10 1 that day forward. Now, they did not have to cut their pay  
2 after they had been at it for a while. They were able to give  
3 themselves a pay raise.

4 The point was that they were getting better productivity  
5 because they were working for themselves.

6 Mr. Kelly. But in this particular case aren't you  
7 suggesting giving labor something more than they already have?  
8 In other words, we have got the mass of workers out there that  
9 work. Half of the workers work for less than, 100 percent  
10 less than these workers at Chrysler.

11 And now we are telling all of those millions of workers  
12 out there that we are going to have you help us to give more  
13 to those that have already got a welfare program for Chrysler  
14 and a welfare program for the highest paid production workers  
15 in the United States.

16 Senator Long. No, not necessarily. What I am suggesting  
17 is that this government, speaking either through its Secretary  
18 of Treasury, who should be speaking for this Administration  
19 or speaking to this Congress, ought to say to labor, "Now,  
20 we want you to do your part," and we ought to negotiate with  
21 them.

22 "Here's what we think your part should be. And part of  
23 what you get for doing your part is you would get some stock  
24 in the company."

25 I think that labor should make an additional concession



rmg 11

1 beyond what they have done.

2 Now, I didn't negotiate this package, Mr. Kelly. The  
3 Secretary of the Treasury didn't negotiate that package. I  
4 am told that he is in a position to say what he is willing to  
5 do as a part of recommending that the government endorse that  
6 note, and you are in a position to say what you think the  
7 government ought to do as a part of endorsing that note.

8 Now, I have indicated what I think we ought to do as a  
9 part of endorsing it, and I think that stock ownership ought  
10 to be a part of it. And I think that when the government gets  
11 in these things, we ought to see to it that the workers would  
12 be a part of it.

13 Now, if you go back into World War II and other areas,  
14 we had all of these programs where the government would take  
15 all the risk out of it, guarantee that this thing succeeded.  
16 Someone would make a lot of money --

17 Take all of the risk by the government signing up to  
18 guarantee the loan or whatever it took to get the money. And  
19 invariably, there was a situation where the investors, the  
20 business people made all of the gain out of it. The money had  
21 been -- the workers got wages and that was all.

22 If I had my way about it, we would have required that  
23 part of that be that the workers would own some stock in the  
24 company. And just check it out.

25 I will be glad to furnish you a study that indicates that



rmg 12

1 where the workers own a substantial equity position in a  
2 company, you just get a great deal more productivity.

3 Mr. Moorhead. Mr. Blanchard.

4 Before you proceed, Jim, I would just like to say to  
5 Members that the distinguished Chairman of the Finance  
6 Committee has other things to do across the aisle, so if we  
7 could be brief, I think it would be helpful.

8 Mr. Blanchard.

9 Mr. Blanchard. Thank you, Mr. Chairman.

10 I just simply want to thank Chairman Long for being here  
11 and indicate I am more than willing to try to work on some form  
12 of ESOP in this bill.

13 Mr. Chairman, I have been working on this bill for quite  
14 some time, and I am aware of your interest in employee stock  
15 ownership plans, and want you to know that I would be more  
16 than willing to try to work something out.

17 I think in the House directly, we have some jurisdictional  
18 problems that such an amendment would cause, but assuming  
19 either we can conquer those problems or at some later point  
20 work out an ESOP, I want you to know that I will be more than  
21 cooperative if we are lucky enough to get a bill passed here  
22 in the House of Representatives.

23 Thank you for being with us.

24 Senator Long. Thank you, sir.

25 Mr. Moorhead. Mr. Green.



rmg 13

1 Mr. Green. Senator, you said in your remarks that if we  
2 are going to take this risk for the government, we want the  
3 employees to be part of the action. I would like to ask you  
4 if we are going to take this risk for the government, and by  
5 that you really mean the American taxpayer, shouldn't the  
6 American taxpayer be part of the action and shouldn't the  
7 American taxpayer have an equity interest in Chrysler through  
8 some form of equity kicker to the government in exchange for  
9 this loan guarantee?

10 Senator Long. Well, we haven't done that and I don't  
11 think we ought to. If it succeeds, the government is going to  
12 make a lot of money out of it by saving a tremendous amount  
13 of unemployment benefits that we will have to pay.

14 And the government will make money by collecting taxes  
15 on those wages and all the rest of it. It is worth billions  
16 of dollars to this government for that company to succeed  
17 rather than go broke.

18 Mr. Green. But if a private investor were taking this  
19 kind of risk -- and none of them will take it, so it is  
20 obviously a very high risk -- they would certainly not make  
21 this loan in consideration simply of a loan guarantee fee.  
22 They want some equity participation. Why shouldn't the  
23 American taxpayer get that directly?

24 Senator Long. Well, I don't think that our purpose is  
25 to try to acquire stock for the United States government. The



rmg 14

1 government will be an indirect beneficiary to the tune of  
2 billions of dollars if this endeavor succeeds. But I think  
3 the government has an interest in the welfare of its people.

4 It took a long time to get that agreed through American  
5 history, but it seems to me as though we have pretty well agreed  
6 upon that today, and it would seem to me as though that this  
7 government ought to want to save employees, to see employees  
8 own something more than just an equity interest in their home.

9 Mr. Green. I am not quarreling with the proposition  
10 that if that is something the union wants and the union members  
11 want it, that is something that the union and the employers  
12 should bargain for.

13 But I am saying that when the American people take risks  
14 that are like those of a venture capitalist, they ought to get  
15 the kind of rewards the venture capitalist gets.

16 Senator Long. Well, we are taking risk, and we are going  
17 to take a lot more. We are going to take risk in these  
18 energy investments. But it seems to me all along the line,  
19 if you look at what the bottom line is, the government takes  
20 the risk and so further on down the line you have got some  
21 people who are very, very wealthy as a result of that.

22 And I am not against any of those people, they are very  
23 nice people, public-spirited citizens and all that. But you  
24 could have had it so that by the time you got through with all  
25 that, the rank and file would have been a part of all this.



rmg 15

1 Now, in my judgment, Mr. Green, if this system of ours is  
2 going to succeed, you are going to have to have more than 10  
3 percent of the American people who want an equity in this  
4 productive society of ours. And if they are not a part of it,  
5 then they are not going to be very enthusiastic about it.

6 Mr. Green. If we believe in collective bargaining, isn't  
7 it up to the UAW to decide what it should bargain for in  
8 negotiations with Chrysler, rather than us?

9 Senator Long. Well, I am sorry, Mr. Green, that the  
10 labor unions have not put stock ownership high on their list.  
11 Most of them don't put it on there at all, they don't ask for.

12 And I think one reason they haven't is because they are  
13 inclined to feel that when those employees own stock in the  
14 company they start thinking like capitalists, they start  
15 thinking like businessmen and they do, there is no doubt about  
16 it.

17 Look what happened to Chicago and Northwest Railroad  
18 when they started an employee stock ownership plan there. That  
19 labor leader bought all the stock he could find and encouraged  
20 everybody else to do likewise. When the thing started  
21 succeeding, the people that didn't buy in wanted to buy in.

22 So they met and they said, well, these other guys want  
23 to buy some stock. Shall we take them in at the price we paid,  
24 or for what it is worth now?

25 What do you think those guys said? Why, heck no. They



rmg 16

1 can pay what it is worth now. We took the risk, let them take  
2 the risk later on. They made another opening.

3 They had a second tier of fellows that said, well, do we  
4 pay it at the price you paid, or pay for what it is worth now?  
5 Why, heck, no, make they pay what it is worth now. We paid  
6 what it was worth when we went in.

7 They start thinking like businessmen when they own an  
8 equity position in something.

9 And this thing of giving somebody a piece of the action,  
10 they have been afraid of it. They have been afraid of it  
11 because they are a little afraid those fellows might not want  
12 to go out on strike when they are asked to go out if they  
13 own the thing, own a substantial equity interest in it.

14 They have been a little worried about that. But they  
15 are finding, though, that employee stock ownership plans  
16 do not destroy labor unions. It just does not happen.

end #1

17 Mr. Green. I have no further questions.  
18  
19  
20  
21  
22  
23  
24  
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1 Mr. Moorhead. I would recognize our resident expert on  
2 employee stock ownership plans, Mr. Lundine.

3 Mr. Lundine. Thank you, Mr. Chairman. I thank you and  
4 the other members for your courtesy in arranging this  
5 testimony this morning.

6 Senator, you are acknowledged as the leader in this  
7 country in the area of encouraging employee stock ownership,  
8 and I really appreciate your testimony here today.

9 Senator Long. Well, I'm willing to share this with  
10 anyone who will get involved, Mr. Lundine. I think we  
11 should try to work together on that.

12 Mr. Lundine. Well, I intend to do that, sir. If I  
13 understand your testimony, you do not intend the government  
14 requirement of a guarantee, an employee stock ownership  
15 plan, to be just a gift on top of all of the other benefits  
16 that employees have, and those would be union and non-union  
17 employees that would benefit from it. But in a general way,  
18 you expect those employees to participate in some way by  
19 foregoing some benefits that they might have or subscribing  
20 to the stock in some way, so that the Chrysler Corporation  
21 would likewise benefit from this participation.

22 Is that accurate?

23 Senator Long. I would like to see the workers do  
24 something, make some contribution, and it should have been  
25 in there in the beginning. In other words, the idea would



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mgcHEE 1 from square one to talk about providing a plan where the  
2 workers would own some stock as a part of this operation.  
3 But if it wasn't raised and wasn't negotiated at the point  
4 where the Secretary of the Treasury comes into it, I think  
5 he ought to put it in the package, and if he doesn't put it  
6 in the package, I think we ought to put it in the package.

7 Mr. Lundine. If we put it in the package, how much,  
8 dollar-wise, should we require the minimum stock ownership  
9 investment to be?

10 Senator Long. Well, at this moment, I wouldn't want to  
11 name a precise price, but let me just make this point. As I  
12 understand it in that negotiation -- and I had no part of  
13 it, but I'm just saying from what I heard, and I don't even  
14 know if this is true, but I believe it to be true -- it is  
15 my understanding that those workers agreed to defer part of  
16 their pay raise, when you compare what General Motors is  
17 paying its employees, in consideration of working this whole  
18 thing out. And they could just as easily have agreed that  
19 rather than defer some of their pay raise, that that part of  
20 the pay raise would have been put into stock for the  
21 employees.

22 Now, if they did that, it should be the type  
23 situation -- and they have ways of doing this on the stock  
24 market where you can't sell that stock; that stock has got  
25 to be held until this thing is worked out, until the company



190 02 03

mgcHEE 1 is in good shape again -- it could have been worked out in  
2 that fashion, and I have no doubt it would have been if it  
3 had been in there to begin with. But even now, it seems to  
4 me that they could reopen negotiations where they could --  
5 the Secretary of the Treasury could negotiate about the  
6 matter. If he thinks they ought to do more, let him take it  
7 up with them.

8 The difficulty of us negotiating, Mr. Lundine, is, by the  
9 time we get a parliamentary body, we've got so many people  
10 in the act that we can't speak with one voiced.

11 Mr. Lundine. I'm acutely aware of that, Senator. Thank  
12 you, Mr. Chairman.

13 Mr. Moorhead. Mr. Shumway?

14 Mr. Shumway. Thank you, Mr. Chairman. I would like to  
15 express my appreciation to the Senator for being here this  
16 morning and helping us try to reach some resolution to this  
17 difficult question.

18 Senator, you indicated in your remarks that whatever  
19 assistance we do provide to Chrysler Corporation should be  
20 designed to benefit the employees, and you therefore  
21 suggested the device of an employee stock ownership plan.

22 Senator Long. Please understand, I'm for benefiting  
23 both.

24 Mr. Shumway. I understand that, but what's good for the  
25 employees is certainly good for the company.



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1 Senator Long. If this government is going to endorse a  
2 note for \$1,500,000,000, it seems to me as though it ought  
3 to be something than just benefit the existing shareholders.

4 Mr. Shumway. The employees in this case are represented  
5 by the United Auto Workers, and as you know, they recently  
6 concluded a contract with the United Auto Workers. Prior  
7 to that announcement, however, Chrysler employees were making  
8 something on the average in excess of \$18,000 per year. In  
9 the contract in there, there are some deferred increases.  
10 It nevertheless guarantees them over the next three years  
11 something like, perhaps, a 10 or even 11 percent increase  
12 per year when you include the cost of living adjustments as  
13 well as fringe benefits.

14 They are going to receive those cost of living  
15 adjustments right on schedule. It seems to me that we have  
16 not seen in the conclusion of these labor negotiations the  
17 kind of concessions that Mr. Fraser told us that his union  
18 and his employees were willing to make.

19 Now I ask you, do you believe that the Chrysler  
20 employees have demonstrated the kind of sacrifice or  
21 concessions that would be required to justify the kind of  
22 assistance that would be given to them under an ESOP?

23 Senator Long. Well, I think that the company is in a  
24 weak bargaining position. The company is on the ropes  
25 financially, and frankly that is a big strong union, and I



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mgcHEE 1 regard it as a great union. I think the UAW is a great  
2 union, and they are hard bargainers, and they ought to be  
3 hard bargainers. If I were voting, I would vote for a guy  
4 who was a tough bargainer if I were in that union.

5 But if you look at the weak position the company is in,  
6 I would think that they are not in a position to be very  
7 tough from the management side, and the Secretary of the  
8 Treasury or failing him, those of us up here are in a  
9 position to be in a tougher bargaining position because  
10 we're in a position to say, "Well, you want \$1,500,000,000;  
11 this doesn't look like a very good deal to us. It doesn't  
12 look to us like you're doing what you ought to do. Now, we  
13 have the right to ask more of you, and we ought to talk  
14 about what that ought to be."

15 Now, I would hope that the Secretary of Labor -- pardon  
16 me, the Secretary of the Treasury would speak for you and  
17 for me and for the Congress in general, and he says he  
18 thinks that employee stock ownership is a good deal. I wish  
19 you would put that in the package and negotiate with labor  
20 about that and management, too.

21 Now he is in a strong bargaining position, and it seems  
22 to me that he is in a stronger bargaining position than  
23 management or labor. He doesn't have to put anything into  
24 it. He can just sit there and watch them go broke and lose  
25 their jobs, so that he ought to be our spokesman, and I hope



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mgcHEE 1 that you can prevail upon him to be our spokesman in that  
2 respect.

3 Mr. Shumway. Well, I will certainly try, but it seems  
4 to me, Senator, that of all of the times that the union and  
5 Chrysler have met at the bargaining table to discuss  
6 contracts for employees, this time when the very livelihood  
7 and jobs of those employees are indeed at stake, I would  
8 think that management's position at the table would be  
9 strengthened, that they would be in a position to require  
10 the kind of sacrifice that I think this Committee and the  
11 American public is expecting will be forthcoming from the  
12 employees in order to save their jobs because it's important  
13 to them as well as the country.

14 Senator Long. Well, I don't see that the position is  
15 strengthened, Mr. Shumway, when you're on the ropes, when  
16 you're standing on quicksand. It seems to me that they are  
17 in no position to stand a strike, for example, so I would  
18 think that they are not in a strong position.

19 Mr. Shumway. But on the side of labor, do you think  
20 they are standing on anything but quicksand, that their  
21 position is stronger.

22 Senator Long. Well, in negotiating with the United  
23 States government, they are not in a strong position because  
24 this government is in a position to endorse that note or not  
25 endorse it. So this government is in a very strong



190 02 07

mgcHEE 1 and I think we ought to act from strength on our side.

2 Mr. Shumway. Thank you, Mr. Chairman.

3 Mr. Moorhead. Mr. Vento.

4 Mr. Vento. Thank you, Mr. Chairman.

5 Senator, I appreciate your testimony. I think I would  
6 just make a point here that the UAW has deferred these  
7 payments, but in a very real sense, it may be actually  
8 assuming more risk than what would be envisioned under an  
9 employee stock option program by deferring that. Who knows  
10 whether or not they will ever get the increases? So I think  
11 that this is something that ought to be looked at. I don't  
12 know where they are standing in line in terms of bankruptcy,  
13 and I don't think that you do, Senator.

14 One of the points that we have is -- I mean, we have got  
15 employee stock option programs now. There's a stock option  
16 on a voluntary basis, so what you are suggesting, I guess --  
17 what is being suggested by advocates on the Senate side and  
18 the House side is to mandate this type of program to force  
19 participation, and it is sort of, I think -- is somewhat  
20 bothersome.

21 The first question is, would we give up anything, and  
22 would this cost the federal government anything in terms of,  
23 if we put the money out at nine or ten percent to Chrysler,  
24 will we put it out at less than that by virtue of imposing  
25 this particular type of mandate with regards to our \$1.5



190 02 08

mgcHEE 1 billion guarantee as opposed to others?

2 Is it your intention that it would cost that?

3 Senator Long. Well, I'm not sure that I understand the  
4 question, but our thought is that the company is willing to  
5 do the kind of thing that I'm suggesting. My understanding  
6 is that as far as the company is concerned, they want to  
7 negotiate about what the extent of this employee stock  
8 ownership arrangement would be. And that's proper.

9 But they are presently content to go along with the  
10 concept, and they're perfectly willing to go along with it  
11 to a very substantial extent. So I don't see any opposition  
12 from the management side.

13 Now as far as labor is concerned, they're willing to  
14 have this in the picture. So far they haven't been asked to  
15 pay for it, and if it had been in the picture to begin with,  
16 I think the package would have had some concession.

17 Now I don't want to pass judgment, Mr. Vento.

18 Mr. Vento. Well, I think the whole thing is, it sort of  
19 stands -- the voluntary investor kind of idea and I'd say,  
20 so you are going to put out some preferred or some class of  
21 stock and you're going to give it to employees by virtue of  
22 receiving this loan. Certainly, we're going to increase the  
23 value of the existing stock. At least that is our  
24 intention, by virtue of this guarantee. We hope we do.

25 Senator Long. Well, if we do what we ought to do -- to



190 02 09

mgcHEE 1 do what we ought to do, the employees will get stock by  
2 virtue of the government participation. And if we do what  
3 we ought to do, the employees will make a proper  
4 contribution to participate in a plan to save that company  
5 and save their jobs.

6 Now I didn't negotiate that deal.

7 Mr. Vento. Well, what I want to know, do you envision  
8 that that will cost anything, that that is going to cost us  
9 more money to buy that program than to buy a strict  
10 guarantee with a matching commitment type of program?

11 Senator Long. I don't think it would cost anything. It  
12 won't cost you a nickel.

13 Let me put it this way. To me, it would be just as  
14 though -- as it was when the Lockheed people came to us.  
15 They wanted us to endorse a note for about \$100 million, if  
16 I recall the figure. We could have just as easily said,  
17 "Look, we will sign a note for you on one condition. You  
18 have got to put your employees in here as part of this."

19 Mr. Vento. Well, what it really boils down to is, you  
20 say that you must invest to keep your job. That is what  
21 you're saying -- that you have to invest, and of course I  
22 mean it does depart from that voluntary investment. You're  
23 saying you have to invest in something that might not be as  
24 good an investment as something else. And that is somewhat  
25 bothersome. I don't know what the mechanics are of it. I



190 02 10

mgcHEE 1 can understand your sentiment. I think that the UAW has  
2 already done something, and we ought to look at that as  
3 opposed to that value as opposed to what this particular  
4 type of commitment is that you and others are suggesting.

5 I don't know, frankly, if we have time to look at all  
6 the ramifications, but I do want to establish -- first of  
7 all, I don't think this ought to cost us anything more in  
8 terms of what we're doing. If it does, then putting this  
9 program into place really gains us very little.

10 And, of course, I think you have to balance it off  
11 against what is already being done. One of the biggest  
12 problems that Chrysler had was the stock option program. It  
13 has almost stopped that because it cost money. It was an  
14 inducement that cost Chrysler -- selling below the market  
15 rate its various types of stock classes. And I think that  
16 that type of -- putting that program in effect under those  
17 circumstances is a much different type of situation than  
18 what you are envisioning.

19 I would hope that that is what you mean.

20 Senator Long. Well Chrysler, as I understand it -- and  
21 I'm not familiar with the details, but as I understand it,  
22 they have made their employees some very tempting offers in  
23 terms of stock ownership and that the union hasn't been  
24 particularly interested in it.

25 I'm not in a position to pass judgment on it.



190 02 11

mgcHEE

1 Mr. Vento. I'm not either, but it's my understanding  
2 that a program on the other side, the management side,  
3 actually ended up costing them money, and I don't think that  
4 is what you're proposing in terms of your ESOP program.

5 Senator Long. My thought is that it's not going to cost  
6 you a nickel. It's not going to cost you one nickel more to  
7 require that the employees have some stock in the company if  
8 this thing succeeds. And I think that will increase the  
9 possibility of its succeeding.

10 Mr. Vento. Thank you.

11 Mr. Moorhead. Mr. Hinson.

12 Mr. Hinson. Thank you, Mr. Chairman.

13 Senator, the distinguished Chairman of our Full  
14 Committee, Mr. Reuss, has a statement before the Committee  
15 this morning which indicates his intention of introducing an  
16 amendment to the bill that the Committee has that will,  
17 among other things, allow for the Secretary of the Treasury  
18 come back to the Congress and request some additional  
19 authorization if he deems it to be in the public interest.

20 Do you agree with that, and would you generally support  
21 this kind of approach to the problem? I have a great deal  
22 of concern about this. Do you think that \$1.5 billion is  
23 going to be adequate, or do you think that Chrysler might  
24 well be coming back to us for additional funds? And would  
25 you support such an additional request, if it was made?



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mgcHEE 1 Senator Long. Well, I don't know the answer to that. I  
2 haven't studied the Reuss Amendment, and I haven't even  
3 heard the sponsor of the amendment explain this amendment,  
4 so I'm not in a position to pass judgment on his amendment  
5 with regard to the issue. What I think about them coming  
6 back -- I don't think you ought to vote for the thing unless  
7 you really believe that you have put together a package here  
8 where everybody is going to do his part and that you think  
9 will work.

10 Now I have been in the embarrassing position, Mr. Hinson,  
11 and you may have, too, of urging the SBA or the EDA or  
12 somebody to make a loan and then have this fellow come back  
13 in later on and say, "That's not enough; I need more  
14 money." That is tough, to come back the second time.

15 You had better put together a package you think will  
16 work the first time if you're going to have anything to do  
17 with it.

18 Mr. Hinson. Thank you very much.

19 Mr. Moorhead. Thank you, Senator, for excellent  
20 testimony and the suggestion which, I can assure you, the  
21 Subcommittee will give serious consideration to.

