



United States Senate  
**Committee on Banking, Housing, and Urban Affairs**

Christopher J. Dodd (D-CT), Chairman

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**OPENING STATEMENT OF CHAIRMAN CHRISTOPHER J. DODD  
HEARING TO EXAMINE THE STATE OF THE DOMESTIC AUTOMOBILE INDUSTRY: IMPACT OF  
FEDERAL ASSISTANCE  
WEDNESDAY, JUNE 10, 2009**

*Remarks as Prepared for Delivery:*

I want to welcome our witnesses, Mr. Bloom and Dr. Montgomery, to the third in this Committee's series of hearings on the state of America's domestic auto industry.

Today's hearing is unique, because, for the first time, we will be hearing directly from administration officials overseeing federal assistance to America's domestic auto industry.

Failure of any one of Detroit's "Big Three" poses a grave systemic risk to the economy, threatening hundreds of thousands of jobs directly provided by these companies, and imperiling over a million more jobs in related industries— from suppliers to car dealers, nearly 20,000 people in Connecticut, alone.

It is for these reasons, that President Bush, and later President Obama, marshaled the resources of our government, not only to preserve countless American jobs, but to help re-establish a foundation for a viable and competitive domestic auto industry.

With General Motors and Chrysler buckling under colossal liabilities, racked up after years of incompetent management— over \$170 billion in debt for GM and \$55 billion in debt for Chrysler— the Obama Administration's Auto Task Force helped develop a plan to re-capitalize and overhaul the industry's strategic, financial, and organizational structure.

This plan has largely been adopted as part of the prepackaged GM and Chrysler bankruptcy proposals. I believe that once finalized, they will result in the saving of thousands of American jobs and potentially, the preservation of a critical manufacturing sector. Nonetheless, communities all across our nation will not be spared plant shut-downs, dealer closings, and mass lay-offs. Moreover, if approved, the deals will continue to raise important questions over unprecedented government involvement in private industry's restructuring. To me, these questions can be summed up as follows:

- How exactly are taxpayer dollars being used to restructure the auto industry?
- Why is the government taking such large ownership stakes in these companies?
- Is the government doing everything it can to protect American jobs?



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- What assistance is being provided to communities devastated by auto plant and dealer closings?
- And when can we expect the American taxpayers to receive a return on their investment?

Before turning to Senator Shelby, I would like to address what I regard to be a false debate percolating over the treatment of key stakeholders. Some critics have decried the restructuring plans as a windfall to auto-workers. They point to an arrangement in which creditors are being asked to forgive debt for a smaller stake in the company than that being offered to the employee health-care trust known as the VEBA.

In the case of the GM proposal, for example, bondholders will be asked to forgive \$27 billion in debt in exchange for equity in the company. They are being offered 10% equity plus the option to acquire an additional 15% later on. The VEBA, on the other hand, will forgive half of its remaining \$20 billion in debt in exchange for acquiring 17.5 percent of GM's common stock, \$6.5 billion in preferred shares and a \$2.5 billion note.

But as I'm sure our witnesses can explain, VEBA's debt forgiveness and equity stakes do not reflect the extent of the auto-workers' concessions. Indeed, the companies have announced tens of thousands of lay-offs as a result of their restructuring. Retirees are being told they will lose 30 percent of their health benefits, as well as pension benefits.

In GM's case alone, 21,000 additional people are likely to lose their jobs as a result of the bankruptcy. And many UAW wages will be slashed below foreign transplant wages.

The courts have been reviewing these restructuring proposals to ensure an equitable outcome for autoworkers as well as other stakeholders. Hundreds of thousands of Americans and countless businesses will be affected by the courts' decisions. It is for this reason that the President was right to task his Administration not only with assisting GM and Chrysler, but with addressing the effects of the auto industry's years of downturn on various communities.

But the President's plans are not without controversy. One aspect of the government's proposals is unprecedented. That is—the government's taking of huge equity stakes—8 percent in Chrysler and a whopping 60 percent in General Motors.

Understandably, the Administration believes that this structure avoids the imposition of further debt on these companies. But it also begs the question—How will the government extricate itself from such a commitment in the future?

As Richard Posner recently wrote in an essay in the *Atlantic Monthly*: “We should be concerned lest GM become a kind of economic Vietnam, where the federal government throws good money after bad, year after year, in a vain quest for victory.”



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I know that our witnesses today, stand fast against such a notion. They have worked tirelessly to re-establish the domestic auto industry's viability. But they have also toiled to rekindle our competitive edge in a truly iconic sector of our economy.

Let us remember—Not too long ago, it seems an American could not walk a city block without sensing the strength of an American automaker's brand. Their labels adorned buses, railcars, and aircraft. They dominated the U.S. automobile market. And owning a Buick was the stuff of American dreams.

Today, those images have faded. For the first time, the domestic market share for Ford, Chrysler and GM has slipped below 50 percent, going from 66 percent in 2001 to just 47 percent today. The U.S. industry has long abandoned a diversified product mix, and instead, has had to play catch-up with "foreign transplants;" only now have they recognized that they must shift their focus from SUVs and pick-ups to marketing more fuel-efficient cars.

Fortunately, one thing has remained constant – the skill, determination, and ingenuity of the American worker. Even in tough times, Americans are resilient, and given the proper tools, our domestic auto industry will keep fighting until we are back on top again.

I look forward to hearing testimony today on how you—Mr. Bloom and Dr. Montgomery— are helping set the stage for such a come-back. Indeed, Mr. Bloom has been intimately involved in negotiations with various stakeholders as well as the decisions on how to invest taxpayer dollars in General Motors, GMAC, and Chrysler.

I look forward to exploring the rationale behind these decisions and the Administration's plans for the future. Dr. Montgomery is tasked with a far more difficult responsibility— to steer federal assistance to communities devastated by auto-related job losses, plant closings, and dealer consolidations. I look forward to hearing about your travels around the country and learning of the resources you believe are required to coordinate recovery efforts.