22 Senator Long. Thank you very much. I'm pleased to see  
23 Mr. Reuss here, Mr. Chairman. I'm not in a position to pass  
24 judgment on your amendment. I just haven't heard it  
25 explained.



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mgcHEE

1 Mr. Reuss. I appreciate that.

2 Mr. Moorhead. At this point, the Chair would like to  
3 recognize the presence here of the Chairman of the full  
4 Banking, Finance, and Urban Affairs Committee, the  
5 distinguished gentleman from Wisconsin, Mr. Reuss, for a  
6 statement.

7 Mr. Reuss. Thank you very much, Mr. Chairman. I had a  
8 written statement which I have circulated to members of the  
9 Committee, and I would like to ask unanimous consent that my  
10 statement be included in the record.

11 Mr. Moorhead. Without objection, so ordered.

12 (The complete statement follows.)

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1 Mr. Moorhead. I want to apologize. I just did not see  
2 you down there, Carroll. I would have recognized you.

3 Mr. Hubbard. Mr. Chairman, I accept your apology and no  
4 problem. I listened as carefully as I could, as I was in  
5 and out of the Committee Room this morning. I was late in  
6 arriving. I am a Kentuckian who has been called to the  
7 phone numbers of time to give praise this morning to Phyllis  
8 George and John Y. Brown, Jr.

9 (Laughter.)

10 Mr. Hubbard. And during Senator Long's testimony, I was  
11 trying to hear as much of it as I could in order to have  
12 some intelligent questions. Having run for governor in the  
13 primary in Kentucky and having been overwhelmed by the  
14 beauty of Miss America and Phyllis George and the  
15 multimillions of George Y. Brown, Jr., and having witnessed  
16 the overwhelming landslide yesterday in Kentucky of John  
17 Y. Brown, Jr. for governor, I would say to my dear friend  
18 and colleague on the Subcommittee, Jim Blanchard of  
19 Michigan, who is doing his best to convince all of us to  
20 vote for this legislation, that having seen what I have in  
21 Kentucky, that I would recommend to Jim Blanchard that he  
22 seriously recommend to Chrysler that they replace Chairman  
23 of the Board, Lee Iacocca, with Colonel Harlan Sanders of  
24 Kentucky Fried Chicken fame and that they advertise Chrysler  
25 as being "finger-lickin' good."



190 02 15

mgcHEE 1 (Laughter.)

2 Mr. Moorhead. Back to the Chairman of the full  
3 Committee. Excuse me.

4 Mr. Reuss. Thank you for the very jolly intervention.  
5 Sometimes in the course of legislative events, the respect  
6 for the members of this Subcommittee should compel me to  
7 give my views in a timely way on the legislation before the  
8 Subcommittee, which I commend you all for working so hard on  
9 and for getting ready to mark up in the next day or two.

10 In a nutshell, I am compelled to oppose H.R. 5805, the  
11 Administration's Chrysler Bill, in that it proceeds on the  
12 theory that what is good for Chrysler is necessarily good  
13 for the country.

14 If the bill can be turned around so that what is good  
15 for the country is the main purpose and if Chrysler wants to  
16 qualify and get aboard that train, it is more than welcome  
17 to, then I think it would be a bill I could entirely  
18 support. I think we have to look at this legislation in the  
19 light of the country's economic problems -- why at one and  
20 the same time we are faced with terrible inflation and  
21 oncoming unemployment, our existing economic programs.  
22 Fighting inflation by super-tight money simply seems to  
23 increase unemployment, and fighting unemployment by spending  
24 increases or tax cuts simply seems to make inflation worse.  
25 And when you combine both of these macro policies, what you



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mgcHEE 1 get is the kind of low growth, low productivity stagnation  
2 that ails us.

3 So I suggest that what this country really needs in  
4 addition to sensible macroeconomic monetary and fiscal  
5 policies is an all out government/business/labor cooperative  
6 team effort to reform our economic structure in scores of  
7 different sectors ranging from food to health, to housing,  
8 to transportation, which is what concerns us this morning.

9 A reform of our economic structure which would enable us  
10 to get a grip on inflation and recession will take some  
11 time to achieve. But far from this being a reason against  
12 getting on with the job, it is all the more reason to start  
13 at once. And meanwhile, one thing that we should certainly  
14 avoid is taking further interventions which will simply make  
15 our structure worse.

16 Now the Administration's \$1.5 billion loan guarantee  
17 essentially says to Chrysler, which has suffered from its  
18 attempts to emulate General Motors and offer a full line of  
19 automobiles, "Keep on doing what you have been doing."

20 The Chrysler plan, as I understand it, is to expand its  
21 Omni and Horizon production and to keep on making on about a  
22 two to one ratio, as Mr. Ricardo told me, non-sub-compact  
23 cars on the ground, among others, that that is where it  
24 makes the money. Well, that puts us in the position of  
25 conducting an energy program, \$1.5 billion worth, in which



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mgcHEE 1 we are making possible Chrysler's current subsidy, \$300 to  
2 everyone who will buy a non-sub-compact car from them, and  
3 provided the dealer will promise in the future to keep up an  
4 entire line of sub-compacts and cars that aren't so gas  
5 economical.

6 So the question is, shall Congress go along with that  
7 kind of a loan guarantee? In my judgment we should not, but  
8 I hope it will be possible to fashion an altered Chrysler  
9 rescue mission -- one which combines federal planning and  
10 financial help with a program designed to provide jobs for  
11 Chrysler's workers and which takes into account their human  
12 needs and the production of useful equipment: super gas  
13 economical sub-compact automobiles, mass transit equipment  
14 including buses and commuter rail possibly, the kind of  
15 energy saving cogeneration equipment which Fiat of Italy has  
16 evolved which consists simply of a sub-compact automobile  
17 engine.

18 This is practical. I've seen it. They are making it in  
19 Turin. There is now one on demonstration by the Brooklyn  
20 Gas Light Company, to its eternal credit, and why we sit  
21 atrophied here when there is a great opportunity to combine a  
22 real attack on the energy/transportation shortage and in the  
23 process see that Chrysler workers get useful employment, I  
24 don't know.

25 The amendment which I hope the Subcommittee will



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1 seriously consider and which I herewith offer for your  
2 consideration has the following outline:

3 One, the bill's purpose on the amendment would be  
4 twofold -- (A) to maintain employment for Chrysler  
5 Corporation employees under acceptable conditions, and (B)  
6 to produce goods which meet national transportation and  
7 energy goals -- in a nutshell, those that lessen our  
8 dependence on OPEC oil imports.

9 Those include not only real gas saving automobiles but  
10 mass transit buses. Just the other day when the Department  
11 of Transportation put out bids for mass transit buses, it  
12 turns out that no American manufacturer bid on them.

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1 Another very real possibility is commuter self-propelled  
2 rail cars. Very substantially, not American company now  
3 makes these. Again, Fiat of Italy is the sole manufacturer,  
4 and as with its cogenerator, Fiat of Italy is very eager to  
5 get into a co-venture with some American company.

6 So it is perfectly possible to put together a package of  
7 energy saving transportation which Chrysler could be  
8 producing. They now produce tanks and trucks as well as  
9 motor cars. I don't see why they can't concentrate on  
10 fuel-efficient motor cars and such other energy saving  
11 devices as is thought in the national interest.

12 So the amendment I propose would fortify the Secretary  
13 of the Treasury when he works out this plan by bringing into  
14 the team the Secretaries of Transportation, Energy,  
15 Commerce, Defense, and Labor, as well as the recipient of  
16 the loan guarantees.

17 Secondly, the \$1.5 billion matching loan guarantees in  
18 the bill ought to be made available to Chrysler Corporation,  
19 in my judgement, if it qualifies for this kind of a plan, if  
20 it is willing to sit down and concentrate on the national  
21 interest rather than just on the Chrysler Corporation's  
22 alleged interest. And I hope they would.

23 President Iacocca, I am assured by -- Pete Rodino is a  
24 tiger, and I am sure that he could sit down with Miller and  
25 Miller's colleagues, and something worthy of the nation



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mgcHEE 1 could come forth from that. If Chrysler doesn't qualify, if  
2 Mr. Iacocca is not a tiger, then the amendment would permit  
3 any other entity or entities, any other corporation which  
4 the Secretary determines is better able than Chrysler to  
5 carry out such a program which has, as its aim, the  
6 provision of decent jobs for the men and women who now work  
7 for Chrysler and the production of products which help solve  
8 our transportation and energy problems.

9 Third, if the Secretary at any time during the four year  
10 period of the loan guarantees determines that amendments are  
11 needed in the law, he is asked to tell the Congress that.  
12 He shouldn't just suffer in silence and keep to himself the  
13 fact that one or another amendment might be needed. I'm  
14 sorry that my colleague, Mr. Hinson, should attack my little  
15 baby before it was even born because it really isn't  
16 terribly radical to ask the person directed by the Congress  
17 to carry out this plan, the excellent Secretary of the  
18 Treasury not to keep mum, not to keep it all to himself if  
19 he finds that in order to keep the nation from losing its  
20 ante, additional amendments are needed.

21 Fourth and last, the amendment would require that the  
22 Administration report to Congress every year on how it is  
23 doing. If there's one thing I've learned in my years around  
24 here it is that people make mistakes. Even the Federal  
25 Reserve, whom I thought was impervious to that human ailment



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mgcHEE 1 made a \$4 billion one in the money supply figures last  
2 month. So we of the Congress, I think, should keep abreast  
3 of what is going on.

4 So there, in a nutshell, Mr. Chairman, is the amendment  
5 which I respectfully propose to your Subcommittee. In  
6 essence, what it does is to take the emphasis out of doing  
7 just what Chrysler wants and puts the emphasis on doing what  
8 is good for the 150,000 men and women who work for Chrysler  
9 and those associated with them and the country, which is  
10 seized with very serious energy and transportation problems  
11 which are, in large part, responsible for our ramshackle  
12 economic structure which is causing, in my judgment, much of  
13 the inflation and recession from which we are now suffering.

14 So I know that I can rest the matter in your capable  
15 hands, and I would conclude by saying that with such a  
16 turnaround of the bill, I will vigorously support it.  
17 Without it, I will have to oppose the bill. But I repeat a  
18 pledge I have earlier made because of the importance of the  
19 subject matter. I will do my best to get it through the  
20 full Committee and to the floor -- the Chrysler  
21 legislation -- so that the full House may vote on it even  
22 though I may be constrained to vote against it myself.

23 Thank you very much, Mr. Chairman.

24 Mr. Moorhead. Thank you, Mr. Chairman, and I know that  
25 the members of the Subcommittee will give your amendment a



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mgcHEE 1 great deal of attention, and I, for one, want to thank you  
2 for getting it to us early so we would have a chance to look  
3 at it and study it and so it doesn't just appear on the  
4 first day of markup.

5 The Chair received a letter from one of the members of  
6 the Subcommittee objecting to the hearing of the Secretary  
7 of the Treasury at this time because the testimony wasn't in  
8 at least 24 hours in advance. Does the member want to  
9 pursue that position.

10 Mr. Kelly. Yes, Mr. Chairman, I do want to raise this  
11 point of order because I think that it is quite clear that  
12 if we are going to undertake to invest \$1.5 billion of the  
13 taxpayers' money that the Secretary of the Treasury who has  
14 set forth the parameters of the plan and is going to  
15 administer it at least ought to have his act together well  
16 enough so that he can give us the testimony the 24 hours in  
17 advance that our rules call for, because I think it is  
18 obvious that we are in a better position to evaluate the  
19 statement if we have an opportunity to examine it and  
20 consider it.

21 I think it is a reasonable request, and it is the rules,  
22 and I think they should be abided by.

23 Mr. Moorhead. The Chair is ready to rule. The Chair  
24 appreciates having the letter in advance because the Chair  
25 was able to discuss the matter with counsel for the



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1 Subcommittee, and the legislative history of this particular  
2 rule, Number 7(b), was originally drafted to say that each  
3 witness who is to appear before a Subcommittee shall file  
4 with the Clerk of the Committee at least 24 hours in advance  
5 of his appearance 100 copies of his testimony.

6 On a motion of a member of the minority, the words, "so  
7 far as practical", were added, which I think was intended to  
8 give the Chair of the various subcommittees some leeway. We  
9 are coming to the end of a Congressional session. The Chair  
10 had a great deal of difficulty in arranging with the  
11 Secretary about coming here on this day because the  
12 Secretary was originally scheduled to testify on Thursday  
13 before this Committee and on Wednesday before the Ways and  
14 Means Committee at the request of the Chair, and thanks to  
15 the cooperation of the Chairman of the Ways and Means  
16 Committee, we have changed this date.

17 In view of the time, I think that the Chair will rule  
18 that the Secretary has acted, insofar as practicable, and we  
19 would now like to --

20 Mr. Stanton. Mr. Chairman.

21 Mr. Moorhead. I would yield to the gentleman from Ohio.

22 Mr. Stanton. I appreciate the Chairman yielding, and  
23 may I simply say on that ruling that I would back up the  
24 Chair's ruling in that regard, because I was responsible for  
25 it a couple of years ago, with the Chairman working out that



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mgcHEE 1 language that the gentleman just quoted. But I would like  
2 to add further in regards to the ruling, thought, that of  
3 course the judge's idea and motivation behind his request  
4 goes far deeper than just the listening or the hearing of  
5 the Secretary's forthcoming 48 page statement and then  
6 additional material.

7 It does bother me considerably, though, and perhaps the  
8 thing could be resolved to the judge's satisfaction if we  
9 could get some assurance from the Secretary that he will  
10 come back at the time the full Committee meets and if any of  
11 the members of the full Committee that they want to ask --  
12 and I'm sure they will at that particular time -- of course,  
13 it is out of the realm of the Chairman's jurisdiction to  
14 answer that question, but I would hope sincerely that the  
15 Secretary would make himself available to the full Committee  
16 when the time comes for further markup of this legislation.

17 Mr. Moorhead. That would be the jurisdiction of the  
18 Chairman of the full Committee and the Chairman of the  
19 Subcommittee.

20 Mr. Blanchard. Mr. Chairman?

21 Mr. Moorhead. Mr. Blanchard?

22 Mr. Blanchard. I understand all members of the full  
23 Committee have been notified of this hearing today. Is that  
24 correct?

25 Mr. Moorhead. It is the Chair's intention after having



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mgcHEE 1 a first round of members of the Subcommittee to recognize  
2 members of the full Committee who have come here.

3 Mr. Stanton. I appreciate the gentleman's comments from  
4 Michigan, but my question was, if we have any further  
5 information we desire from the Secretary after today's  
6 hearing -- we don't know how it's going to proceed -- but if  
7 that is the case, and I think it is in the best interests of  
8 the legislation and those who are for it, to have full and  
9 complete hearings, and so that they would be held on this  
10 legislation, and that's the very minimum that we owe the  
11 taxpayers of this country.

12 Mr. Moorhead. The Secretary has always been very  
13 cooperative in the past. I'm sure he would do so again, but  
14 I would have to defer, of course, to the Chairman of the  
15 full Committee.

16 Mr. McKinney?

17 Mr. McKinney. Mr. Chairman, I apologize for the Eastern  
18 Airlines shuttle. I just want to welcome the Secretary and  
19 state that there are many differences between the Blanchard  
20 Bill and the Administration Bill. I listed my name on the  
21 Administration Bill by request, but I am particularly  
22 interested, and I hope in his testimony or in his synopsis  
23 of his testimony, the Secretary will address the questions  
24 of the Secretary alone rather than the Board making  
25 decisions, the time limit on the guarantees, and the



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mgCHEE 1 disposition of assets question.

2 Thank you, Mr. Chairman.

3 Mr. Moorhead. Now the Subcommittee looks forward to  
4 hearing from the Honorable G. William Miller, Secretary of  
5 the Treasury, and we welcome you, and if you want to  
6 introduce any of your associates, Mr. Secretary, you may do  
7 so.

8 (The complete statement follows.)

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1 STATEMENT OF THE HONORABLE G. WILLIAM MILLER,  
2 SECRETARY OF THE TREASURY OF THE UNITED STATES.

3 Secretary Miller. Thank you very much, Mr. Chairman. I  
4 will ask you to bear with me for a moment to test the mikes,  
5 and I hope you can hear. Are you able to hear me  
6 satisfactorily? Is everyone able to hear?

7 Mr. Chairman, let me first offer my personal apologies  
8 to the Committee, Mr. Kelly, and to all of you for the fact  
9 that we were not able to submit the testimony earlier. I  
10 was working on it last evening at eight and left my  
11 associated who worked late into the night, and it was  
12 printed overnight. Of course, we were working on a schedule  
13 that originally contemplated my testimony tomorrow and that  
14 was changed. But it is only because we felt it so important  
15 that we continued to obtain the best and latest up-to-date  
16 information and give you the fullest possible report that we  
17 have been so tardy. I hope you can understand that and can  
18 allow me the time to review this testimony and to call your  
19 attention to the supplements to it and that I can say  
20 certainly for myself personally that I, as always, would be  
21 happy to be available to any member of the Committee or to be  
22 on call to respond to any further information that will be  
23 needed.

24 I have noted Chairman Ruess' proposal and his comments  
25 this morning. I would hope that this might be taken up in



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1 the course of our discussion, and at the moment, I will try  
2 not to turn to that subject but rather to stay with the  
3 primary task of presenting to you the reasons for and the  
4 particular aspects of the Administration's proposal on the  
5 Chrysler loan guarantee program.

6 Mr. Chairman, with your permission, I would like to  
7 suggest that my statement along with the three appendices be  
8 included in the record. The appendices include a Treasury  
9 staff analysis of the economic impact of a shutdown of  
10 Chrysler Corporation, number one; number two, some material  
11 on historical patterns of Chrysler and of the auto industry  
12 in the United States; and number three, a review by Ernst &  
13 Whinney, a major public accounting firm retained by the  
14 Treasury, of the Chrysler Corporation proposal and their  
15 analysis of the cash requirements.

16 Those documents are before you, and I would like, with  
17 your permission, to have them in the record, but to  
18 summarize them and then turn to your questions.

19 Mr. Moorhead. Without objection, the attachments to  
20 your statement will be made a part of the record.

21 I think, Mr. Secretary, that you had better cover your  
22 relatively brief statement substantially in full because we  
23 did not have it to read last night.

24 Secretary Miller. Yes, I shall do so. Mr. Chairman and  
25 members of the Committee, I would like this morning to



190 03 11

mgcHEE 1 discuss with you the Chrysler loan guarantee program, and I  
2 would like in the process of doing it, as my statement does,  
3 to cover four points: the reasons for suggesting aid for  
4 Chrysler first, and second, the Chrysler situation; third, a  
5 review of the Chrysler financial needs as we see them; and  
6 fourth, the Administration proposal itself.

7 Now, the reasons for considering aid for Chrysler are  
8 numerous, but I will summarize the main features which we  
9 believe justify considering a federal assistance program.  
10 One, of course, is the impact upon employment and the rise  
11 of unemployment that would result from a shutdown of  
12 Chrysler or for a major interruption of its production.  
13 This not only is a question of the impact upon the 113,000  
14 Chrysler employees themselves but there are some equal  
15 number of employees or more in the dealerships who sell  
16 Chrysler products. There are 150,000 employees and  
17 suppliers who sell components to the Chrysler Corporation,  
18 and it would be our analysis, as you will see from the  
19 materials we have submitted, that if Chrysler were shutdown,  
20 if it went into a reorganization and was not able to  
21 continue, the unemployment would increase somewhere between  
22 75 to 100 thousand jobs -- unemployment lost jobs -- in the  
23 1980-1981 period.

24 Now, this is the overall impact, some of which would be  
25 offset by later employment in other producers to make up for



mgcHEE

1 the lost output of Chrysler, but there would be this  
2 immediate impact, and it would persist until such times as  
3 the production facilities could be reordered.

4 The local aspect of this falls very heavily on Detroit  
5 and the Michigan area, although other areas are impacted.  
6 Over half of Chrysler's employees are in the Detroit area.  
7 That is, over 60,000 of Chrysler's present employees are in  
8 that area, and there are somewhere between 20 and 40  
9 thousand employees of suppliers in Michigan who also feed  
10 into this stream of production.

11 It is our estimate that the unemployment rate in the  
12 Detroit area would increase by some four percent if Chrysler  
13 were to shutdown, and the unemployment rate in that area is  
14 already high, higher than the national average, so there  
15 would be a particularly heavy impact upon Detroit, Michigan,  
16 and many other areas of the Midwest.

17 Now, a shutdown of Chrysler means that while other  
18 U.S. suppliers might make up the lost production and provide  
19 the product, because of the production schedules, because of  
20 the availability of stepping up production, and because of  
21 consumer preferences, it would be our expectations that some  
22 of the Chrysler production would be displaced by foreign  
23 imports. So a shutdown of Chrysler would have a negative  
24 impact on the balance of payments. Our estimate is that we  
25 would lose some \$1 billion to overseas purchases, which



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1 means an increase of \$1 billion in our deficit, and that of  
2 course comes at a time when we are particularly anxious to  
3 return ourselves to balancing the international accounts.

4 Now, in addition to these kinds of issue, we also have  
5 the question of competition. The automobile industry is an  
6 important industry. It is important that we maintain an  
7 important share of that market as a world-wide market.  
8 Following World War II, the United States was the major  
9 producer of automobiles. At one time, about 80 percent of  
10 the automobiles in the world were produced in this country.  
11 That has declined substantially, and the loss of Chrysler as  
12 a producer would not only reduce the competitive forces  
13 inside the country, reducing us to two major competitors,  
14 but it undoubtedly would lose market share permanently for  
15 the United States.

16 And so, the impacts on both domestic competition and on  
17 world competition and America's share of that competition  
18 would be adverse.

19 Now, quite apart from these considerations, there is  
20 perhaps an even more important consideration in terms of the  
21 alternatives to an aid program. In case Chrysler should not  
22 continue, should be shutdown because of its inability to  
23 finance itself, there would be from the unemployment, from  
24 the lost production, some cost to the economy. There would  
25 be an increase in unemployment compensation costs. There



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mgcHEE 1 would be an increase in welfare payments. There would be  
2 costs in retraining workers. There would be a loss of local  
3 revenues because of shrinkage of the local economic activity  
4 and the tax base. There would be a loss of federal revenues  
5 because of the loss of income. And all of these plus the  
6 balance of payments would add up to a substantial impact on  
7 our economy.

8 It is our estimate that the federal deficit or the  
9 federal budget decision, just federal, not local, we would  
10 lose in revenues -- or on the one hand, lost revenues or  
11 increased expenses on the other -- some \$2.75 billion in the  
12 years 1980-81, should Chrysler shut down on January 1, 1980,  
13 so that the cost of not continuing Chrysler would be far  
14 greater in terms of direct impact on federal revenues and  
15 expenses than the risk involved in an appropriate loan  
16 guarantee program or an appropriate financial assistance  
17 package.

18 So now I have discussed some of the reasons why we feel  
19 that this proposal is justified. Let me turn to the second  
20 major point, and that is just to discuss briefly the  
21 Chrysler situation. How did it get in this condition, and  
22 why is it that contrary to our general philosophy, we would  
23 consider this a case deserving of federal assistance?

24 In the first place, there has been a substantial market  
25 shift for a number of reasons. There is a long term



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1 transformation of the automobile industry, shifting from  
2 what was previously the preferred American automobile, a  
3 large family automobile, a luxury automobile, towards  
4 smaller, more fuel efficient cars. These kinds of  
5 automobiles held 16 percent of market share in 1968. They  
6 are now up to 35 percent of market share, and by 1985 they  
7 will be somewhere between 60 and 80 percent of the market  
8 share.

9 Now this major transition which has been brought about  
10 because of the problems of availability and cost of energy  
11 and because of other strains on resources and money is a  
12 very expensive transition. The industry capital needs in  
13 the United States -- that is, the main producers in the  
14 United States -- between now and 1985 will need to expend  
15 \$80 billion in capital investment to make this transition.

16 The Chrysler needs to retool are estimated at \$13.6  
17 billion over the period 1980-1985. Now these financing  
18 needs are beyond what Chrysler has been able to finance  
19 itself from retained earnings and from its other resources.  
20 And the particular financing needs now come at a difficult  
21 time because with the recent gasoline shortages and increase  
22 in gasoline prices, there is an acceleration of the trends  
23 and there is a mismatch of production facilities with market  
24 needs.

25 There is also an economic slowdown, a recession, that



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1 will impact the cash flows and profit opportunities of all  
2 of the automobile industries during this period. You notice  
3 the very deep decline in profits for the other major  
4 manufacturers in the third quarter and the very substantial  
5 loss suffered by Chrysler.

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1 In addition to the economic slowdown, we are experiencing  
2 a more than proportionate slowdown in automotive sales. We  
3 have seen this recently in the October sales figures --  
4 September was aided by promotions and rebates.

5 But this slowdown means that that is an additional burden  
6 of a cash requirement to make the transition during hard times.  
7 And of course the efforts to increase sales through rebates  
8 merely increases the amount of cash strain that is required  
9 to finance the company.

10 So let us turn now from the financial situation of  
11 Chrysler itself to looking at the financial needs as we analyze  
12 them, and to our adaptation from the figures submitted to us  
13 by Chrysler itself.

14 You will recall, Mr. Chairman, that when I was sworn in  
15 as Secretary of the Treasury on August 6, one of my first tasks  
16 was to respond to a then request by Chrysler for assistance.

17 After discussing this with the President, the Administra-  
18 tion took the view that we would not be interested in or  
19 willing to recommend unconditional tax credits to Chrysler,  
20 but that we would consider under certain conditions as a  
21 unique exception to normal practice a program of assistance  
22 through loan guarantees, provided we could see a program  
23 that would bring Chrysler through this transition period and  
24 return it at an early date to a condition where it could be  
25 a viable private corporation with the capacity to finance



rmg 2

1     itself without federal aid.

2             On October 17, Chrysler presented a plan. This was a  
3     6-year business and financial plan. It did include the \$13.6  
4     billion of capital spending that I mentioned a moment ago. It  
5     did include the absorption of operating losses through 1980  
6     of some \$1.5 billion. It did show a cash flow need over this  
7     period of time, peaking in 1983, of \$2.1 billion over existing  
8     resources.

9             It did indicate the source of the \$2.1 billion would be  
10    from the following sources:

11            First, \$850 million from asset disposition, financial  
12    institutions, state and local grants, and other sources.

13            \$500 million from constituents and employee participation.

14            And \$750 million was requested from federal loan guarantees.

15            Shortly thereafter the consultants for Chrysler Corporation,  
16    Booz-Allen & Hamilton, submitted additional information in which  
17    they expressed the opinion that as much as \$700 million  
18    additional was needed to assure that the company would have  
19    adequate financing.

20            That their view was that with that additional cushion,  
21    the total financing needs would be about \$2.8 billion.

22            I might add that in addition to Booz-Allen, that Chrysler  
23    had retained the investment banking firm of Salomon Brothers  
24    to assist them in looking at their financial requirements  
25    and trying to organize a plan of assistance.



rmg 3

1           On our part at the Treasury, we retained Ernst & Whinney,  
2 a major accounting firm, so that we would have professional  
3 resources to examine this. As soon as we received the plan  
4 from Chrysler, Ernst & Whinney, under the direction of their  
5 senior partner, Joe Keller, organized a team of 25 professionals  
6 who worked very long and continuous hours in Detroit to dig  
7 into the plant, to analyze it, and to consider whether it  
8 covered all of the risks in financing Chrysler through this  
9 period.

10           In addition, we retained John Secrest, a former financial  
11 vice-president of American Motors, who had experience in this  
12 kind of problem, to assist us. And of course, our own Treasury  
13 staff, which is fortunate in having many highly professional  
14 officials, was able also to work on it through its own.

15           One of the first observations I would make about the  
16 period of our examination is that during this period itself,  
17 it became obvious that the outlook for the industry was not  
18 so favorable as had been contemplated. A number of independent  
19 forecasters during this period indicated softer market conditions  
20 and lower sales.

21           So, as a result of all of these examinations and reviews,  
22 we tried, as professionally and as objectively as we could,  
23 to bring forward a series of possibilities, looking at various  
24 options and risks, that would show us the true needs of  
25 financing for Chrysler during this period, the more reasonable



rmg 4

1 level of needs that would assure that we would achieve the  
2 objective of Chrysler becoming a self-financing company.

3 It would be, it seems to us, a disservice if the  
4 Administration should recommend to the Congress a program for  
5 aid to Chrysler that was not up to the task. None of us want  
6 an insufficient program, that if we inaugurate it, it would  
7 result in failure and disappointment.

8 It would be better for us to face the reality of the  
9 needs and the likely needs, and decide on the merits whether  
10 it is justified to provide that, and if not, it would be best  
11 not to go into an inadequate program that would only come back  
12 to haunt us.

13 I will remind the Committee that Chrysler's plan indicated  
14 cash requirements at these levels during the period. The  
15 peak requirement would have been in 1982 at \$2.116 billion.

16 In the case of our analysis, we developed three cases  
17 to vary from these figures. Base Case 1 does several things --

18 Incidentally, as you will notice, in each of these cases  
19 we have tested it against achieving 100 percent of the sales  
20 outlook; what would happen if only 95 percent was achieved;  
21 and what would happen if 90 percent was achieved, so that  
22 we would have a range of possibilities in case there were any  
23 marked conditions in the future where the company did not  
24 achieve the sales level which supported these figures.

25 The Base Case 1 assumptions projected that industry sales



rmg 5

1 for the next two years would be less than the Chrysler case,  
2 and this is based upon many independent projections. In  
3 particular, we decreased the outlook for the industry from  
4 10.5 million auto sales in 1980 to 9.3 million, and we decreased  
5 the outlook for 1981 from 11.1 passenger automobiles to 10.3  
6 million. So there was a downgrading of the market outlook.

7 On the other side, we did include \$200 million additional  
8 for the recent settlement between Chrysler and the UAW, so  
9 we put \$200 million back in to cover that.

10 And we did make some adjustments in certain of the Chrysler  
11 cost savings, but we incorporated the substance of those savings  
12 in the base case.

13 As you will see, if the 100 percent volume were achieved,  
14 then the maximum cash requirement would be some \$2.3 billion.  
15 If 90 percent of the volume were achieved, then almost \$4  
16 billion would be required.

17 The second Base Case makes an analysis of the cost  
18 savings projections by Chrysler and makes certain adjustments  
19 in reductions by referring back to their existing programs.  
20 The history of success in achieving objectives looks at both  
21 the variable margin improvement and the fixed cost production  
22 program, and makes some judgments as to the percentage possibility  
23 of achievement and gives, in our view, a realistic outlook  
24 for those achievements.

25 In addition, there is an adjustment in the advertising



rmg 6

1 and sales costs to reflect the level of volume that would be  
2 involved, and it does assume that some additional sales rebates  
3 might be required during this period in order to meet the sales  
4 targets.

5 In Base Case 2, you see that the requirement could go up  
6 on a 100 percent sales achievement to some \$3.3 billion, and  
7 could be as high as -- that is a mistake, I am afraid -- that  
8 should, I think, be \$4.8 instead of \$3.8 -- so that it could  
9 be as high as \$4.8 billion.

10 I am sure the figures in our tables here are correct.  
11 Yes, it should be, the second base case, that should be \$4.789;  
12 these are reversed. That is all. This figure should be over  
13 here and this one should be over there. So those are the  
14 adjustments.

15 Now, let me turn to the adjustments to Base Case 2,  
16 which we believe the more realistic look. Let me just point  
17 to these for a moment, a realistic look at what would actually  
18 be required, the adjusted base case.

19 We believe that the most reasonable approach leads up  
20 to this \$3 billion number. Where we get to that \$3 billion  
21 number is, this is a repeat of the same figures you were just  
22 looking at.

23 And if you assume 95 percent of the sales volume achieved,  
24 then the peak cash requirements will be just over \$3 billion.  
25 We arrive at that figure by taking the Base Case 2 and assuming



rmg 7

1 that capital expenditures of \$1 billion out of \$13.6 billion --

2 M Mr. Kelly. Mr. Chairman, could we inquire is there a  
3 corresponding chart to the ones being displayed?

4 Mr. Miller. Yes. In the testimony on page 10, you will  
5 find the same information.

6 But let me just focus for a moment on where we come out  
7 on the financing needs for Chrysler.

8 Having done these studies, it was our judgment that  
9 Chrysler could, in the years 1982 and 1983,--

10 Mr. Kelly. Mr. Chairman, I still can't identify the  
11 data that is being displayed with the chart on page 10.

12 Mr. Miller. Adjusted Base Case 2 appears on page 10 of  
13 my statement.

14 Mr. Kelly. You have just changed the form, is that it?

15 Mr. Miller. Well, this is only the same figures, right  
16 here, that appear here (indicating). 1593, 1994, 2196 --

17 Mr. Kelly. I have been able to identify it now, thank  
18 you.

19 Mr. Miller. But the point I was trying to make is that  
20 looking at the various adjustments and probabilities and the  
21 possibility of forecasting future markets, it is our best  
22 judgment that this level of requirement is the most reasonable,  
23 because it represents adjustments from the levels of forecast  
24 that Chrysler had made itself, that are reasonable in relation  
25 to current economic outlook, and reasonable in relation to



rmg 8 1 current market outlook, and which provide the possibility if  
2 there is any shortfall, of, in these two years, deferring or  
3 cancelling \$1 billion of capital expenditures out of a total  
4 of \$13.6 through the period to 1985 -- which would result in  
5 a net saving of cash of some \$600 million.

6 The reason that it would not be a saving of \$1 billion  
7 is because the \$1 billion itself would generate some income,  
8 and the deferral of \$1 billion and the loss of \$400 million  
9 of revenue would net out to \$600 million, a cushion that could  
10 be used in case this turns out not to be the optimum track.

11 So our analysis for this process leads us to the view  
12 that under current conditions and current outlook, the most  
13 probable needs for financing Chrysler during this transition  
14 will be \$3 billion, rather than \$2.1 billion.

15 Chrysler, in its proposal, had indicated that it could  
16 raise from nonfederal resources some \$1.4 billion. It seems  
17 reasonable to us that under today's conditions and with the  
18 additional support from guaranteed loans, that the proper  
19 balance in achieving this \$3 billion cash needs, would be to  
20 achieve it 1/2 from nonfederal financing sources, and 1/2  
21 from guaranteed loans, up to \$1.5 billion.

22 Mr. Chairman, I would like to pause for a moment to point  
23 out that this analysis comes to the conclusion that the most  
24 likely financing need for Chrysler's \$3 billion, that does not  
25 mean that Chrysler would currently, or at any time would borrow



rmg 9 1 \$3 billion. It means it must get \$3 billion of cash over and  
2 above the sources it had on October 17th from various areas.  
3 And it must get them in a timing which fits its operating  
4 plan.

5 If any of the \$3 billion is to be borrowed, the concept  
6 would be to create a total financing package and the actual  
7 borrowing would be made only if and when Chrysler needs the  
8 funds to carry out its plan.

9 The main point being that the company needs a complete  
10 financing package in place so that it can make the steps and  
11 can make the capital commitments along the way to achieve  
12 this transition.

13 Where will the money come from for the nonfederal  
14 financing? It can come from a number of sources.

15 It can come from banks and financial institutions who  
16 already have a financial stake in Chrysler and to have a reason  
17 to see that it makes this transition to a self-financing  
18 corporation rather than going through the process of re-  
19 organization.

20 It can come from Chrysler's suppliers. There is a very  
21 large amount of purchases made by Chrysler each year, and  
22 even more favorable payment terms can generate very large  
23 amounts of additional capital.

24 It can come from labor unions and employees. The UAW  
25 settlement recently completed with Chrysler does reduce cash



rmg 10

1 requirements by some \$200 million from what was included in  
2 the October 17 plan, so that part is more or less already  
3 available.

4 It can come from state, local, and other governments.  
5 And these governments have a stake in this situation because  
6 they, too, will lose revenues if Chrysler fails.

7 If Chrysler shuts down, various states and cities will  
8 lose revenue and will have increased costs, so they have a  
9 stake in providing some assistance.

10 It can come from Chrysler dealers who have an interest  
11 in the continuity of their business and their product lines.

12 It can come from shareholders. Shareholders will be  
13 required to forego dividends, but there could be possible other  
14 inputs from shareholders.

15 And very importantly, it can come from asset dispositions,  
16 the sale of assets which Chrysler does not need to carry out  
17 its core business. Chrysler has already made some sales of  
18 this nature. It has sold the real estate business. It has  
19 sold many of its overseas operations which are not primary to  
20 its business, and it has some other properties that it is  
21 considering for sale and could be offered for sale.

22 So through all of these sources, based upon Chrysler's  
23 own analysis and our analysis, it would appear reasonable  
24 that \$1.5 billion could be achieved.

25 The other \$1.5 billion for the financing package would



rmg 11

1 then come from federal guaranteed loans. These particular  
2 loans would have to have a series of safeguards because we  
3 obviously are not interested in a program in which there could  
4 be an ultimate cost to the taxpayer.

5 It is our plan that this program will be sound enough and  
6 will be well designed enough so that it will work, and if it  
7 works there will be no cost to the U.S. taxpayer. Of course,  
8 there is a risk that if it does not work, there might be some  
9 losses.

10 But to minimize the risk of loss, not only do we need  
11 an adequate financing package, but we need a series of safe-  
12 guards to make sure that we have a handle on the future plans  
13 and programs and operations of the company.

14 First, we need to be sure that in order to make our  
15 commitment there is a sound operating and financial plan for  
16 the period ahead, and that it will be revised from time to time  
17 as we make actual loan guarantees.

18 So that we are constantly monitoring the progress of  
19 the company and do not add more financing if the program is  
20 failing or is not meeting its targets.

21 There needs to be a continuation of the present financing  
22 commitments. If they were pulled out, then of course the  
23 company would not have enough resources. So we must have  
24 assurance that waivers and commitments from those who are  
25 providing the present financing, that those will be continued.



rmg 12 1 There must be reasonable prospect for repayment of these  
2 guaranteed loans.

3 Of course, we must make the terms of repayment and the  
4 terms of maturity reasonable in relation to the cash earnings  
5 and other cash generation of Chrysler in future years so that  
6 it can reasonably repay them.

7 We need to design a series and will design a series of  
8 restrictive covenants that restrict what the company can do,  
9 and make it committed to sticking to its last, and carrying  
10 out this plan and not taking on new areas of responsibility  
11 or risk while we are involved in this financing program.

12 We need to maximize the position for guaranteed loans in  
13 terms of collateral and priority among creditors so that if  
14 there is for some reason a failure of this plan, that there  
15 is a high probability of minimizing or eliminating any loss  
16 to the government or to the taxpayers from paying off  
17 guaranteed loans.

18 And we must receive resonable compensation during the  
19 period of guarantees to cover the costs we will have, and to  
20 cover some compensation for the risks assumed by taxpayers  
21 in making this kind of commitment.

22 Mr. Chairman, to summarize, what I have tried to cover  
23 this morning, let me say that it is a general principle of this  
24 Administration to respect the merits and the vitality of our  
25 private enterprise system, and to minimize government



rmg 13

1 intervention. We do believe that it should be only in an  
2 unusual case that government financial aid should be considered  
3 or granted.

4 We do believe, for the reasons we have outlined, that  
5 this assistance is justified as an exception to the general rule  
6 and is justified because of the unique conditions and because  
7 of the impact upon our economy and because of the impact upon  
8 various regions of the country and because of the impact  
9 upon competition, and because of the impact upon the balance  
10 of payments, and because of the cost for the government of a  
11 failure of Chrysler.

12 We believe we have made reasonable and professional  
13 estimates of the financial needs. We have done so carefully.  
14 And we believe we have a plan that good management can carry  
15 out successfully to achieve a return of Chrysler to a successful  
16 self-financing company.

17 We believe the proposal we have made is responsible, and  
18 one that responds to the conditions that we now have, both  
19 in terms of the proper role of government, and in terms of  
20 the timetable we have to respond in order to be of assistance.

21 And I appreciate very much your attention, and would be  
22 pleased to try to answer now any of the questions that you or  
23 others may have.

end #4

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190 05 01

gshHEE 1 Mr. Moorhead. Thank you, Mr. Secretary. The chairman of  
2 the full committee has asked me to recognize him because he  
3 has to leave.

4 Mr. Reuss?

5 Mr. Reuss. Thank you, Mr. Chairman.

6 Welcome, Mr. Secretary. As you know, Mr. Secretary, I  
7 have a little different view on the form and structure of  
8 the aid which we ought to give to the people who work for  
9 Chrysler and the people who pay the taxes in the United  
10 States.

11 And I sent to you yesterday my proposed amendment, which  
12 basically takes your bill, H.R. 5805, and makes a very small  
13 though crucial amendment in it, which really has two  
14 aspects: One, instead of accepting Chrysler's full line  
15 strategy and thus subsidizing further waste of gasoline, it  
16 requires that the plan concentrate on energy conservation,  
17 real gas-saving automobiles, mass transit equipment, perhaps  
18 automobile-related cogeneration; and secondly, it says that  
19 the amendment says that the aim of this is not primarily to  
20 benefit Chrysler stockholders and Chrysler's banks, but to  
21 benefit the people who work at Chrysler and the people of  
22 this country who are confronted with a terrible energy and  
23 transportation crisis.

24 Thus, under my amendment, while Chrysler Corporation  
25 would have first dibs and sort of veteran's preference in



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gshHEE 1 the whole deal, if Chrysler isn't able or willing to do it  
2 all, then you, as Secretary, and your consulting cabinet  
3 cohorts would have an opportunity to bring somebody else in.

4 That, in essence, is the amendment. All else remains in  
5 HR-5805.

6 You have shown a remarkable ability to put your  
7 excellent mind on complicated propositions in a hurry.  
8 Chrysler's proposition just came to you, as I understand it,  
9 on October 17.

10 What is your feeling about my proposed amendment?

11 Mr. Miller. Mr. Chairman, we would certainly welcome an  
12 opportunity to review that. I, philosophically, I certainly  
13 have no dispute with the idea of moving Chrysler or American  
14 productive capacity in the direction you indicate.

15 I would make a couple of points.

16 At the moment, Chrysler is more concentrated in small  
17 cars than the other major producers. I don't think that  
18 this point is generally known. It was among the first and  
19 certainly the first American manufacturer to move into the  
20 front-wheel drive kind of sub-compact.

21 The Omni Horizon line is, of course, just the kind of  
22 direction that we need to go for fuel economy. And those  
23 cars have been very popular and have sold well.

24 One of the problems is, of course, that Chrysler has  
25 limited capacity to produce them.



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1           So that those are cars that they sell all they can make  
2 while other cars that are of more traditional lines, they  
3 haven't been able to retool yet and they need to retool over  
4 to their new K-body to carry this out through their program.

5           As time goes by, their commitment has to be and will be  
6 and we certainly will want it to be in this operating plant  
7 moved toward fuel efficiency cars.

8           Whether or not Chrysler, with its financing needs that I  
9 have outlined, would be able to take on a new major project,  
10 tooling up for a mass transit or other things, we would have  
11 to examine.

12          And I would hope in your amendment you would bear in  
13 mind just the possibility that we might have to get them  
14 healing before we put them into another area, or that if we  
15 divert funds from here to some other manufacturer, Chrysler  
16 might not have enough to get by.

17          But I think that we would like to examine that with you,  
18 if we may, and see if we have a way to accommodate your  
19 thoughts because they certainly are consistent with where  
20 the nation should go.

21          Mr. Reuss. Well, I appreciate your sympathetic  
22 observations and just responding briefly to your statements,  
23 on your second point, my amendment would contemplate, and I  
24 refer here to the statement of it, that loan guarantees to  
25 Chrysler in carefully controlled amounts may be granted



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gshHEE 1 before completion of this plan if the Secretary determines  
2 there is emergency need.

3 Thus, I would not want to come around and seize Chrysler  
4 if they were on the verge of showing the world the way.

5 On your first point, that Chrysler is less awful than  
6 General Motors and Ford, in its past gas-guzzling addiction  
7 and sitting by while the nation's subcompact business went  
8 to Volkswagen, Fiat, Renault, Datsun, Toyota, Honda, et al,  
9 that is true.

10 But here we are not asked to aid General Motors or  
11 Ford. We are talking about Chrysler. And if the nation is  
12 to put at hazard \$1.5 billion of the taxpayers' hard-earned  
13 dollars, I would hope that we wouldn't just ratify what  
14 Chrysler management dreams for itself is another full-line  
15 producer.

16 But anyway, I am delighted at your sympathetic reaction,  
17 and thank you, Mr. Chairman, for giving me this opportunity.

18 Mr. Moorhead. In view of the fact that the Chair was  
19 recognized, I think it only appropriate to recognize the  
20 ranking minority member of the full committee, Mr. Stanton.

21 Mr. Stanton. Thank you very much, Mr. Chairman, and I  
22 appreciate the courtesies of the subcommittee, and I will be  
23 extremely short.

24 My first question, Mr. Secretary, and more out of  
25 curiosity, it was by coincidence, I think, on Thursday



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1 morning early that I was reading in the New York Times an  
2 article by a Mr. Rattner, quoting you as saying on the day  
3 before that no decision had been made on Chrysler.

4 And adjacent to it was an Associated Press story from  
5 the Washington Post that on that afternoon, the day before,  
6 the president of the United Auto Workers had appeared at the  
7 White House and that a decision was made on Chrysler to go  
8 forth.

9 My question, number one, is is that the time schedule,  
10 roughly, that the decision was made on Wednesday afternoon,  
11 or Wednesday eveing?

12 Mr. Miller. Mr. Rattner's statement was correct. I  
13 can't remember the days, but at the time that I had lunch  
14 with the New York Times, some of the officials and  
15 journalists of the New York Times, we had not presented a  
16 position paper to the President, and no Administration  
17 decision had been taken because it is ultimately a  
18 presidential decision to approve this proposal.

19 That had not been done, and so it was absolutely correct  
20 that no decision. And the President might have made another  
21 decision.

22 So at that point, it was uncertain what the  
23 Administration's position would be.

24 As to Mr. Fraser being in town and meeting, there has  
25 been, as this decision was tenatively made by the President,



190 05 06

gshHEE 1 a round of consultations with banks, with Chrysler, with the  
2 consultants, with the labor unions, to inform them of the  
3 direction of the decision and the timetable for any meeting  
4 with Mr. Fraser would have been after the President had made  
5 a decision and to inform him that this was going to be, and  
6 to seek to make it clear that this plan would contemplate  
7 \$1-1/2 billion in contributions from nonFederal sources that  
8 would have to include all of the constituents, including  
9 employees.

10 Mr. Stanton. As I say, my question is out of curiosity  
11 and having deep respect for you in your former position in  
12 the business world, and knowing how difficult it is, really,  
13 for you to appear before this committee or to reach the  
14 conclusion that you have reached.

15 I was mainly curious and just from a casual reading of  
16 the papers as to whether or not the decision was made and  
17 then subject to the approval of the United Auto Workers and  
18 what they brought in in consultation. And was the plan  
19 changed from the time of the President's decision?

20 Mr. Miller. From the time the President approved our  
21 proposal, no changes were made in it of any kind. After he  
22 approved it, we had to go through the clearance of the  
23 actual draft language with OMB, which is a regular procedure  
24 and with interagency groups to clear the language of the  
25 proposed legislation.



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1 And we consulted and informed various constituencies  
2 that were directly involved and who would be called upon to  
3 make contributions that this was a forthcoming decision, so  
4 that they would be aware of it.

5 And nobody changed the decision, varied it, or  
6 negotiated it. It was a decision made by the  
7 Administration. It was recommended by the Treasury. It was  
8 unanimously supported by the economic advisors to the  
9 President and he approved it.

10 Mr. Stanton. Thank you very much and I do appreciate  
11 the courtesy of the Chairman.

12 Just one last quick question to follow up on our  
13 Chairman's question. On page 6 of your testimony, you state  
14 that the company's strategy is to remain a full-line  
15 automobile, truck, and car producer.

16 And the Chairman has either put forth a very meaningful  
17 amendment or one that could be taken very lightly, and then  
18 down the road, done away with.

19 But the Chairman states in his statement that I would  
20 hope that it is possible to fashion an alternative Chrysler  
21 rescue measure.

22 Would you look upon the Chairman's amendment as a major  
23 amendment to this legislation? Would it not require an  
24 additional plan to be submitted by Chrysler?

25 Mr. Miller. We are already doing additional work to see



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gshHEE 1 what the alternatives are. And one of the comments in my  
2 presentation was to suggest that at least one billion  
3 dollars in capital expenditure might be deferred in this  
4 time frame and to minimize the number of models and to have  
5 a slightly smaller line in order to minimize capital  
6 commitment.

7 And we are looking at those and other alternatives. Our  
8 objective, the company's objective, when you talk full line  
9 in the future, is a full line of cars in terms of their  
10 appointments and the degree with which you might consider  
11 them a luxury car.

12 But they will all be smaller in size. They will all be  
13 fuel efficient. They will all be much different cars than  
14 you are used to now.

15 But Mr. Stanton, we are looking now at whether or  
16 changes could be made and part of our effort if this  
17 legislation is enacted is a continuing process on our part  
18 to optimize the company's plan in terms of national  
19 objectives, in terms of how the company can work and  
20 succeed.

21 Mr. Stanton. Thank you, Mr. Chairman.

22 Mr. Moorhead. Mr. Secretary, obviously, the number one  
23 question we have to ask ourselves is, if we go through this  
24 exercise, will it succeed?

25 And some of your testimony gives me a little concern.



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1 At page 4, you say that our conclusion is that Chrysler  
2 can recover. Not that they will recover, but can.

3 On page 10, you say that the plan has the potential of  
4 assuring the company's viability.

5 And on page 11, you say, even with the \$3 billion,  
6 Chrysler's situation will remain very tight.

7 Those are little disturbing words for those of us who  
8 want to support this legislation, if we can be reasonably  
9 assured that it is going to work.

10 Secretary Miller. Mr. Chairman, it is our opinion that  
11 there is a reasonable probability of this plan working. I  
12 don't think that anyone can give a guarantee because none of  
13 us can predict what will happen.

14 I think that we have to present to you the reality that  
15 this is our best judgment in today's conditions, and what we  
16 know today, that we wouldn't present it if we didn't believe  
17 it was adequate to accomplish the task.

18 But we know that even today there is interruption of  
19 pumping and loading oil in Iran. And if there were another  
20 oil interruption and another major impact on the automobile  
21 industry a year from now, two years from now, I think we  
22 just don't know what that would mean.

23 And to guarantee that this would work, regardless of  
24 future events I think would be imprudent because none of us  
25 can tell that.



190 05 10

gshHEE 1 We have tried to put in variations from volume. We have  
2 tried to put in a harder view of the potential. And we have  
3 tried to cost it out. And we have tried to take off the  
4 rose-colored glasses and put on just plain old glass,  
5 "plainos," to look at the world as it really is and to do  
6 our best.

7 But we cannot give you a guarantee.

8 Mr. Moorhead. Mr. Secretary, on page 13, you talk about  
9 asset disposition, saying the company owns several large  
10 assets which are marketable.

11 I wonder if you could give us some idea of what they  
12 are and particularly whether they include such things as  
13 Huntsville, Alabama or Chrysler Financing?

14 Secretary Miller. Well, there are some more obvious  
15 assets that I think might come first to mind. The company,  
16 as a result of disposing of some of its European operations,  
17 owns 15 percent of Peugeot's stock, which has no mission in  
18 its strategy.

19 And it would seem to me that that stock being marketed  
20 could raise quite a bit of money. I think whether or not  
21 the company would feel that its cash needs in this \$1-1/2  
22 billion could be best served by selling off their tank  
23 operation or one of their gear plants. Or Huntsville, I  
24 think, is a decision that we're going to have to face later.

25 I think, Mr. Chairman, the problem will be one of



190 05 11

gshHEE 1 deciding whether the continuity of a particular operation  
2 does play a role in the general strategy or whether the  
3 raising of money by disposition, which means non-interest  
4 bearing money -- you know, it is money that doesn't have to  
5 be paid back and it is money that does not bear interest --  
6 isn't worth stretching pretty far and making sure that you  
7 are sticking to your core business and not doing peripheral  
8 things that aren't important.

9 One could look at the own company's list of potential  
10 dispositions and see some possibilities. They have a marine  
11 operation that is small. But even a few tens of millions of  
12 dollars will help and will get management back to its  
13 primary task and not divert it to other activities.

14 There is also the possibility of either selling the  
15 finance company, which I think should be treated cautiously  
16 because that is an important arm of marketing. If it were  
17 sold, it would have to be coupled with some long-term plan  
18 for that financing company to handle Chrysler product, or it  
19 might be possible to sell an interest in that company and  
20 continue to have it but have a partner, and thus, lessen the  
21 commitment without losing the primary mission.

22 So I think that there are many options the company can  
23 look at.

24 Mr. Moorhead. Obviously, we want to look first at,  
25 let's say, the opportunity as to how this plan will work.



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gshHEE 1 And then I suppose we should say what it is the protection  
2 of the taxpayer in case the automobile industry is much  
3 worse than your predictions, and how is the taxpayer  
4 protected if you have exercised your federal priority of  
5 waiver rights under Section 107(f).

6 Secretary Miller. Mr. Chairman, this is one of the  
7 cases where we are asking because of the circumstances,  
8 approval for a plan that is reasonable in the sense that the  
9 government goes into the program and makes a commitment for  
10 a loan guarantee only if the other constituents have come  
11 forward.

12 We cannot yet tell you just what role each of the  
13 constituents can or will play. And because we cannot  
14 present to you X-amount from the banks, X-amount from the  
15 suppliers, X-amount from the dealers, X-amount from the  
16 employees, we need the flexibility to negotiate the best  
17 arrangement we can.

18 And the reason to give the authority for a waiver is so  
19 that in case it is only possible to put this program  
20 together by putting some of the federal loan guarantees on a  
21 carry pass-through basis, it might be better to do that than  
22 to have the whole thing abort.

23 Now you notice that while we can waive priority, we  
24 cannot become subordinated. We could never be less than  
25 other creditors.



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1           So the only question is, if the last \$200 million you  
2 need, would it be better to carry pass-through, and that  
3 would be the view of the total picture.

4           And with your blessing, we would like that flexibility.

5           Mr. Moorhead. Thank you. My time has expired.

6           Mr. McKinney?

7           Mr. McKinney. Mr. Secretary, welcome. We are adhering  
8 very strongly to the five-minute rule, so I will sort of  
9 jump around in my line of questioning.

10          Chrysler had four very profitable divisions, or at least  
11 three very profitable -- Chrysler Finance, New Process, and  
12 Huntsville, Alabama. And also the tank operation, as you  
13 say, is an ongoing federal commitment.

14          Has any thought been given, or wouldn't it be right to  
15 have the Federal Government put a priority collateral lock  
16 on those four divisions so that should something happen, the  
17 Federal Government would have the priority to sell it?

18          Of course there is a difficulty. My feeling is, and I  
19 believe Salomon Brothers agrees with this, that Chrysler  
20 Finance is so tied to Chrysler's operations in floor  
21 planning and dealers that its probable worth, functioning as  
22 it is now, of \$600 million, might drop to as low as \$300  
23 million.

24          But would that be a consideration?

25          Secretary Miller. I think that we ought to look at all



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gshHEE 1 of those assets as possible collateral for federal  
2 guaranteed loans.

3 What we have suggested here is that we seek collateral,  
4 again, with the possibility of waiving it or foregoing it on  
5 all or part, depending upon the circumstances.

6 Whether those properties would completely collateralize  
7 the loans remains to be seen.

8 We might also want to look at some of the plants and  
9 other activities because, after all, physical facilities do  
10 have resale value, even if there is a failure of the  
11 company.

12 Mr. McKinney. One of the things that bothered me, in  
13 looking through the Department of Transportation's figures  
14 and meeting with them in Boston -- is that one of the  
15 reasons that Chrysler is having a tremendous problem, is  
16 because its variable unit margin is very susceptible to  
17 outside suppliers rather than being vertically integrated  
18 with such as General Motors and Ford.

19 And I would hope that the Secretary, or whoever finally  
20 administers this plan, would think very long and hard about  
21 selling anything that would require Chrysler to go further  
22 out into the supplier, sub-supplier market to affect that  
23 very limited profit.

24 I would agree. I don't see why Chrysler should stay in  
25 the bank business. I don't see why Chrysler should stay in



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gshHEE 1 the marine business. But I would defy anyone to try and  
2 sell it at this particular point in time.

3 Secretary Miller. Yes. It may not raise much money.

4 Mr. McKinney. I'm afraid not. One of the things that  
5 interests me is a lot of talk has been made about ERISA's  
6 probable long-term, cumulative deficit of about \$1.1 billion  
7 in pension guarantees should Chrysler go under.

8 Has any actuarial study been made as to -- ERISA, for  
9 instance, is already, as I understand it, \$130 million in  
10 the hole.

11 Has any actuarial study been made as to what the  
12 increased cost per employee would be to other corporations  
13 in this country should this \$1 billion plus the \$130 million  
14 they're already in the hole, have to be met?

15 Secretary Miller. Mr. McKinney, we have not made that  
16 actuarial study in the Chrysler case. For everyone's  
17 benefit, I should mention that if Chrysler became insolvent  
18 and the pension plan were terminated, that contingent  
19 liability of \$1.1 billion would fall on the Pension  
20 Guarantee Corporation. And the recovery of that would have  
21 to go into cost for other employers in premiums.

22 So that would be another impact on the economy which I  
23 did not mention in my presentation, which is another factor.

24 Mr. McKinney. Well, this is one of the problems. It  
25 really bothers me. And, for instance, in talking to Doug



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gshHEE 1 Fraser, this is one of the problems, that you talk to  
2 business men on one side, and he says, the per capita cost  
3 of a new employee is too much.

4 So, therefore, we have overtime and we have all of these  
5 other methods of avoiding putting more people back to work,  
6 particularly in a recessionary period.

7 And I have made rough estimates that I believe the  
8 employee cost -- the cost per employee is now \$2 and  
9 something cents, and that would probably jump as high as  
10 double, say to \$4.65 to \$5.00, which is just one more  
11 impetus not to have employers go out and hire new employees.

12 And that would be, I think, a tremendous concern.

13 In all of this talk of creditors, and I guess we've  
14 talked to all of them, there has been a dull silence and I  
15 accuse the banks of that. But we have solved the problem  
16 and now there has been a dull silence from one of my  
17 constituents; namely, the insurance companies.

18 I believe Aetna, per se, which is a kinetic corporation,  
19 is into Chrysler for more than anyone else at this point  
20 practically, as an individual.

21 Has your department talked to the insurance companies?

22

23

24

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1 Secretary Miller. No, I do not believe we had talked  
2 directly, but I suspect that Salomon Brothers has. The  
3 financial advisors, Mr. McKinney, have talked to them. We  
4 have decided not to sit down with that group until we had a  
5 program because we did not want to precommit you to some  
6 program until we knew what your wishes were. But we will be  
7 sitting down with all of those groups, but principally  
8 relying on the company and its financial advisors to line  
9 them up because I think it is their task to do so.

10 Mr. McKinney. My time has expired. Just one last short  
11 question. Has any contemplation been made of asking the  
12 large lenders to think in terms of, say, a one year  
13 moratorium on interest and principal?

14 Secretary Miller. Yes. I think we have to look at all  
15 of the concessions possible -- possible lower interest rates  
16 on part of this, possible moratoriums. Certainly the  
17 maturities will have to be handled so that we do keep these  
18 credits available underneath the new program. Otherwise, it  
19 will not hold together.

20 Mr. McKinney. Thank you very much for a very thorough  
21 presentation.

22 Mr. Moorhead. Mr. Blanchard?

23 Mr. Blanchard. Thank you, Mr. Chairman, and thank you,  
24 Mr. Secretary, for a very thorough report and testimony. I  
25 am especially pleased with all the work and analysis you



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mgcHEE 1 have put in on this matter, and we also here are aware of  
2 the time considerations you have worked under which make  
3 this presentation all the more impressive.

4 Secretary Miller. We will have to charge Chrysler a fee  
5 to make up for our expenses.

6 (Laughter.)

7 Mr. Blanchard. I am especially pleased also that you  
8 underscored Chrysler's role in making small fuel efficient  
9 cars, especially on page three and four of your testimony.  
10 You indicate the potential balance of trade losses if  
11 Chrysler were to go out of business. I take it that is  
12 because there really isn't a U.S. competitor to the  
13 Omni/Horizon four-cylinder front wheel drive cars. Is that  
14 correct?

15 Secretary Miller. I think several reasons,  
16 Mr. Blanchard. One, I don't think other U.S. manufacturers  
17 could pick it up immediately, and I think the natural  
18 inclination would be for the market to be supplied from  
19 abroad, and then once that begins to happen and dealers  
20 begin to take up foreign lines, I think there would be a  
21 permanent loss of business overseas and a permanently loss  
22 of jobs to overseas suppliers.

23 Mr. Blanchard. So you would agree with the Department  
24 of Transportation people who have said that if Chrysler were  
25 to shut down, at least for a couple of years the United



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mgcHEE 1 States would lose a major producer of small, fuel efficient  
2 cars?

3 Secretary Miller. I think for a short time we would  
4 lose quite a bit. In the long term, we would make them up,  
5 but there would be some net loss permanently, I would think.

6 Mr. Blanchard. Along those lines, Chairman Reuss, I am  
7 pleased with your suggestions, and I hope, assuming there is  
8 reasonable flexibility as the Secretary has outlined, that I  
9 can offer such an amendment that you have suggested, as long  
10 as there is flexibility for the Secretary and for the  
11 government to meet all the conditions that are necessary to  
12 make this plan work.

13 But I thank you for your reconsideration of this  
14 important matter.

15 Mr. Secretary, I would like to ask you a question about  
16 problems that recession can cause. As you know, everyone is  
17 trying to predict exactly what direction the economy will  
18 take. I had a chance to talk with the Booz-Allen  
19 consultants, who were very helpful to me, and they indicate  
20 that the \$1.5 billion figure or the \$3 billion figure was  
21 reasonably recession-proof, if you're talking about a  
22 moderate recession.

23 I take it you probably would agree with that, but you  
24 don't state it flat out in your testimony. How do you feel  
25 about that?



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1 Secretary Miller. We covered that, Mr. Blanchard, by  
2 indicating a reduction in the market, the total automotive  
3 market, for 1980 and '81, so we accounted for recessionary  
4 effects by reducing the forecast from what were in the  
5 Chrysler plan, and we would agree therefore that the plan  
6 presented accomodates to a moderate recession in this time  
7 frame. It does not take account of a possible 'nother  
8 recession in '83 or '84, which I think would be at this  
9 moment unlikely and difficult to predict.

10 Mr. Blanchard. Thank you. Also, in your testimony, you  
11 outlined early on that the auto industry in the United  
12 States was going to need about \$80 billion in capital in the  
13 near future. From what I understand, that is largely the  
14 expenditures required to downsize automobiles, not only of  
15 course to meet the law that we have enacted, but also it  
16 appears to be the substantially changing market demand. Is  
17 that a correct assumption of mine that most of that \$80  
18 billion is for those costs of downsizing automobiles?

19 Secretary Miller. Most of it would be in connection  
20 with the downsizing. You could, I suppose, argue that a  
21 good deal of it would be needed to make some of the changes  
22 in fuel economy, even if you continued present lines, but  
23 the fuel economy requirements plus the market shift requires  
24 both the downsizing and the retooling for the new models,  
25 and that's where the \$80 billion comes from. Yes, sir.



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1 Mr. Blanchard. Regarding commitments, I have a letter  
2 from the Governor of Michigan, Governor Milliken, that I  
3 would like, Mr. Chairman, to be made part of the record, and  
4 also I will send copies to my colleagues.

5 Mr. Moorhead. Without objection, it will be made a part  
6 of the record.

7 (COMMITTEE INSERT.)

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1 Mr. Blanchard. He has been discussing the State of  
2 Michigan's role which should be significant with you. He  
3 outlines a proposal which apparently ends up with a total  
4 package of approximately \$150 million from the state  
5 available to Chrysler. Have you had a chance to review that  
6 carefully and decide whether that would be a significant --  
7 whether that would qualify on the \$1.5 billion contribution?

8 Secretary Miller. Mr. Blanchard, I had heard that the  
9 Governor was talking in terms of some aid package that might  
10 be \$150-200 million. I was just checking with my own  
11 colleagues. I believe we have not received the details yet,  
12 so you will probably be furnishing them to us with that  
13 letter, and we will certainly take a look. We don't want to  
14 deny the great State of Michigan the opportunity for its  
15 fair share of this financing.

16 (Laughter.)

17 Mr. Blanchard. I'm sure you don't. He isn't that  
18 specific, so I assume that this general offer of \$150-200  
19 million --

20 Secretary Miller. We have that problem with the  
21 constituencies. Most of them are very general, and we are  
22 going to have to get some of them very specific very soon.

23 Mr. Blanchard. Well, I hope you are able to firm up  
24 exactly what the details are, and if this will, in fact,  
25 qualify, but I appreciate having that in the record.



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1 Finally, regarding the criticism often heard that  
2 Chrysler ought to restrict its operation, to reduce its  
3 operations, as I understand it, up until recently they have  
4 been operating with five basic body frames, and they  
5 basically call them platforms. Basically, in their future,  
6 they're going to move to three, and they will essentially be  
7 small, smaller, and smallest.

8 Do you get that same impression in terms of their  
9 management plan?

10 Secretary Miller. Yes. Definitely by 1985, this  
11 company is going to be highly directed toward the small  
12 automobiles. Now there are other features of Chrysler's  
13 operations you should bear in mind that I did not touch on  
14 enough in my presentation, and that is, they have had a  
15 position in vans and light trucks which has been impacted by  
16 the gasoline and economy requirements, and they are either  
17 going to have to suffer some loss there, or they have got  
18 some possibilities of retooling and downsizing those kinds  
19 of vehicles also.

20 That has to be looked at in more detail, but  
21 fundamentally their passenger automobile business is going  
22 in the direction of up to 80 percent in the small lines by  
23 1985. And in the meantime, I think their whole business  
24 needs to be held together with their continuation of their  
25 lines, because otherwise you lose the market. You lose the



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1 service. You lose the dealerships that are the ultimate  
2 need to move your product to the market.

3 Mr. Blanchard. My time has expired. I want to thank  
4 you again, Mr. Secretary, for your very strong testimony.  
5 Thank you.

6 Mr. Moorhead. Mr. Kelly?

7 Mr. Kelly. Thank you, Mr. Chairman.

8 Mr. Secretary, it doesn't seem to be very obscure that  
9 what we are doing here is starting a new welfare program on  
10 this basis, that the cost to the country will be so heavy in  
11 welfare if Chrysler goes under that we can't afford to let  
12 that happen. So we're going to institute another welfare  
13 program that hopefully won't cost us quite as much.

14 But I think it is an important thing to ask, "Well, who  
15 is going to get the welfare?" And as I understand the  
16 situation, the tenth largest corporation in the United  
17 States of America will benefit from the welfare, and the  
18 highest paid industrial workers in the United States will  
19 benefit from the welfare program, and that these same  
20 workers that you testified this morning, as I understood it,  
21 had made a reduction in Chrysler's cash flow, didn't do that  
22 at all.

23 What they did is they increased the cash flow problems  
24 by \$700 million, not reduced it. They got a pay raise. Now  
25 you can't turn a pay raise into a sacrifice when they are



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mgcHEE 1 already been paid more than the other production workers in  
2 the United States.

3 Then we get down to, well, what will the cost be, and  
4 that is what I want to ask you some questions about. As I  
5 understand the situation here, the risk is so heavy that all  
6 of the best minds, industrial and financial, in America have  
7 said, "We will not take the risks on a voluntary basis with  
8 our money." And that is the kind of risk that you are  
9 asking those of us on this Committee and th is Congress and  
10 the people of the United States to take.

11 Now I got this a minute ago, and today or tomorrow, I'm  
12 going to have a yes-or-no decision without any opportunity  
13 even to know what is in here. Do I misunderstand the risk?  
14 Is it not just as I have said, that all of the people who  
15 are supposed to know what they are talking about with regard  
16 to the financing industry have said no to Chrysler, and that  
17 is why Chrysler's here?

18 Secretary Miller. I do not think, Mr. Kelly, there is  
19 the prospect in the private sector to assemble a \$3 billion  
20 financing package. That includes contributions from all of  
21 the elements we are talking about, relying solely on private  
22 institutions. That is correct. And you will notice that  
23 this financing plan of \$3 billion includes contributions and  
24 additional contributions from employees. It includes  
25 contributions from suppliers, from dealers. These are the



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mgcHEE 1 people that are normally financed businesses --

2 Mr. Kelly. Mr. Secretary, I understand that. But all  
3 of those things are a possibility, and you have already  
4 testified to them. But what I want to know, is it true, in  
5 your judgment, that the money is not available in the  
6 private sector on a voluntary basis?

7 Secretary Miller. In my opinion, adequate financing to  
8 see Chrysler through this period is not available in the  
9 private sector.

10 Mr. Kelly. Fine. Now much of the rationale that we  
11 have received on this Committee for why we should take this  
12 risk is because of women and children. Now, I would like to  
13 talk to you a little bit about that.

14 I understand that you have a background in finance and  
15 in industry, and you are the Secretary of the Treasury. Now  
16 do you really think that Chrysler constitutes the finest  
17 investment to improve the economy of the United States  
18 today? And if you do, then why is it the private sector --  
19 the guys out there that really are hardball players, that  
20 knows what makes it go around -- that they say no, and you  
21 say yes?

22 Secretary Miller. Mr. Kelly, my view of government is  
23 not to take the taxpayers' money and find the best  
24 investments in America, but to look at the total purpose of  
25 government. In this case, the government has a purpose in



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mgcHEE 1 terms of jobs, in terms of communities, in terms of a whole  
2 network of an industry, in terms of permanent loss of jobs  
3 overseas, in terms of a major position in a major industry  
4 in the world, and it has a problem that regardless of what  
5 you and I do, the taxpayers will lose over \$2.5 billion in  
6 the next two years if Chrysler goes bankrupt.

7 So in terms of whether we are seeking the best  
8 investment, the government isn't to collect taxes to make  
9 investments, but the government should be rational. And we  
10 have looked at two options -- to help Chrysler and not to  
11 help Chrysler -- and not to help Chrysler costs the taxpayer  
12 more.

13 Mr. Kelly. Do you mean today or when we collapse the  
14 whole economy by making investments in failing industries,  
15 instead of investing in the most efficient sector of the  
16 economy.

17 Secretary Miller. The decision before us is the  
18 decision of Chrysler. It stands on its own merits as an  
19 exception. I do not favor general aid to the private  
20 sector, and I would not suggest it to this Congress. I  
21 think most American businesses are well-managed, and the  
22 great American industrial capability has been generated by  
23 successful enterprise, successfully managed and profitable.  
24 This is an exception, which lists the reasons I have  
25 given -- why it is better for the federal government to be



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mgcHEE

1 a part of a refinancing plan rather than not to be.

2 Mr. Kelly. Mr. Secretary, my time has expired.

3 Mr. Moorhead. Mr. Lundine.

4 Mr. Lundine. Thank you, Mr. Chairman.

5 Mr. Secretary, you made a comment just awhile ago that  
6 everybody has been very general, and it is time for people  
7 to be specific. And we often analogize these kind of  
8 proposals to a package. It strikes me that we see some  
9 strings and we see some wrappers and maybe even some  
10 cartons, but I don't see a package. I don't see any of the  
11 contents of a package here. And it seems to me that what we  
12 are being asked to approve is something, yes, that is  
13 flexible. It is so flexible I can't even get my arms around  
14 it. I can't even understand precisely what it is that will  
15 go into the \$1.5 billion in private sector concessions or  
16 investment.

17 And on the other side of it, I'm not quite sure even of  
18 the debt. Do you not think that it is a fair statement that  
19 we are being asked to approve something that is very, very  
20 general?

21 Secretary Miller. Mr. Lundine, there is one overriding  
22 specific here that will become statutory if you approve this  
23 proposal, and that is, assuming the color of money is green,  
24 there will be green money of \$1.5 billion as a precondition,  
25 but whether it comes from a bank or a dealer or a supplier



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mgcHEE

1 or a shareholder is not identified to you. But the fact  
2 that there has to be \$1.5 billion before the government  
3 makes its commitment is the controlling condition.

4 And I do agree with you that it would be preferable if  
5 Congress were to be in session over the next two or three  
6 months for us to go back now and say, "This is the amount of  
7 need." We have just discovered the \$3 billion after  
8 considerable work and effort, and we would love to go back  
9 and line up whether so much of it is coming from banks and  
10 come back to you and say, "This is now the plan, and here  
11 are all of the people."

12 I am afraid that we do not have the time to accomplish  
13 that before the Congress adjourns, and I'm afraid before the  
14 Congress could address this in the next session, the problem  
15 would have become moot because Chrysler would have gone past  
16 the point where aid would be successful.

17 And so we are faced with that problem. We have tried to  
18 solve it by saying we don't want to give you a pig in a  
19 poke. You have got to know that there is a billion and a  
20 half bucks from non-federal sources.

21 Mr. Lundine. I restrain myself from using that  
22 expression myself. There are two conditions that I would  
23 insist upon seeing here. One, on the government guaranteed  
24 side, it seems to me terribly important that there is an  
25 employee stock ownership program, first because it will make



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mgcHEE

1 the repayment of that loan more likely by having an  
2 incentive to improve productivity, and second of all,  
3 because this won't be just the other stockholders. It would  
4 then be the employees who would benefit from it, and I am  
5 disappointed in not seeing that.

6 Secondly, it seems to me terribly important that we put  
7 some kind of a requirment on that \$1.5 billion private  
8 sector money, that some of that comes in equity and not all  
9 of it in terms of debts or sales or other kinds of sales of  
10 assets or other kinds of concessions.

11 Would you comment?

12 Secretary Miller. Well, on the first one, I certainly  
13 have no philosophical objection to a stock ownership plan.  
14 I would think it is better to be worked out between the  
15 corporation and its employees. If you mean a stock  
16 ownership plan in which part of the billion and a half  
17 dollars would be a concession from employees for which they  
18 could get stock, that would give them a real incentive to  
19 make the company successful, to get back the give-up in pay  
20 that they otherwise would have received. And that would be  
21 fine.

22 If you mean using part of the federal funds to subsidize  
23 or give a grant to employees for no concessions, I don't  
24 think that is good public policy. I think this is a  
25 question of whether people have an incentive to earn back.



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mgcHEE

1 After all, this program would protect the jobs and the  
2 incomes of lots of people, and I think if they want to make  
3 concessions to make this successful, that rewards to them  
4 through stock would be excellent. It is just that I  
5 wouldn't want to see our subsidies used for that purpose.  
6 And I favor that if it can be accomplished.

7 That would, of course, add equity, if the employees  
8 would take over the next two years \$250 million less in pay,  
9 which is quite a small percent, and take it in stock. That  
10 would add quite a bit of equity and generate that much more  
11 cash from our plan, and that would be very desirable.

12 The question of putting in a specific amount of equity  
13 is difficult, although part of the thinking is that there is  
14 a so-called family stock plan where stock subscriptions  
15 might come from dealers and those who have a stake, and I  
16 think the company has been thinking of at least \$100 million  
17 from that source, but I don't know that we can guarantee  
18 that. They were thinking along the lines of seeing whether  
19 dealers and other members of the family, so to speak, the  
20 Chrysler family, could subscribe to some stock.

21 I would love to have that all before you and say that  
22 the company has got a program that will raise \$150 million  
23 that way, because you are absolutely right. The more that  
24 is raised by equity, the more that is raised by disposal of  
25 unneeded assets, the more the company has cash without the



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mgcHEE

1 debt burden and the amortization burden and the interest  
2 burden. And to the degree that this company succeeds long  
3 term, the more infusion of equity capital we can obtain.

4 On a stock ownership plan, one thing to bear in mind  
5 that if we were to dilute down the present equity too much,  
6 we might foreclose the input of an outsider with fresh  
7 equity who would feel that the dilution of stock would make  
8 it unattractive to make an investment. So we have to weigh  
9 those kinds of problems.

10 Mr. Lundine. I would love to see that, too,  
11 Mr. Secretary. Thank you.

12 Mr. Moorhead. Mr. Green?

13 Mr. Green. Mr. Secretary, in the course of your oral  
14 testimony although not in your written testimony, there is  
15 some suggestion that the \$200 million from the UAW is  
16 already in hand toward the \$3 billion. That is not really  
17 accurate, is it, because on page eight you indicate that  
18 you have already considered that \$200 in determining that  
19 there is only \$3 needed, so that you would really be  
20 counting it twice, wouldn't you?

21 Secretary Miller. I must point out something we should  
22 have made clear in the testimony in making that adjustment.  
23 We were able to offset it with a \$250 million cushion that  
24 was just built in unidentified, so it netted out, and  
25 actually there is no double counting.



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1 Mr. Green. The point I'm trying to make is that we  
2 can't look toward that \$200 million UAW concession as  
3 helping us reach the \$3 billion because you have arrived at  
4 the \$3 billion figure, already assuming that \$200 million in  
5 hand.

6 Secretary Miller. No. What I am saying is, while we  
7 said that in our testimony, we omitted the line that said  
8 that the figure was then further adjusted, but there is a  
9 \$200 million cushion of additional cash requirement that  
10 more than offsets the UAW \$200 million, so that the net  
11 effect in the figures we have shown you is not to double  
12 count.

13 Mr. Green. I understand that. But that \$200 million is  
14 no longer available towards the \$3 billion.

15 Secretary Miller. In arriving at the \$3 billion, while  
16 we have not made it clear, we have not taken into account  
17 the \$200 million from the UAW.

18 Mr. Green. So that the statement at the bottom of page  
19 eight is not correct?

20 Secretary Miller. It is incomplete because it should  
21 have said there is an offsetting item.

22

23

24

25



kapHEE 1 Mr. Green. What market penetration did you assume in  
2 your 100 percent base volume projections?

3 Secretary Miller. In the 100 base volume case -- and  
4 I'll ask one of my associates to give me quickly the market  
5 penetration --

6 (Pause.)

7 Here it is, on Exhibit C, page 24, you see the car  
8 U.S. industry volume, the October 17th plan, the first and  
9 second base case, the penetration shows here -- first, you  
10 see right under "car" it shows 10.5, 11.1, 11.6, 11.9. And  
11 then --

12 Mr. Green. I do see page 24, and I guess the point I'm  
13 trying to get at is that in each instance you are assuming  
14 that Chrysler, which I understand currently has about 10  
15 percent share of market, that Chrysler is going to be able  
16 to increase that share of market somewhat. It may not be as  
17 rosy a market as Chrysler has projected because of the  
18 impending recession, but you are at least, in each of these  
19 instances on page 24, apparently, assuming a penetration at  
20 the end greater than at the present time.

21 And I was wondering, shouldn't we have a projection  
22 which assumes that Chrysler cannot increase its share of  
23 market?

24 Secretary Miller. Look at the bottom of the page where  
25 it shows the share of U.S. market. If volume adjustment is



kapHEE 1 due only to lower Chrysler market penetration, so that there  
2 was an analysis both from lower share or lower units.

3 Mr. Green. But you are contemplating that by 1983  
4 Chrysler will have achieved what is, I gather, in the  
5 industry, a significant improvement in volume over the 10  
6 percent they now have.

7 Secretary Miller. That is correct.

8 Mr. Green. I'm saying, shouldn't we have a projection  
9 which shows what the needs are if that doesn't occur? I'm  
10 sure Chrysler is optimistic, but there is every reason to  
11 believe other companies are going to be competing vigorously  
12 also.

13 Secretary Miller. We did that by assuming they did not  
14 meet their volume objectives. We went to 95 and 90.

15 Mr. Green. I understand that, but we have had testimony  
16 here that it would be an extraordinary result for them to go  
17 from 10 to 12 percent penetration.

18 You are apparently here assuming a penetration of 10.7  
19 percent.

20 Secretary Miller. But in our adjusted base two case, we  
21 assumed that they reached 10.9.

22 Mr. Green. Again, don't you think it would be prudent  
23 to look at what happens if they only get to 10 percent,  
24 where they are now?

25 Secretary Miller. Well, we did one that gets to 10.3.



kapHEE 1 We did not consider that the most probable, but we show you  
2 the figures.

3 Mr. Green. I would like to see a projection that  
4 assumes they can't do any better than they are doing now,  
5 that the markets stay the same. And I would really like to  
6 see what happens if things get a little worse, because I  
7 think those are things we ought to be addressing if we are  
8 going to operate in a prudent way, committing the taxpayers'  
9 credit.

10 The other thing that concerns me about this is the fact  
11 that nowhere in here do I see any debt service repayment  
12 schedule, and it would seem to me that if this committee is  
13 going to act in a prudent way we certainly ought to have  
14 that kind of projection, so that we can see that this  
15 enormous load of debt which we are adding on the company is,  
16 in fact, something they will be able to pay on a reasonable  
17 economic projection.

18 Secretary Miller. In the Chrysler plan that I was  
19 furnished -- to the committee, there is a debt repayment  
20 schedule for the existing debt. That is not part of my  
21 testimony because that was the Chrysler plan.

22 Mr. Green. You're now assuming that -- your plan  
23 assumes that they have been optimistic in their assumptions,  
24 and I would really like to see how it works out under your  
25 plan.



kapHEE 1 Secretary Miller. We have assumed, for the purposes of  
2 our plan, that they continue to meet the contracted  
3 maturities of existing debt, and for new debt, of course, we  
4 don't know the terms yet.

5 Mr. Green. I would like to see some projections as to  
6 how that new debt would be handled, particularly if you're  
7 selling off profit centers to get to the \$3 billion. I  
8 think this committee is entitled to have some projection as  
9 to how that is going to happen.

10 My time has expired.

11 Mr. Moorhead. Mr. Vento.

12 Mr. Vento. Thank you, Mr. Chairman.

13 Mr. Secretary, I think your statement is an excellent  
14 statement, and I really want to commend you and your staff.  
15 It obviously anticipates many questions that each of us had,  
16 and that were brought out during the hearing, and I think  
17 you really make a definitive effort to address some of  
18 those, especially with regard to the projections and insofar  
19 as the marketing forces. And I think that you do address  
20 the regulatory bugaboo type of question that had kept  
21 cropping up. I think it is important, obviously, but no  
22 more so than any other cost and no more so than as it  
23 affects other industries.

24 Let me just take a little different tack, I think that  
25 needs to be addressed. One of the concerns is there has



kapHEE 1 really been a new bankruptcy law which has been passed and I  
2 understand is effective October 1st. I'm not an expert on  
3 it, and I don't expect that you are, Mr. Secretary, but I  
4 know that you are aware of it, probably more so than  
5 myself.

6 But is this corporation, the size of this corporation  
7 and the nature of the problem and the way that it came about  
8 -- really speaks to writing special legislation that  
9 provides for a means to execute its debt and meet its  
10 responsibilities. In other words, why doesn't it fit into  
11 the bankruptcy question, which has so often been the base  
12 line here?

13 Why should we do anything unusual? Why not let the  
14 current bankruptcy law solve this particular problem?

15 Secretary Miller. Mr. Vento, it is, I believe, our  
16 opinion that if we do not have a financing package, that in  
17 fact Chrysler would end up in a reorganization under the  
18 bankruptcy laws, probably Chapter 11. The reason we have  
19 felt that that is not a proper or an appropriate way to go,  
20 and would not solve the problem, is because Chrysler really  
21 depends upon one business and that is the automotive and  
22 light truck and van business. And that is a consumer  
23 franchise, and if they go into bankruptcy, it is probably  
24 likely that that consumer franchise would be eroded and that  
25 the possibility of their returning to being a viable



kapHEE 1 producer in this industry would be highly unlikely.

2 Mr. Vento. Mr. Secretary, are you saying our bankruptcy  
3 laws are imperfect as they affect large corporations?

4 Secretary Miller. Well, I would say that if you are  
5 talking the reorganization of a purely industrial company  
6 that sells to limited industrial customers, there is more  
7 likelihood of understanding the problem and continuing to  
8 buy their product. But whether Mr. and Mrs. America will  
9 continue to buy Chrysler products when they understand the  
10 company is in bankruptcy, and they don't know about future  
11 service and parts and whatnot, I think that is a question.

12 Mr. Vento. In other words, if I could try to interpret  
13 what you're saying, you're saying that as it applies to a  
14 large corporation that it actually assesses a greater  
15 penalty on a product, the consumer-based product such as  
16 automobiles and trucks than it might on other types of  
17 businesses -- especially the nature of this particular  
18 business?

19 Secretary Miller. I would not over-generalize because  
20 there are some large corporations that sell products that  
21 could be handled anyway, whether they distribute or sell  
22 branded products or other distributors.

23 But here, you are talking about a company whose product  
24 goes through a large number of dealers that are identified  
25 with their name. Their name is on the door, all over



kapHEE 1 America. It is a high value item for the consumer. The  
2 consumer doesn't buy a bottle of aspirin and say, "Well, if  
3 the next bottle isn't there, what difference does it make?"  
4 He buys something he expects to own for a long time, and to  
5 have service.

6 So I do think that is a unique feature. I would think  
7 that reorganizing a toiletries company selling soap and  
8 whatnot -- I mean, people buy soap off the shelf. They're  
9 going to wash with it today. If they don't get that brand  
10 next week, no harm.

11 That's not the way they buy automobiles.

12 Mr. Vento. Well, I just wanted you to address that  
13 because I think it is a fundamental difference. And it  
14 makes a unique -- I notice you did refer to it on page four,  
15 but I thought some elaboration was necessary.

16 So much of this does hinge upon the projections and I  
17 think that this does not imagine sort of a catastrophic  
18 event. I mean, we can witness the diminution in terms of  
19 auto sales right now. I mean, it is a phenonena that is  
20 occurring because, apparently, of just instability in terms  
21 of the supply of energy. Can we really rescue Chrysler and  
22 at the same time not address the concern about the stability  
23 of automotive fuel supply?

24 Secretary Miller. We need to address the energy problem  
25 with a complete application. There are bills pending in this



kapHEE 1 Congress which will be the most important legislation passed  
2 in many a Congress in dealing with the fundamental problem  
3 of reducing our dependence upon oil as a source of energy  
4 and reducing our dependence upon imported oil. Those are  
5 critical to the future welfare of our nation.

6 It is also critical that we move rapidly to adjust the  
7 size and fuel economy of our automobile and that we use all  
8 the productive capacity we have to make that adjustment as  
9 rapidly as we can. If we lose one major producer, that is,  
10 one major source of making that transition, that will not be  
11 replaced easily.

12 So I think your point is well taken. We need to address  
13 the whole thing. This is part of it, and other parts of it  
14 are being looked at by Congress, and I think with a very  
15 constructive attitude.

16 Mr. Vento. Well, my time has expired, but I would like  
17 you to comment on the leverage, the one-to-one leverage in  
18 the \$1.5 billion asked and the \$1.5 billion of outside  
19 credit. Why wasn't it a one-to-two or different  
20 combination? Wouldn't it be better to leverage even more  
21 private money?

22 Secretary Miller. It seemed to us, from the work that  
23 had been done over the last three months, that it was  
24 unlikely that sources could be identified for unguaranteed  
25 loans greater than this \$1-1/2 billion. The company



kapHEE 1 stretched very hard to come up, previously, with such  
2 sources, and had hoped to accomplish about \$1,350 billion  
3 with less federal aid.

4 With more federal aid we think they could get up to the  
5 \$1-1/2 billion, but our judgment is that is about as far as  
6 they can go. We can go further. You notice our proposal  
7 here is to guarantee up to \$1-1/2 billion, so if we can get  
8 more from other sources, we would be able to take less from  
9 the government sources.

10 Mr. Vento. Let me just clarify that, if I could have  
11 the indulgence of the chair. You're saying it has to be \$3  
12 billion, but if we can do it for less federal government  
13 money it is your intention to do so?

14 Secretary Miller. Obviously, if we could get \$2 billion  
15 from other sources we would not need as much guarantee.

16 Mr. Vento. Thank you.

17 Mr. Moorhead. Mr. Shumway.

18 Mr. Shumway. Mr. Secretary, through the entire course  
19 of these hearings I have gained the impression that none of  
20 the witnesses who have testified before us have really given  
21 very much attention to the value -- or attributing some  
22 price tag as value, to what we may accomplish in terms of  
23 easing federal regulatory burdens and providing tax  
24 incentives, or something of that sort.

25 For example, in your chart this morning, where you



kapHEE 1 depicted the forms of non-federal financing, there was no  
2 mention of any value attributable to producing these  
3 regulatory burdens.

4 Now, my question would be: isn't it possible to put a  
5 price tag on those burdens? And wouldn't that value, plus  
6 some increase, perhaps, in employee sacrifice, together with  
7 some tax incentives -- advance tax credits or something of  
8 that sort -- be instrumental as part of the financing  
9 package which we have referred to repeatedly here this  
10 morning?

11 Secretary Miller. On the regulatory side, Mr. Shumway,  
12 we did point out that this has been a subject of  
13 discussion. We have not been, ourselves, satisfied with any  
14 quantification of what could be contributed in this period  
15 of time to any reduction of the regulatory matters that are  
16 primary. Those, of course, are subject in many cases to  
17 agencies over which we have no control, and the  
18 administration has no control. And in many cases they are  
19 locked in statute where there seems to be little desire to  
20 change.

21 So I think we have felt that it would be unrealistic to  
22 expect to generate quantifiable funds from the regulatory  
23 side that we could bring to you in this time frame.

24 As far as tax credits are concerned, they are most  
25 useful, obviously, to corporations that are profitable.



kapHEE

1 Chrysler has a particularly heavy burden because all of the  
2 benefits of the appreciation deductibility of interest, all  
3 of those things are lost to it when it is not making any  
4 money. Every dollar of interest it pays cost it a dollar,  
5 while for profitable companies every dollar of interest cost  
6 it 54 cents. And it is that kind of problem we are stuck  
7 with when you have an unprofitable company.

8 That is why it is so important, as others have  
9 pointed out, to get as much equity infusion as possible and  
10 not to just add unused tax possibilities. Now we have not  
11 felt that it was appropriate for the taxpayers of the nation  
12 to give an unconditional tax credit to Chrysler or any other  
13 corporation, because then there is no control over the  
14 company, there's no assurance that it will ever become  
15 profitable, there's no assurance of whether it gets all of  
16 its other financing together, and there is no assurance that  
17 the benefit will ever roll back to the federal government.

18 So I think it is much sounder to put the whole package  
19 together — to do it in a conventional way and not try to  
20 use the tax code for something that, really, it isn't well  
21 designed for. It could be used for incentives for taxpaying  
22 companies, but to use it for incentives for non-taxpaying  
23 companies is awfully hard.

24 Mr. Shumway. It seems to me if Chrysler were able to go  
25 to its sources of private financing and indicate, Look, in



kapHEE 1 the future we are no longer going to have these burdens,  
2 these requirements which cast a cloud over our ability to  
3 capitalize and retool now, wouldn't they then have a better  
4 footing, a better presentation, a better loan package, as it  
5 were, to make to those private financiers?

6 Secretary Miller. If they could show some actual cost  
7 reductions, cash reductions that would be beneficial. The  
8 company had told us that throughout this year it has  
9 discussed this issue in the Congress, with members of  
10 Congress and with various concerns, and it has decided  
11 itself that it look fruitful that it could make any gains in  
12 this area.

13 So the request that Chrysler made to us was with its own  
14 conclusion that it was not likely that it could make gains  
15 in that area at this time.

16 Mr. Shumway. As I understand the administration's  
17 program -- and you did not touch upon this in your testimony  
18 here today -- perhaps it is in your prepared testimony --  
19 but in addition to the matter of loan guarantees, you  
20 likewise indicated that you would be requiring matching  
21 participation from Chrysler.

22 We have discussed that. You have indicated that you  
23 would review their financial program in the future. You  
24 have indicated that, indeed, you would even require the  
25 ability to make management changes to oversee some of the



kapHEE 1 personnel in Chrysler. Now that, coupled with the fact of  
2 making a large investment as the federal government would do  
3 under your proposal -- haven't we essentially nationalized  
4 the company? And what remains of free enterprise as far as  
5 Chrysler is concerned?

6 I mean, assuming the very worst and being the most  
7 skeptical, would we be willing in the future to allow this  
8 company to sink or swim on its own, once we have made that  
9 kind of investment and once we have asserted those  
10 prerogatives?

11 Secretary Miller. Let me go from the back of your  
12 question to the front. On the back, the bottom line, I  
13 would think, is this is a one-time program. And I would  
14 personally assume that this has to work or that Chrysler in  
15 the future will be a failure, or it will either be  
16 successful or a failure and it should not become a permanent  
17 load of support. It is a one-time transition program.

18 Now, on the other part of your question, there may be a  
19 misunderstanding, because in any major financing,  
20 particularly for a company with uncertain prospects, the  
21 same kind of covenants we talk about here are normal in any  
22 financing. They have nothing to do with nationalizing.  
23 They are required by insurance companies when they lend  
24 money to a company. They list certain kinds of things that  
25 you have to do. You have to file your financial plans to



kapHEE 1 approve where you're going; you have to stick to them; you  
2 can't make acquisitions; you can't pay dividends; if  
3 anything happens where you're not making -- the right to  
4 elect some directors from the creditor.

5 These are creditor's terms that are very normal in major  
6 financing, which I've been on the other side of on  
7 occasion. And so they don't seem strange to me to have  
8 creditors saying, Hey, if we're going to give you money to  
9 build your company, we want you to come, prove to us that  
10 you are on track, and that if you are off track you have  
11 some corrective rules and you won't do some things to  
12 squander your resources. You will stay on track, you won't  
13 go buy some other company and take money we thought was  
14 going to build a plant and use it for something else. You  
15 won't go throwing out dividends and depleting your cash  
16 before you have done the other things.

17 That is all very normal, and I don't think you are  
18 nationalizing, to have the same terms in a program where the  
19 government has a guarantee as when you have a program in the  
20 government that doesn't have a guarantee.

21 Mr. Shumway. Thank you. My time has expired.

22 Mr. Moorhead. Mr. Ashley.

23 Mr. Ashley. Thank you, Mr. Chairman.

24 Mr. Secretary, I want to pursue Mr. Vento's line of  
25 questioning for a moment. And let me say first that I think



kapHEE 1 that the methodology that you have employed is very  
2 persuasive, because it seems to me that you have tried to  
3 examine the question of whether or not it is in the public  
4 interest as an exception to provide assistance in this given  
5 situation.

6 Having arrived at the conclusion that it is in the  
7 public interest, you have then examined the question of:  
8 what kind of remedies are appropriate to the situation?  
9 Your testimony assumes, really, that there are two  
10 fundamental alternatives involved here. One is a Chrysler  
11 in bankruptcy, having recourse either to Chapter 7 or  
12 Chapter 11 of the Bankruptcy Act, or a Chrysler that would  
13 be the beneficiary of a federal plan in lieu of bankruptcy.

14 Do you think that the Chrysler operation could continue  
15 in Chapter 11?

16 Secretary Miller. I believe, Mr. Ashley, that in  
17 Chapter 11, the company would not survive as an independent  
18 automotive producer. I think parts of it might survive,  
19 parts of its operation might be picked up. I think there  
20 would be permanent losses, both in terms of U.S. production  
21 and in terms of market share and market competition.

22 Mr. Ashley. I wonder if you could furnish for the  
23 record some back-up information on your assessment of the  
24 cost of a Chrysler demise. You spoke in short term of  
25 unemployment compensation and welfare payment and local and



kapHEE 1 federal revenues and balance of payments.

2 It would be interesting if we could have that back-up  
3 information together with any projections you might have as  
4 to the somewhat longer term.

5 Secretary Miller. Yes, sir, we would be happy to do  
6 that.

7 (Information to be furnished.)

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kapHEE

1 Mr. Ashley. I've been interested in looking at the  
2 Bankruptcy Act and the testimony we have had from people who  
3 are very knowledgeable with respect to the new bankruptcy  
4 act, because it seems to me that the plan that you have  
5 advanced really does track the Bankruptcy Act in many  
6 respects, and satisfies the basic provisions and objectives  
7 of the Bankruptcy Act.

8 And I specifically am referring to the testimony which  
9 points out that Chapter 11 raises the following questions:  
10 who will operate the business? Your plan pretty well  
11 addresses itself to that. What sources of credit will be  
12 available? Your plan addresses that, just as in Chapter  
13 11. What effect will Chapter 11 proceedings have on the  
14 debtor's pre-position contracts? Again, you have addressed  
15 that.

16 There are other questions, similiarly. It was pointed  
17 out that in bankruptcy there would be an examination of  
18 Chrysler's past management practices. Well, you have  
19 addressed yourself to that. That bankruptcy court  
20 supervision of Chrysler's feature operations would be  
21 available, that again is implicit in your plan.

22 So I just think that it should be pointed out that we  
23 are talking more form than substance here, as far as whether  
24 there are positive advantages, it seems to me, to proceeding  
25 on the basis of a plan in lieu of bankruptcy, for the



kapHEE 1 reasons that you have articulated in your previous  
2 responses.

3 I am interested in the Reuss amendment because it raises  
4 a fundamental question that I want to put to you: what kind  
5 of a control -- how is the Treasury Department, as the lead  
6 department for the government in this matter, going to  
7 exercise its position with respect to the operation of the  
8 Chrysler corporation? The Reuss amendment raises the  
9 question: do we, at this juncture, begin to play a  
10 management role by virtue of the proposal of guaranteeing of  
11 credit? Are we going to put ourselves in the position of  
12 telling the company the kinds of products it should be  
13 making and so forth?

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1 Secretary Miller. Mr. Ashley, I would be very reluctant  
2 to do that, because in the way you state it, because if we  
3 did do that, then we would be taking on a responsibility  
4 beyond the kind of reorganization, without the uncertainties  
5 of bankruptcy that you have just described. What we would be  
6 then doing would be taking over accountability for the result,  
7 and if the result was poor, I think many claimants would then  
8 say, well, it is because of what you the Government did, not  
9 because of what the company did.

10 I think it is a dangerous path to go down. I would point  
11 out, however, that any major creditor has a say in the sense  
12 that the plan has to be reasonable, it has to meet criteria.  
13 And the nice thing about this kind of a program is that the  
14 \$3 billion will be raised only if a very large number of consti-  
15 tuents agree that the plan is reasonable. It is not going to  
16 be just the Government and just Chrysler management, but some  
17 banks and some dealers and some suppliers and some employees  
18 and some others are going to have to agree before they put up,  
19 or the State of Michigan is going to have to be satisfied that  
20 the plan of operation is sensible and is going to lead them  
21 into a viable condition.

22 And that will dictate very much the choices of product  
23 over the short term, even if you have a long-term desire to  
24 maximum fuel economy cars and small cars, which I think we  
25 should have. But we have to go there, down a path that gets



1 us there and doesn't leave us short of resources at any point  
2 along the way.

3 So I think we are one of a partnership of interests which  
4 in its cumulative effect will, I think, represent a very intel-  
5 ligent judgment of the right way for this company to go.

6 Mr. Ashley. Mr. Chairman, I wonder if I might have your  
7 forbearance and get to a part of the question that remains  
8 unanswered that I think is important.

9 The Blanchard bill, as I recall, assumed the creation of  
10 a Control Board, and I don't believe that your proposal does  
11 so. And I wonder if you would talk to that and tell us how,  
12 in the absence of a Control Board, the position of the  
13 Federal Government and the taxpayers can be protected?

14 Secretary Miller. I should have included that in my  
15 answer, Mr. Ashley. The reason we believe it is best to  
16 center this in one department is because it is very difficult  
17 in the Federal Government to coordinate and take accountability  
18 and responsibility of you involve too many departments. What  
19 we would do is set up a special office. We would certainly  
20 put a very knowledgeable person full-time, with appropriate  
21 staff support, to make this project the function of that  
22 office; to not only be involved in working out the financing  
23 plan, which will take some time, in seeing that it is completely  
24 done, but then to do the monitoring on the continuity of  
25 relationship that is essential.



1        So we would have an interface built into our structure  
2 and with, I think, the right kind of accountability to make  
3 sure that the Government's position was always looked after  
4 with care and professionalism.

5        Mr. Ashley. Thank you, sir.

6        Mr. Moorhead. I think we had better go off the record  
7 for a moment, just to get our plans arranged.

8        (Discussion off the record.)

9        Mr. Moorhead. Mr. Hinson?

10       Mr. Hinson. Thank you, Mr. Chairman.

11       Mr. Secretary, from the standpoint of mechanics, I would  
12 be interested in having a little more specifics on the way  
13 that the Treasury would expect to use its authority under this  
14 legislation, particularly in the area of direct loans as  
15 provided for by the Blanchard bill, and I would be interested  
16 specifically in knowing what use is envisioned, if any, of  
17 the Federal Financing Bank.

18       Secretary Miller. Mr. Hinson, our preference -- our  
19 preference in our proposal is that we approach this through  
20 guaranteed loans. I believe we would not want to foreclose  
21 the possibility that the Federal Financing Bank might acquire  
22 some of these securities at some other time. But we would  
23 start off from the proposition that we would prefer to see  
24 it financed outside of the bank and accomplished as guaranteed  
25 securities.



1 Mr. Hinson. Did I understand that you would not foreclose  
2 the possibility of a direct loan from the Federal Financing  
3 Bank to Chrysler?

4 Secretary Miller. Or to having the Financing Bank acquire  
5 these loan positions.

6 Mr. Hinson. Can you say with any personal degree of  
7 confidence that you won't be back under these circumstances,  
8 with the need to request an additional loan guarantee or more  
9 direct loan authorization? Do you feel comfortable with what  
10 you are asking for, and maybe along with the other private  
11 arrangements, that it may be adequate?

12 Secretary Miller. Mr. Hinson, from my business experience  
13 I feel very comfortable with this. I think this is a sound  
14 financing package that is appropriate to the needs and to the  
15 outlook. I can probably guarantee that a year and a half or  
16 so I won't be back. I can't guarantee you another Secretary of  
17 the Treasury won't be.

18 MR. Hinson. On another matter, I would be interested in  
19 just finding out whether or not -- what attitude the Treasury  
20 Department would have toward the possibility of trying to work  
21 out some additional arrangement with the UAW in the matter of  
22 its strike fund. I understand it has some sort of constitu-  
23 tional prohibition in its own constitution against the use of  
24 these funds for such purpose as, say, a loan or assistance to  
25 Chrysler.



1           What I would like to know is whether or not — I mean,  
2 it seems to me it would be much easier for the UAW to amend  
3 its own bylaws and constitution and provide this assistance  
4 than it would be to ask the federal taxpayer to underwrite  
5 an additional \$100 million or \$500 million or however much  
6 additional funds would be required.

7           Secretary Miller. As you know, our plan contemplates  
8 additional concessions or contributions from employees. We  
9 certainly believe it is legitimate to consider what additional  
10 the UAW might do. The possibility of them making some loans  
11 from the strike fund and changing their constitution is per-  
12 fectly proper to look at, because after all, Congress, if this  
13 works, will pass a law which is an effort, I think, asking  
14 employees directly involved to change their law, so to speak --  
15 is not unrealistic.

16           Now, I don't know whether that fund -- I don't know how  
17 much that fund could provide and I don't know whether that  
18 could be accomplished. But that is part of the legitimate  
19 area, putting together the billion and a half dollars, as I  
20 see it, and I don't see it as cutting into the other billion  
21 and a half dollars of guarantee we still need.

22           Mr. Hinson. Thank you very much.

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

24           Mr. Blanchard (presiding). Let me mention for the

25 record, Congressman Hinson, that I am pleased to be a co-sponsor



1 of the Administration bill. So at this point, when you say  
2 the Blanchard bill, it may be considered the Moorhead-Wright-  
3 McKinney-Miller-Blanchard bill.

4 Congressman LaFalce?

5 Mr. LaFalce. Thank you very much, Mr. Chairman.

6 Mr. Secretary, my initial thought was that the bankruptcy  
7 laws would be most applicable. But then, after I considered  
8 the consumer psychology involved -- and this was even prior  
9 to our hearings -- I concluded that, given the public awareness  
10 of the Chrysler financial dilemma and the absolute desire on  
11 the part of any potential purchaser for security in the car  
12 he buys, both insofar as its maintenance and its resale value  
13 and trade-in value, et cetera, that bankruptcy is not a  
14 viable option.

15 However, one of the advantages of bankruptpcy is that  
16 there can be an arrangement of creditors, and what I have been  
17 seeking is an arrangement of creditors as you would have under  
18 the bankruptcy laws, without the stigma of bankruptcy attached  
19 thereto, but as a legislative condition prior to the drawdown  
20 of any guarantee.

21 I don't know if this is going to be possible. I hope so,  
22 though. I don't know if we are talking that far apart, because  
23 you are talking, amongst other things, about the lowering of  
24 interest rates by the present creditors, an extension of  
25 maturity, et cetera.



1 I do have some difficulties, though. It is very loose.  
2 And we are engaged not just in economic discussions; we are  
3 engaged in political discussions. If there were not a headline  
4 in the "New York Daily News," "Ford to New York City: Drop  
5 Dead," we might be dealing with President Ford today. And  
6 when you are negotiating with all of the parties involved,  
7 whether or not there will be implementation of any legislation  
8 that we pass, political pressures will come into play and you  
9 know it.

10 So what should we do to minimize the political pressures  
11 and to ensure that any loan guarantee does have coupled with  
12 it some arrangement for creditors and some things that are  
13 legislative preconditions rather than just flexible options  
14 in your hands, subject to a great amount of discretion? I  
15 have got some problems, though. You talked about specifics.  
16 You said there would have to be agreeing up front as far as  
17 this \$1.5 billion.

18 I don't think something is too green when you're talking  
19 about not getting what you asked for, not getting what you  
20 wanted. It is not too specific.

21 Secondly, I do think that the interested parties should  
22 have something definitely at risk prior to any governmental  
23 money at risk. And so I think it would be wise to demand, as  
24 a precondition, that there be some employee investment in the  
25 company, which investment would not be guaranteed and which



1 investment would take a loss prior to any governmental loss.  
2 How we would structure this, whether it would be called an  
3 ESOP or something else, is up in the air in my own mind. But  
4 I think that it is necessary and I would like to work with  
5 your office on an amendment along those lines.

6 Secondly, when you talk about giving you the pass-through  
7 option, the problem is, when we give you that option, when  
8 the other creditors come in that becomes the starting line.  
9 You're going to throw that on the starting line immediately.  
10 You're not going to have a prior position over anybody unless  
11 we legislatively give you a prior position for the total  
12 amount or at least in part. And that is why I think that  
13 legislatively we should give you a prior position, so that  
14 you don't have to give everything all at once, as you most  
15 surely will do under the pressure of having the Federal  
16 Government act. And I will be chatting with you about that.

17 But what I want to get to now is, assume that we do call  
18 for some arrangement of creditors, some renegotiation. Would  
19 the present creditors have a prior position to the  
20 United States Government, or could we demand that in this  
21 new renegotiation of existing debt, that the present creditors  
22 in the renegotiation take, at the very least, an equal position  
23 with the Government, and any new loans which we would also  
24 require as a precondition for any federal guarantee, the new  
25 loans could take a secondary position?



1 Secretary Miller. I'm just going to check and make sure  
2 with our general counsel that I am correct. But as I under-  
3 stand our bill, it provides that existing loans would be  
4 subordinated except with one exception. If there are any  
5 existing liens, we will not be able to wipe them out.

6 Mr. LaFalce. Do you mean anything that is collateralized?

7 Secretary Miller. Most of the credits of Chrysler are  
8 not collateralized. They are general credits, and they would  
9 have to be subordinated to our new \$3 billion in financing or  
10 to the new Government guarantees, excuse me. They would be  
11 required to be subordinated.

12 Mr. LaFalce. What if these were renegotiated? Would they  
13 then also be included within that category of loans that would  
14 have to be subordinated?

15 Secretary Miller. We are talking about requiring that  
16 all existing credits be continued, that they be subordinated,  
17 and they would be reduced only at maturity dates that are now --  
18 that were existing on October 17th.

19 Mr. LaFalce. Is this presently mandated in the bill or  
20 is it discretionary?

21 Secretary Miller. It is, I believe, mandated in the bill.

22 My counsel points out that there is a provision that the  
23 Secretary could waive it. So you are correct that if the  
24 Congress felt that that waiver authority was giving me too  
25 much authority, that could be taken away and you could require



1 that all existing credit be subordinated, period. There was  
2 a phrase later that said that the Secretary, if he found it  
3 necessary to get the financing together, and found that  
4 repayment of the guaranteed loans was reasonable, that he  
5 could waive the subordination. He could never give priority  
6 to other creditors, either existing or new ones.

7 I agree with you, this is a legitimate area of concern,  
8 and we will welcome your judgment and your ideas in this area.  
9 We are trying to shape this in a way that is workable and yet  
10 does give the greatest protection and safeguards.

11 Mr. LaFalce. Thank you. My time is up.

12 Mr. Moorhead (presiding). Mr. Evans?

13 Mr. Evans (Indiana). I have no questions at this time,  
14 Mr. Chairman.

15 Mr. Moorhead. Ms. Oakar?

16 Ms. Oakar. Thank you, Mr. Chairman.

17 Thank you, Mr. Evans.

18 Mr. Miller, I wanted to certainly commend you for your  
19 testimony. I am concerned, and I want to be honest. I have  
20 not been convinced yet from the testimony that I have heard  
21 throughout these hearings about one special point. I mean, I  
22 am concerned about the fact that we have a tremendous number  
23 of individuals who will be potentially unemployed, and I under-  
24 stand the unemployment problems and the ripple effect in our  
25 economy.



1 But I just wonder if we are prolonging a terminal illness.  
2 And on that note, because I haven't been convinced by the  
3 testimony, I decided to go out in the field and see a little  
4 bit of the grassroots individuals who will be affected and do  
5 influence policy, or try to, anyway. So I don't represent a  
6 Chrysler plant, but there are some in Ohio, and obviously it  
7 would have a devastating effect to an extent on my state. So  
8 I visited a plant where there are 3700 employees.

9 I went out to the dealerships in the areas and so on.  
10 And let me tell you some of the things they said. They said --  
11 the workers said there is no suggestion box -- and this may not  
12 seem like, you know, the ultimate when you are trying to assure  
13 that the management of a company will be adhered to in a very  
14 disciplined fashion, but I think it is kind of indicative of  
15 what has gone on in the past.

16 Ford and Chevy plants in my district, they have a sugges-  
17 tion box for employees whereby they can say how they can save  
18 the company thousands of dollars. And if they succeed in  
19 offering a viable suggestion, they are rewarded. There is none  
20 in this particular plant and they don't look forward to having  
21 one.

22 The managers of the plants, they had very little to say  
23 about policy. I'm not trying to get them in trouble, but  
24 obviously they must have some ideas about what the problems  
25 are and whether or not they ought to be making various other



1 parts and whether or not they are using the kinds of products  
2 and are being supplied products viably. There doesn't seem to  
3 be that kind of input.

4 It's these kinds of people that daily live this experience,  
5 have. And I really wonder, has the Treasury Department been  
6 out in the field? I mean, we have heard from the head of the  
7 union, we have heard from the president of the Corporation.  
8 Have you been out in the field to see the dealerships, for  
9 example?

10 Tell me that they can't -- I mean, they are, after all,  
11 where it's at in terms of selling the cars. They put orders  
12 in and they know what their customers want, and they see the  
13 potential for what the American public needs and wants. And  
14 it is a cold day in hell for getting these kinds of cars that  
15 they need. And as a result, their competitors are out-marketing  
16 them.

17 And I'm just wondering, is Chrysler going to operate  
18 business as usual or are there going to be some changes on the  
19 local level to really assure that their past management prac-  
20 tices will change?

21 Secretary Miller. Ms. Oakar, I hope the latter. Let me  
22 say, your inputs are very helpful, because I do believe that  
23 the involvement of the whole company is going to be required  
24 to shape its future. I can sympathize with the employees who  
25 feel they don't have a place to make a contribution, and I'm



1       sure that needs to be corrected. I can sympathize with the  
2       dealers, because, for example, the cars of Chrysler, the Omni  
3       and the Horizon are in great demand, and they can't produce  
4       them. That's because they can't get the engines because they  
5       decided some years ago to buy them from Volkswagen. They can  
6       only get 300,000 a year. So they have to build an engine plant  
7       and that is in this program.

8               But it is that kind of task that we do -- what we're trying  
9       to do in our role is look at their program to overcome that  
10      and to be sure that they have control over their destiny so  
11      that they can produce the cars that can sell.

12             They have, as you know, decided to go away from the sales  
13      bank idea, where they produce cars they wanted to produce and  
14      then hope the dealers could later sell them. Now they're  
15      producing only to dealer order. Unfortunately, they don't  
16      have --

17             Ms. Oakar. But if you will pardon me, they have to have  
18      some kind of prophetic notions about what is going to sell in  
19      a couple of months from now, also.

20             Secretary Miller. Absolutely. They have to have marketing  
21      that feeds in the market requirements, so they can set up their  
22      lines. But part of it is their fundamental base production  
23      capacity, and particularly following the gasoline shortage.  
24      It was in the wrong place at the wrong time. And the cars  
25      that have been selling last year don't sell, and the cars that



1 will sell they are not able to produce, and that is one of the  
2 problems. And we can't duck that problem and we can't hide it.  
3 And one of the efforts here is to get them, as fast as possible.  
4 the resources to make the tooling and do the capital expendi-  
5 tures which will get them into the production of the kind of  
6 cars that not only the market should want in the future, but  
7 which as a nation we have got to produce. We cannot afford to  
8 produce anything else in the future.

9 Ms. Oakar. Do you have assurances that they are going to  
10 change their ways? I guess that is putting it simply. What  
11 I'm asking -- I mean, I didn't see that, frankly, in the  
12 testimony. And I don't see that in the field.

13 Secretary Miller. They have as the head of the company  
14 now, a man who has testified here, I believe, Lee Iacocca, who  
15 was the President of Ford and is very experienced as an  
16 automotive executive and has very great experience. He has  
17 been there for a short time. He has been chief executive for  
18 a very short time.

19 I think, based on his track record, we would have to say  
20 we don't know who you would hire in America, who would be a  
21 better automobile operator than he is. So we just, I think,  
22 have to go with that for the moment. He has brought in some  
23 other executives who have had many years experience elsewhere.  
24 And on the record, they look like very competent people.  
25 But unfortunately -- I will not kid you -- in a business this



1 big, you do not in one month or two months change direction or  
2 change course.

3 We will have to evaluate this quarter to quarter and see  
4 and make sure that they are on the plan and on the program.  
5 And I'm sure there will be some other strengthening needed in  
6 the company to carry this out, and we will expect it as part  
7 of our program.

8 Ms. Oakar. Mr. Chairman, my time has expired. But I  
9 certainly have a few questions along that line to pursue.

10 Mr. Moorhead. Mr. St Germain?

11 Mr. St Germain. Thank you, Mr. Chairman.

12 And I want to thank the Secretary for his very, very  
13 helpful presentation this morning.

14 I would say to my colleague from Ohio that the complaints  
15 that dealers of Chrysler have about not getting the right  
16 cars are not unique to Chrysler. I have very good friends who  
17 are General Motors dealers, and for instance, the new X-car  
18 that is being produced by General Motors, they are yelling and  
19 screaming because they are five and six months behind in their  
20 orders.

21 Unfortunately, I have a lot of friends who are automobile  
22 dealers, and all I ever get from them are complaints about the  
23 way they are treated by General Motors and Ford, let alone  
24 Chrysler. So it is not unique to Chrysler.

25 Mr. Secretary, as far as Chrysler Finance is concerned,



1 am I correct in my understanding that they indeed financed the  
2 floor plans for their dealerships?

3 Secretary Miller. Yes.

4 Mr. St Germain. Which is again unique, in that Ford and  
5 General Motors stopped doing that a number of years ago; is  
6 that not correct?

7 Secretary Miller. I believe that is correct. I believe  
8 they finance consumer paper, but not the floor plans.

9 Mr. St Germain. I wish most of my colleagues were still  
10 here, because in answering a question of Mr. Hinson of  
11 Mississippi about whether or not you felt that, should this  
12 plan be approved, what in your own judgment -- what did you  
13 think as to the success of this plan, your words were that, as  
14 a businessman yourself, that you felt, after studying this  
15 very thoroughly, that the chances of success were very strong.

16 Secretary Miller. Reasonably.

17 Mr. St Germain. And of course, you have to say reasonable,  
18 because one never knows in these days. I mean, we go back to  
19 '73 and '74, and we have had things happening to us ever since,  
20 that no businessman, even with a crystal ball, could have  
21 predicted.

22 But I would like to emphasize that, as one who has  
23 observed the Secretary over a number of years prior to his  
24 coming to serve his government and his country in Washington,  
25 that I would rank him -- and I am not alone or unique in this --



1 as perhaps one of the outstanding businessmen in many, many a  
2 year in this country of ours; and that in this particular case,  
3 in this instance, he certainly is calling upon his expertise  
4 over a number of years as the head of one of the nation's or  
5 the world's largest businesses.

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190 09 01

pv HEE

1 For that reason, I would say your testimony is  
2 compelling, knowing of your past experience, and when you're  
3 willing to stand up here answering the questions you have.  
4 And I think they have been very clear answers, very direct  
5 answers, and you haven't attempted to in any way  
6 equivocate. And I think that we all have to take this into  
7 consideration as we reach a final conclusion.

8 Mr. Secretary, on page 14 of your statement, there is  
9 one point where you say "continuation of present financing  
10 commitments." Now, does that mean that if banks X, Y, and Z  
11 have loan commitments to Chrysler, that one of the  
12 preconditions is that they will honor these commitments into  
13 the future and you would not call some of these loans in  
14 ahead of time?

15 Secretary Miller. That is correct.

16 Mr. St Germain. And that is solid as the rock of  
17 Gibraltar as far as preconditions are concerned?

18 Secretary Miller. That is correct. And we are talking  
19 in our proposal that these be the commitments and not the  
20 takedowns.

21 Mr. St Germain. Lines of credit commitments as well?

22 Secretary Miller. That's correct.

23 Mr. St Germain. I am pleased at that, because there has  
24 been some concern on the part of some that on the one hand  
25 these banks would not honor these commitments and yet come



190 09 02

pv HEE 1 in under the loan guarantee and collect a rather hefty  
2 interest rate for these loans with the full faith and credit  
3 of the United States Government behind these loans. And  
4 this certainly, I think you would agree, would be rather  
5 unfair.

6 Secretary Miller. These commitments are needed for  
7 their continuing financing plus the seasonality and  
8 intra-month. So, you need those commitments even with the  
9 takedowns.

10 Mr. St Germain. Now, let's say, particularly because  
11 it's \$1.5 billion that you need or are requiring as a  
12 precondition, let's say that a particular set or one or two  
13 large financial institutions that do have these commitments  
14 say, "No, we are not going along with it," but yet on the  
15 other hand the \$1.5 billion is achieved and the loan  
16 guarantee is in place from the Federal Government.

17 Now, what would the attitude of the Treasury be about  
18 those same banks that don't honor those commitments coming  
19 in and saying, "Well, yes, we will be happy to loan the  
20 money under a loan guarantee." Would they be precluded?

21 Secretary Miller. Well, if we don't get the  
22 continuation of the commitments, of course, there will be no  
23 loan guarantee.

24 Mr. St Germain. Well, it could be, Mr. Secretary, that  
25 if there is X number of banks that didn't honor these



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pv HEE 1 commitments, that nonetheless you would still reach \$1.5  
2 billion.

3 Secretary Miller. But you would not have met the  
4 condition of continuing the present financing.

5 Mr. St Germain. So, in other words, if one bank says  
6 "No," the conditions aren't met?

7 Secretary Miller. They will have to get a substitute or  
8 they will fail to meet the conditions.

9 Mr. St Germain. So they get a substitute and  
10 subsequently after this goes into place can that bank that  
11 did not go along, would you condone that bank that did not  
12 go along?

13 Secretary Miller. I wouldn't.

14 Mr. St Germain. Is there anything in here that would  
15 preclude that?

16 Secretary Miller. There is no statutory preclusion. I  
17 would think that we would certainly disqualify that bank if  
18 it failed to meet its one commitment and then looked for a  
19 guarantee. But if you felt that would be in the statute, I  
20 would have no objection to it.

21 Mr. St Germain. Well, if not in the statute, I think it  
22 should be very strong in the language of the report,

23 Mr. Secretary and Mr. Chairman, because what's fair is fair.

24 Secretary Miller. That's right. If the report could  
25 show that, that would certainly be helpful to us to clarify



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pv HEE

1 that it would not be proper for a bank to cut out of the  
2 present lines and then seek a position in the guaranteed  
3 lines.

4 Mr. St Germain. I thank the chairman and the  
5 committee. My time has expired.

6 Mr. Moorhead. Mr. Bethune.

7 Mr. Bethune. Thank you, Mr. Chairman.

8 Mr. Secretary, you referred to this as a "one-time  
9 program," in that we are making an exception that you found  
10 to be in the public interest, and language has been used  
11 that this is a "plan in lieu of bankruptcy." And then the  
12 main reason that you give for fashioning the plan in lieu of  
13 bankruptcy, it seems, is that the aspect of consumer  
14 psychology.

15 Now, if we do this for Chrysler, what are we going to  
16 tell the other poor devils out there in the country, the  
17 small businessman or middle-sized businessman or someone who  
18 is not a giant in business in this world who is faced with  
19 taking bankruptcy? I mean, he is in the business of  
20 manufacturing and marketing consumer goods; he is also in  
21 the business of servicing sales and honoring warranties; and  
22 he has employees and stockholders.

23 And they plead to us as members of Congress; they say to  
24 us, "Well, this business of consumer psychology is going to  
25 ruin me if I am forced into bankruptcy. There is no way I



190 09 05

pv HEE 1 can rehabilitate. It's going to hurt my business." And  
2 they say that they are taxpayers and they want a plan in  
3 lieu of bankruptcy.

4 Now, Mr. Secretary, what do I say to those people?

5 Secretary Miller. I think we have to point out that our  
6 general rule is that government aid to private corporations  
7 is not a sound way to go. This is an exception, for the  
8 reasons I have outlined.

9 And I would point out, on the question of the consumer  
10 franchise, that we have a number of factors here. In the  
11 first place, this is a major industry with only three major  
12 producers, and we have a nationwide business, distribution  
13 of a product that is expensive to acquire, expensive to  
14 maintain, and for which after-service is very critical.

15 I don't know that you can find many small businessmen,  
16 who, even if they have consumer products, have all of those  
17 conditions: where there are only two other suppliers in the  
18 country, that their product is nationwide, that it is  
19 expensive, that it needs service.

20 I think what you will find is most of those kinds of  
21 people have products that can continue to be sold even if  
22 they're going through reorganization because they don't  
23 require the after-service or the tremendous investment in  
24 facilities to support the product that is required for  
25 something like the automobile business.



190 09 06

pv HEE

1           If there is a consumer product that goes into  
2   housewares, I am sure that most householders buy the product  
3   expecting it to last for its life and they don't care  
4   whether the company that sold it, as long as it has got a  
5   good value, is in business next week. That's not true with  
6   the automobile.

7           So, I think there are a lot of differences, and I think  
8   we do have to stick to the point that there are some basic  
9   considerations here in the public interest. They are  
10   unique. We don't want to make a precedent -- I don't want  
11   to make a precedent -- that this now means the government  
12   should undertake to assist or underwrite every business.

13          Mr. Bethune. Now let's just assume for a moment that we  
14   can sell that political explanation -- because that's what  
15   it is -- let's assume then that the same poor devils are  
16   drug into the bankruptcy proceeding either by force or by  
17   voluntarism. And I wonder, have you checked with the  
18   Justice Department; have you had an evaluation of what this  
19   is going to do to the credibility and integrity of the  
20   bankruptcy law and the processes that are carried out there?

21          I wonder what is going to happen when the people that  
22   are pulled into bankruptcy court raise these points that I  
23   am raising, and the cry that they are being discriminated  
24   against or they are denied equal protection of the law. I  
25   wonder, have you explored that with the Justice Department?



190 09 07

pv HEE

1 Secretary Miller. I had not explored it with the  
2 Justice Department. We do have a study under way into the  
3 bankruptcy laws as they apply to Chrysler, which we will  
4 have ready soon and submit to you.

5 But I would suggest that, you know, in most  
6 reorganizations under bankruptcy, the present bankruptcy  
7 law, the new bankruptcy law does allow a system for  
8 continuity in the business; it does allow for a system of  
9 accommodation of creditors; it does get away from the one  
10 group being able to block the final resolution of the  
11 problem for all the others. And it does give more  
12 flexibility and does avoid the kind of hangups that we had  
13 under the prior law.

14 And I think, for the businesses that you are talking  
15 about, that kind of reorganization in which the people who  
16 have a financial interest will also have an interest in  
17 seeing the company come out successfully, would serve the  
18 needs.

19 Mr. Bethune. But you say the main reason that we can't  
20 apply this particular law to Chrysler is the consumer  
21 psychology angle. Can you give me any other reason why we  
22 can't apply that law other than the consumer psychology?

23 Secretary Miller. I believe that the main reason that  
24 Chrysler would not continue as a separate major producer if  
25 we went through a bankruptcy reorganization is because its



190 09 08

pv HEE 1 mar et and its product would be permanently impaired during  
2 the process of that reorganization, and that permanent  
3 impairment would mean that we would lose these other  
4 objectives of maintaining a U.S. position in automotive  
5 production of adjusting our total productive base to the  
6 fuel-efficient cars and avoiding the displacement of this  
7 product to overseas producers and the loss of American jobs  
8 permanently.

9 I think it is so unique that I just cannot imagine in my  
10 own mind the small businesses that could indicate that they  
11 have the same impact and the same public effect. So, I am  
12 hard-pressed to find an analogy.

13 I do believe Congress has the authority to make this  
14 exception. I do not believe that impairs the rights of any  
15 other enterprise. And other enterprises will continue to be  
16 protected by the laws, the bankruptcy laws, from undue and  
17 harsh treatment and liquidation, and they will be entitled  
18 to work out a plan if they can show how to do it. And we  
19 will continue to have that, and I think that's the best we  
20 can do.

21 Mr. Bethune. Thank you. My time has expired.

22 Mr. Moorhead. Remembering the committee's commitment to  
23 the secretary to try to have him finish by 12:45, are there  
24 any members who would submit their questions in writing?

25 Mr. Green. Mr. Chairman, could I raise a question? I



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pv HEE 1 am perfectly happy to submit questions in writing, but  
2 obviously I would like to have answers before we mark up  
3 this bill. And I am concerned about what the schedule is  
4 going to be for markup.

5 We have been given this very complicated document, where  
6 under questioning there was at least one point that needed  
7 clarification. And I would really like to see what happens  
8 to the numbers that are used here if we do have a projection  
9 of no increase in market share.

10 I might also point out that three weeks ago in this room  
11 I asked Mr. Iacocca to supply us with a full report on the  
12 battle tank program, including its cash flow prospects and  
13 the mechanical problems that have been encountered. And he  
14 agreed, but I have not yet got it. And there have been  
15 published reports of severe problems with this that might  
16 cause the Department of Defense to delay the production  
17 schedule, and I would like to know what impact that might  
18 have on the cash flow.

19 So, I think there is a lot of work to be done, and I  
20 hope that we're going to have the time to do it. And under  
21 those circumstances, yes, I would certainly be happy to  
22 submit my questions in writing.

23 Mr. Moorhead. Well, unless they are too complicated,  
24 you can get answers back very promptly.

25 Secretary Miller. We will respond as rapidly as we can,



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1 and we want to do so promptly. We know, and we appreciate,  
2 your indulgence in allowing us to do this in-depth study.  
3 We just did not feel comfortable making a proposal to you  
4 until we knew this much, and now we're going to respond to  
5 you very rapidly because we have the base.

6 Mr. Green. All I ask is that the administration and the  
7 leadership of the committee have the same indulgence to the  
8 minority members who wish to examine this very complicated  
9 report and go through it. And we want to get additional  
10 data from you.

11 Secretary Miller. Mr. Green, if you can let us know the  
12 questions, we will respond post-haste.

13 Mr. Green. Mr. Chairman, I guess what I am asking is  
14 are we proceeding to mark up tomorrow?

15 Mr. Moorhead. I doubt that we will have time. We go  
16 into session at 10:00 o'clock. But I do want to get to it  
17 promptly, but not conclude it promptly, but get started on  
18 it.

19 Mr. Green. With the assurance that we are not going to  
20 try to ram this thing through tomorrow, then I am certainly  
21 quite pleased to submit the rest of my questions in writing.

22 (COMMITTEE INSERT.)

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190 09 11

pv HEE 1 Mr. Kelly. Mr. Chairman, I can submit my questions in  
2 writing.

3 Mr. Moorhead. Ms. Oakar.

4 Ms. Oakar. Mr. Chairman, I am more than happy to submit  
5 my questions in writing. But if we are going to proceed in  
6 that manner, then I would assume that we would all proceed  
7 that way unless we have an agreement among one another that  
8 all of us would do the same thing.

9 Mr. Kelly. Mr. Chairman, I have questions I want to ask  
10 now, rather than depend upon some misunderstanding. If I  
11 ask a question and they respond with a funny answer, then I  
12 have got to submit another question. And I think the  
13 effective way to do this is to do it right now. And if we  
14 are so busy that we can't get to it, I am willing to wait a  
15 long time.

16 (Laughter.)

17 Ms. Oakar. Mr. Chairman, may I suggest, since it is  
18 12:45 and we did say we would respect —

19 Mr. Moorhead. Well, I think the secretary has indicated  
20 he would just as soon continue.

21 Secretary Miller. If we are down to a few questions,  
22 then I would serve you well by completing them so your  
23 schedule would not be tied up this afternoon.

24 Ms. Oakar. I do have one more question.

25 Mr. Moorhead. Well, I would recognize Mr. Blanchard



190 09 12

pv HEE 1 first.

2 Mr. Blanchard. Mr. Secretary, I am curious as to  
3 whether you have any plans to help Chrysler retain its  
4 credit commitment to at least those prior to October 17,  
5 which I understand will be important.

6 Secretary Miller. We have called upon all of the  
7 creditors to stand still. We believe it is in their  
8 self-interest to do so. I believe they will because to go  
9 in another direction when this committee is acting  
10 affirmatively, as long as it is toward passage, I think they  
11 likely will stand still.

12 Mr. Blanchard. And then, regarding the concessions and  
13 commitments that are going to be required here in order for  
14 you to trigger the loan guarantees, which I think is an  
15 excellent idea and only understandable, especially in light  
16 of New York's experience and others, is there any special  
17 reason why you picked October 17 rather than like September  
18 15?

19 Secretary Miller. We picked the date of the plan  
20 because we thought if we have a baseline we should start  
21 with the base and then make adjustments. That just happened  
22 to be the day they filed the plan, the date they  
23 represented. So, we said anything that could be  
24 accomplished after that is a favorable impact upon that plan  
25 and would be counted; anything before that had already taken



190 09 13

pv HEE 1 place. And that is the reason that is the date of the  
2 Chrysler plan itself, for which we have done the figures and  
3 done out footings, and it is a variation from those footings  
4 that we are looking at.

5 Mr. Blanchard. I understand they have several plans,  
6 and I don't know whether there were any commitments or  
7 concessions they received between plan 1 and plan 2 or 3.  
8 But I would assume that if there were, that might be a bone  
9 of contention. I don't know that there is.

10 Secretary Miller. I think everybody is happy with the  
11 date we have selected as being fair.

12 Mr. Blanchard. Well, that is helpful. Thank you.

13 Mr. Moorhead. Mr. Kelly.

14 Mr. Kelly. Thank you, Mr. Chairman.

15 Mr. Secretary, as I understand, what is happening here  
16 is we are saying that the financiers and the industrialists  
17 do not deal basically in human terms; they deal in money.  
18 But it is an obligation of those of us in government to be  
19 concerned about the people, about wives and children and the  
20 impact of disruption in business and in the economy. Now, I  
21 understand that there is a further obligation, and that is  
22 that this is the government of all of the people, that we  
23 represent everyone.

24 Now, my question to you as a financier is: isn't it  
25 more in the interest of all of the people to invest a



190 09 14

pv HEE 1 billion and a half or \$3 billion or whatever we're getting  
2 ready to do in the most efficient industry we can find to  
3 help us produce the best goods of highest quality, cheapest  
4 price, to help us with inflation, rather than to start  
5 another welfare program for a company that has not  
6 succeeded?

7 And the only reason we are doing this is in the name of  
8 women and children, but what women and children? The women  
9 and children of the highest-paid industrial workers in the  
10 United States. And why? For politics. That can be the  
11 only reason.

12 And so, my question to you is: to serve all of the  
13 people, if we're going to invest any money, shouldn't we  
14 invest it in the most efficient operation and not the one  
15 that has been rejected by every volunteer in the entire  
16 financial and industrial world?

17 Secretary Miller. All of those efficient producers,  
18 Mr. Kelly, do not need government assistance. I have taken  
19 an oath that I will perform for the good of all the American  
20 people to the best of my ability. It is my judgment in this  
21 case that this plan has a high probability of assuring that  
22 we create over time an efficient producer of the kind of  
23 automobiles that our nation needs, sustaining the level of  
24 production, output of jobs, and wealth generation that our  
25 nation needs and which contributes to the well-being of all



190 09 15

pv HEE 1 Americans.

2 And I believe that the alternate to doing this is to  
3 have an involuntary tax upon all Americans from the losses  
4 that will come from not doing it. And the fact that the  
5 revenues and the out-gos of the Federal Government will be  
6 greater without doing this means that every American will be  
7 contributing to the failure of Chrysler. I would rather  
8 have every American contribute to a guarantee as a  
9 reasonable risk to avoiding that alternate cost.

10 Mr. Kelly. Well, Mr. Secretary, let me ask you this.  
11 You are a principal player. Chrysler is a principal  
12 player. No one can attribute to you the fact that you are a  
13 neophyte or that you just fell out of a Christmas tree. I  
14 think that what you do is deliberate, and I attribute the  
15 same kind of responsibility to those in Chrysler.

16 Now, between October 17 and November 7 we have gone from  
17 a \$2.1 billion estimate to a \$3 billion estimate. This is a  
18 42 percent error. Now, it would seem to me that this  
19 reflects not a lack of quality in judgment of financiers and  
20 industry, but I think this is a political judgment.  
21 Senator Proxmire has said that this thing is greased, it's  
22 going to go, and there is nothing that anybody can do about  
23 it. So, I think, since it is going to be so easy, it is a  
24 political judgment that we can just up the ante.

25 And in connection with that, I want to ask this. If



190 09 16

pv HEE 1 Chrysler went on the market today and was going to get  
2 money, going to borrow money, going to borrow the \$3  
3 billion, what kind of interest rate would they pay?

4 Secretary Miller. I don't believe they would be able to  
5 raise the money, Mr. Kelly.

6 Mr. Kelly. But they would come somewhere in the area of  
7 junk bonds, like 15 percent?

8 Secretary Miller. Well, I am sure that any money they  
9 could raise would be high-cost, but I do not believe they  
10 could raise the \$3 billion.

11 Mr. Kelly. And if they were going to get it, though, it  
12 would cost 15 percent or more?

13 Secretary Miller. Well, it depends. If they could  
14 raise money by selling the company and merging -- I think  
15 you are asking me a question, if you are asking me what it  
16 would cost for Chrysler to raise money -- a lot.

17 Mr. Kelly. All right. Now, if we go forward with this  
18 just like you recommend to the American people for the  
19 benefit not of the American people but just these few people  
20 in Detroit, what is going to be the interest rate that they  
21 will pay? What kind of rates will Chrysler get the money  
22 for with your plan?

23 Secretary Miller. They will have to pay a reasonable  
24 rate of interest plus the fees that we will charge them.

25 Mr. Kelly. Well, give me some figures.



190 09 17

pv HEE 1 Secretary Miller. I believe it would be impossible to  
2 tell what the market will be when we make the financing  
3 agreement.

4 Mr. Kelly. Well, what will be the criteria? How will  
5 you arrive at it?

6 Secretary Miller. The criteria will be the market. The  
7 guaranteed loans will have to bear an interest that the  
8 market will pay.

9 Mr. Kelly. Now, that is the market, though, that the  
10 government can borrow the money at? Not a defunct  
11 corporation?

12 Secretary Miller. Correct. And that — you would have  
13 to add to that the fees that we charge for our guarantee.

14 Mr. Kelly. Well, by any standards, that is a super  
15 bargain, isn't it, the difference between what they could  
16 get it for through voluntary action in the marketplace and  
17 what we're going to compel the American people to invest in  
18 Chrysler whether they like it or not?

19

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gshHEE

1 Secretary Miller. Remember, this is the same American  
2 people that if they don't invest, will have an involuntary  
3 cost imposed upon them. And don't forget that while you can  
4 say this saves a few people in Detroit, doesn't it aid every  
5 American to maintain a viable automotive industry?

6 Doesn't it aid every American to avoid a billion dollar  
7 balance of payments deficit each year? Doesn't it aid every  
8 American to avoid transferring jobs overseas? Doesn't it  
9 aid every American to avoid a billion dollar cost to the  
10 Federal -- not mentioning Detroit and New York and other  
11 states next year?

12 I think we have to weigh the benefits and our judgment  
13 is --

14 Mr. Kelly. Mr. Secretary, my time has expired. I'm  
15 hoping to have another opportunity. And I think that the  
16 next question would indicate an answer to your question.

17 Mr. Moorhead. Ms. Oakar?

18 Ms. Oakar. Mr. Chairman, I'm just going to ask one  
19 quick question.

20 Mr. Secretary, you did mention the third quarter results  
21 concerning Ford and General Motors. And it is my  
22 understanding -- I could be wrong -- but from my memory, I  
23 recall that Ford would have really had a more devastating  
24 show had it not been for their foreign assets.

25 This is a two-fold question: One, what guarantee do we



gshHEE 1 have that other automobile companies are not going to come  
2 before this Congress; and secondly, are we contributing to  
3 an unfair competition by assisting Chrysler, and at the same  
4 time, providing those kinds of loan guarantees which, in  
5 effect, will, I believe, anyway have some kind of  
6 ramification as it relates to Ford and General Motors and  
7 American Motors?

8 Secretary Miller. I believe Ford and General Motors have  
9 the capacity to finance themselves. They are multi-national  
10 producers. Chrysler is now a domestic producer. For all  
11 practical purposes, they do produce some in Canada and some  
12 in Mexico. But their main business is U.S.

13 General Motors and Ford have international operations,  
14 which is beneficial because that means the American designs  
15 can reach around the world and help support the research for  
16 our base. And it does strengthen the companies and the  
17 earnings in different markets, support the overall  
18 investment. Even when there is a downturn in this market,  
19 some other market may be good and it creates the same cash  
20 flow that supports the corporation.

21 I don't believe that we can be accused of unfair  
22 competition in trying to prevent us going to a very  
23 non-competitive, two-producer situation.

24 I think we really are pro-competition by maintaining a  
25 major third U.S. producer, and we are pro-consumer in doing



gshHEE 1 so over the long-term because as you shrink and shrink and  
2 shrink until you become almost a monopoly in this business,  
3 and I think that that is not the right way to go from the  
4 point of view of not maintaining the total competitive  
5 structure.

6 Of course we do have competition from overseas. But I  
7 think we have an interest in maintaining the competition  
8 within our own structure and to maintain a greater  
9 possibility of that competition, either offsetting imports or  
10 giving us outlets to foreign markets through some of those  
11 producers, at least.

12 Ms. Oakar. So you don't see that we will be dealing  
13 with Ford or American Motors?

14 Secretary Miller. I don't believe so. They have high  
15 credit ratings. They have adequate resources. They are  
16 going to make major capital investments in the next few  
17 years.

18 I believe that they can finance them.

19 Ms. Oakar. Thank you very much, Mr. Chairman. Thank  
20 you, Mr. Secretary.

21 Mr. Moorhead. Mr. Green?

22 Mr. Green. Has the Treasury taken a look and done an  
23 analysis of the British Leyland experience?

24 My understanding is that there's an example of a similar  
25 effort with government intervention to save an automobile



gshHEE 1 company for many of the same reasons that you've expressed  
2 so eloquently. And that was a disaster.

3 Secretary Miller. Mr. Green, that is an example of what  
4 we don't want to do. We don't want to take over and run  
5 Chrysler, and we don't want to take that responsibility  
6 over.

7 We must say to you, frankly, we believe that this is a  
8 reasonable financing plan and we'll be in the role of  
9 creditor. If we fail, then we will lose some money. But I  
10 don't think that we should take over Chrysler and try to run  
11 it as a government. We would probably fail just like the  
12 British government did.

13 Mr. Green. Let me ask you another question. It is  
14 obvious -- and I agree, you are correct that this is  
15 probably an amount of capital that Chrysler could not get in  
16 the capital markets. But if it were to get it, it would  
17 almost certainly be a venture capital type of deal.

18 And in any venture capital kind of deal, normally, the  
19 investor -- and in this case, the investor is the United  
20 States Government -- gets more than a 1 percent or 1 percent  
21 plus loan guarantee fee.

22 Now I realize that we give benefits and externalities  
23 that you have been discussing, but aren't we really entitled  
24 in this kind of situation to some major participation in the  
25 upside directly, if we, in fact, cause this capital infusion



gshHEE 1 that turns Chrysler around?

2 Shouldn't we perhaps get a major stock position in  
3 Chrysler and make it non-voting stock if you're concerned  
4 about the ideological problem of our getting involved in the  
5 day-to-day management?

6 Secretary Miller. I would have no objection, Mr. Green,  
7 to us taking compensation in the form of some sort of  
8 kicker, some equity kicker or some other.

9 I would have no objection to us turning a profit for the  
10 U.S. taxpayer in this process. If we are too successful in  
11 that, it might encourage Congress to want us to take over  
12 other companies. So we have to be careful how profitable we  
13 make it to the government.

14 And so we will have to balance that and not tempt you  
15 for putting investments into other companies.

16 Mr. Green. But in any case, the Administration has no  
17 objection to the principle?

18 Secretary Miller. Not at all.

19 Mr. Green. Thank you, Mr. Secretary.

20 Mr. Moorhead. Mr. Bethune?

21 Mr. Bethune. Mr. Secretary, I'm still worried about the  
22 other poor devils who have to take bankruptcy and their  
23 employees and their stockholders and their creditors, who  
24 generally get ripped off in a bankruptcy proceeding.

25 But presently, I'm more concerned about the fact that



gshHEE 1 we have put you through a couple of hours of questioning.

2 And I think I would yield back the balance of my time.

3 Mr. Moorhead. Mr. Kelly?

4 Mr. Kelly. Thank you, Mr. Chairman.

5 Mr. Secretary, I hope I didn't understand this right.

6 But in your last answer to my question, did I understand you  
7 correctly that the best way for the American public, our  
8 government, our economy, our country, to avoid a balance of  
9 payments deficit and to avoid high welfare costs and foreign  
10 competition would be to invest in Chrysler?

11 Secretary Miller. That is not the best or only way. It  
12 is a factor that comes about from this plan.

13 One consequence of this plan is to avoid what we feel  
14 would be a reorganization of Chrysler, probably leading to  
15 its elimination as a major producer.

16 Mr. Kelly. Mr. Secretary, I think maybe you  
17 misunderstood the question because it had to do with  
18 Mr. Bethune's question. He was talking about the prospect  
19 for profit.

20 Is the proposition that we are making here that although  
21 the rest of the world can't see how much profit there is in  
22 Chrysler, that we in government can see the profit.

23 And so this is really going to be a zinger in the  
24 economy, and we are going to do a lot for the balance of  
25 payments with Chrysler, and this is the best investment we



gshHEE 1 can make to solve all of these problems, balance of payment,  
2 welfare, and foreign competition, is with Chrysler?  
3 Chrysler is the answer to our problem in each of these  
4 regards.

5 Secretary Miller. No, it is a consequence of the plan  
6 that we gain certain things. It is not the primary  
7 purpose. Our primary urpose is to look at the alternatives.

8 One alternative is Chrysler goes down. The other  
9 alternative is we save it.

10 The one about saving it is more profitable to all of the  
11 American people.

12 Mr. Kelly. There is one other thing that I wanted to  
13 try and clear up. In the media and in your testimony, in  
14 both places it appears that there is some indication that  
15 the United Auto Workers have made a sacrifice and have  
16 helped the cash flow problem.

17 Now do I misunderstand that as we are here right now,  
18 Chrysler is in the process of negotiating a pay increase of  
19 about \$700 million? That totally violates the voluntary  
20 wage and price guidelines of the Administration.

21 The Administration has not complained and the UAW is  
22 getting a pay raise right now. They are not making a  
23 sacrifice compared with what exists now and compared with  
24 what is being negotiated.

25 Right as we sit here, they are negotiating a pay raise.



gshHEE 1 Secretary Miller. I think they have completed that  
2 negotiation before we ever made a proposal.

3 Mr. Kelly. But it had not been approved by the  
4 membership.

5 Secretary Miller. It has been ratified, I believe.  
6 They have a new contract. And I can only tell you facts. I  
7 cannot make a value judgment. You will have to make the  
8 value judgment.

9 The facts are they made a contract that defers increases  
10 and changes in their compensation for six months, thereby  
11 generating savings for the company.

12 The six months' deferral of increases in the first-year  
13 program, as negotiated with Ford and General Motors.

14 So six months later, Chrysler people will start getting  
15 the same pay increases as General Motors and Ford. The  
16 second year there will be a 4-month delay and the third  
17 year, a 2-month delay.

18 Those delays, which means a permanent reduction from the  
19 figures included in the Chrysler plan, means \$200 million  
20 less of cost than was in the plan.

21 I do not give you a value judgment of whether that is  
22 sacrificial. I do not give you a value judgment of whether  
23 that should be more or less.

24 Those are the facts.

25 Mr. Kelly. But Mr. Secretary, this is a pay raise of



gshHEE 1 enormous proportions after the company came to the  
2 government bankrupt.

3 Isn't that a fact?

4 Secretary Miller. It is a fact that we have private  
5 collective bargaining in the United States. And it is a  
6 fact that Chrysler and the UAW made a contract. And it is a  
7 fact that if Congress felt that that contract was not  
8 consistent with this proposal, they could turn it down or  
9 require something else.

10 Mr. Kelly. But it is a pay increase negotiated after  
11 they came to the government saying that they were bankrupt,  
12 that they needed money.

13 Secretary Miller. It was a pay contract entered into  
14 after they had first started asking for federal aid.

15 Mr. Kelly. Let me ask you another question.

16 You mentioned the loss of U.S. production. Chrysler has  
17 a plant in Detroit that is 30, 40, 50 years old, or  
18 something like that. That would be one of the first things  
19 to go, wouldn't it?

20 Secretary Miller. Chrysler operates a number of plants  
21 in the Detroit area, and at least I think two of them are  
22 phasing out in this procedure and others are being  
23 rehabilitated.

24 Mr. Kelly. Now that is a loss of production. But the  
25 question I have for you is — the loss of production that



gshHEE 1 Chrysler would sustain would be the loss of the least  
2 efficient portions of its complex.

3 Isn't that so?

4 Secretary Miller. Well, what happens when this plan is  
5 completed is that Chrysler, for whatever reasons in the  
6 past, may have been, and in the future, will have gone  
7 through the tooling and restructuring and re-equipping and  
8 then have plants that can produce competitively the kinds of  
9 cars.

10 I wouldn't suppose that we should go back and look at  
11 other automobile companies have made mistakes. And it has  
12 been better that they have turned around and rehabilitated  
13 and moved on to other models.

14 And it is true here that we believe it is wise to do  
15 the same. We do not condone the past. We do not endorse  
16 the past. We look at a prospective program which will end  
17 up with production output that the nation needs in places  
18 reasonably consistent with where they now have employment  
19 and with the least social harm and the least loss  
20 economically to the nation.

21 Mr. Kelly. What I was suggesting, Mr. Secretary, was  
22 that this is kind of a scare tactic about the loss of  
23 production because I haven't heard anyone that appeared  
24 knowledgeable to indicate that the efficient departments of  
25 Chrysler, the good departments would be lost.



gshHEE 1 Every indication I have is that those departments would  
2 carry on and whether they went through bankruptcy -- for  
3 instance, the Omni and Horizon departments. They would go  
4 forward. They wouldn't collapse. And they are the best of  
5 Chrysler.

6 That is what the country needs now, isn't it?

7 Secretary Miller. Mr. Kelly, let me just say in our  
8 analysis, which you will want to look at, we do not suggest  
9 that these facilities will be permanently out of the  
10 economy.

11 We suggest that in a failure of Chrysler there will be a  
12 transition in which some new owners, some transfer, some  
13 retooling is required and you will lose that period of  
14 output and you will never gain back the full amount because  
15 that would be lost permanently to other suppliers.

16 So what you are saying is true, but there is a gap  
17 between the operating company today and the reformed use of  
18 some facilities in the future and the effect on the market  
19 and the process.

20 So there is both a short-term loss, which we have priced  
21 out for two years to be over \$2-1/2 billion to the economy,  
22 cost to the taxpayer. And we have more permanent losses  
23 that will attenuate in time because there will be, as you  
24 say, the recycling of these plants into other uses.

25 Mr. Kelly. Mr. Chairman, my time is up. I have some



gshHEE 1 additional questions.

2 Mr. Moorhead. Mr. Blanchard?

3 Mr. Blanchard. Thank you, Mr. Chairman.

4 Let me just state for the record that it would appear  
5 most of the questions that have been propounded in the last  
6 few minutes have already been answered by previous  
7 non-Chrysler, non-UAW witnesses.

8 And that, essentially, our dear judge from Zephyr Hills  
9 wants to put words in the mouth of the Secretary that have  
10 not been stated.

11 And I think for the record, I would want everyone to  
12 recognize that it is somewhat interesting to see the judge  
13 paraphrasing Ralph Nader, however. And I find that rather  
14 amusing.

15 I don't have any other questions other than, again, to  
16 restate my appreciation for very strong testimony by the  
17 Secretary, testimony that has been well worth waiting for.

18 Thank you.

19 Mr. Moorhead. Mr. Kelly, for what I hope will be a last  
20 round.

21 Mr. Kelly. I hope so, too, Mr. Chairman.

22 Throughout the course of the presentation that has been  
23 made here in support of this charity program for Chrysler,  
24 there has been some suggestions by Mr. Fraser of the UAW  
25 that the government buy a billion dollars' worth of stock,



gshHEE 1 by Nader that the government acquire a 30 percent equity  
2 ownership in Chrysler, and that the government then start  
3 and control the product that would be produced by the  
4 company.

5 That also, I think implicit in that suggestion is the  
6 proposition that the government will also be determining  
7 what Americans will buy because when you produce a product,  
8 it doesn't necessarily mean the people are going to use it.

9 So if you produce it by government mandate, then you  
10 have got to establish by mandate that the people will use  
11 it.

12 I think this is a marked direction that we are  
13 taking. You in your presentation suggested that you would be  
14 able to control the management, that if the management did  
15 not produce correctly, as I understand, that you would have  
16 some control over the personnel.

17 The Chairman of the full committee suggested that the  
18 government ought to be able, through the process of this  
19 program, to be able to control the products that Americans  
20 will be able to use.

21 In other words, we in Congress are going to tell the  
22 American people what kind of cars they are going to drive  
23 and what they are going to ride in, whether they like it or  
24 not.

25 Then you suggested that the lender has a lot of control



gshHEE 1 suggested that the lender has a lot of control in the normal  
2 sequence. So, really, all of these suggestions of  
3 government ownership and control are not so unique.

4 But the thing I want to ask you is when you have control  
5 by the private sector, do the big bankers on Wall Street  
6 make \$1-1/2 billion decisions the way we're making them here  
7 today?

8 In other words, if we mark this up tomorrow, I want to  
9 have a yes or no vote on \$1-1/2 billion on Chrysler. And I  
10 got this document a few minutes ago. Is that the way they  
11 do it on Wall Street?

12 Secretary Miller. Yes. As a matter of fact, it is not  
13 far different.

14 If you look at the months in which the Congress has  
15 looked at this problem and heard from many, many witnesses  
16 and had many, many presentations of financial data and  
17 looked at the many, many man-years of effort that we have  
18 put into this analysis and look at the data that we have  
19 given you, you would have a report in the aggregate that  
20 certainly would be as extensive as a loan committee of a  
21 bank would receive, and having the judgment and  
22 recommendation of management that the loan was reasonable,  
23 that the repayment was reasonable, and that the terms were  
24 reasonable.

25 And I hope that you will decide that this is a



gshHEE 1 reasonable proposition and this loan committee will vote  
2 yes.

3 Mr. Green. Would the gentleman yield?

4 Mr. Kelly. Yes.

5 Mr. Green. I really don't think that a financial on Wall  
6 Street would proceed without a debt payment or debt service  
7 schedule keyed to the assumptions upon which the loan  
8 guarantee is being made.

9 And we do not have that yet.

10 Mr. Kelly. Et cetera.

11 Secretary Miller. Pardon me?

12 Mr. Kelly. I just said "et cetera," and that means that  
13 there's a whole bunch of other things that have not been  
14 produced as well.

15 Secretary Miller. This is a loan where the loan  
16 committee would say, we authorize you to do your part of it  
17 if others do their part, and the other part to be done is  
18 \$1-1/2 billion of credit from other people.

19 And I think that that would be a not abnormal way to  
20 approach it.

21 Mr. Green. But I think that they would want to see some  
22 projection of how they would want to get paid back.

23 Secretary Miller. Well, I think that they would do  
24 that, or want to trust their management in the program,  
25 since there is a requirement that the Secretary of the



gshHEE 1 Treasury find that there be reasonable assurance of  
2 repayment. That means in the final negotiation of the loan  
3 agreement, of the financing agreement, rather, we would have  
4 to have that assurance.

5 Mr. Green. I guess my problem with waiting for that is  
6 that I know that next year is divisible by four and that is  
7 something that a loan committee does not have to take  
8 account of, but I as a member of Congress do.

9 Mr. Moorhead. Mr. Kelly, for one last question.

10 Mr. Kelly. Mr. Secretary, do you favor making this a  
11 direct loan program?

12 Secretary Miller. No. We would prefer to go in the  
13 guaranteed loan route. And incidentally, we do disfavor any  
14 of those equity suggestions.

15 Mr. Kelly. Then let me ask you this. Then implicit in  
16 this position that you have just announced is the  
17 proposition that the Federal Financing Bank will absolutely  
18 not be involved.

19 Secretary Miller. As I mentioned before, our  
20 contemplation is that that not be the way this be financed.  
21 We would not use the Federal Financing Bank, but we would  
22 not want to foreclose the use of it at some subsequent time.

23 Mr. Kelly. Okay. Now if the Federal Financing Bank is  
24 used, then this becomes a direct loan.

25 Secretary Miller. If it ever is used, yes.



gshHEE 1 Mr. Kelly. It then becomes a direct loan and that is a  
2 very real possibility under the terms of the legislation  
3 that is before us.

4 Secretary Miller. If the paper were later acquired by  
5 that bank, yes.

6 Mr. Kelly. Thank you, Mr. Chairman.

7 Mr. Moorhead. Thank you, Mr. Secretary.

8 The subcommittee stands adjourned.

9 (Whereupon, at 1:10 p.m., the subcommittee adjourned.)

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