STATEMENT OF DR. EDWARD MONTGOMERY
DIRECTOR FOR RECOVERY FOR AUTO COMMUNITIES AND WORKERS
BEFORE THE
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

"State of Domestic Automobile Industry"

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Chairman Dodd, Ranking Member Shelby and members of the Committee, thank you for the invitation to testify today. As the recently appointed Director for Recovery of Auto Communities and Workers, I appreciate this opportunity to discuss assistance being provided to or being sought by communities and workers affected by auto job losses.

As you are well aware, the current recession is arguably the most severe since the Great Depression and has had a profound impact upon our businesses, workers and homeowners throughout the country. Whether measured by housing prices or stock prices, the overall impact on consumer wealth has been substantial. But the consequences of the recession have not just been felt in our savings accounts and in the value of our assets; they have rippled through corporate and small business profitability and in layoffs and job loss.

According to the Bureau of Labor Statistics (BLS), our nation has lost 6 million jobs since the recession began in December 2007. The unemployment rate has surged to 9.4 percent -- the highest level in 26 years. Those who lose their jobs are stuck in unemployment for longer periods of time as the number of long-term unemployed (those jobless for 27 weeks or more) rose to 3.9 million in May or an increase of about 2.6 million since the start of the recession. Among those lucky enough to keep or find a job, the number of people working part-time because they can't get a full-time job has increased by over 4.4 million over the same period, to 9.1 million workers.

As striking as this decline is for the country as a whole, the situation is even more severe in much of the auto manufacturing heartland. Over 300,000 jobs have been lost in motor vehicle and parts manufacturing since December 2007 and some states such as Wisconsin and Delaware face the prospect of the closure of all of their automobile production facilities. In April, the unemployment rate in the three largest automobile states was 12.9 percent in Michigan, which has the highest rate in the nation, 10.2 percent in Ohio and 9.9 percent in Indiana. While employment among the traditional Detroit 3 - Chrysler, GM and Ford - is concentrated in these three states in the upper Midwest, the auto industry, including the operations of foreign–based manufacturers and their suppliers, has spread out down the center of the country through Kentucky and Tennessee to Alabama, Mississippi, and Texas. In Kentucky and Alabama, which are the home of the fourth and fifth greatest number of reported motor vehicle manufacturing jobs, the unemployment rates are also near double-digit level.

It is hard to overstate the significance of this industry for the economic life of millions of Americans. The Center for Automotive Research (CAR) lists 281 counties in 27 states where substantial income or earnings comes from the automotive industry. The BLS estimates that nearly 650,000 workers are employed in motor vehicle and parts manufacturing. Adding auto or motor vehicle dealers to the mix, the reach of the automotive industry is expanded by over another million workers in nearly every community in the country. Besides those directly employed in the production of vehicles and suppliers of parts, it has been estimated that as many as 7.5 additional jobs are created for every assembly plant job in industries ranging from steel to glass, from aluminum producers to construction companies or health care providers.[1] While there is often a tendency to focus on the Original Equipment Manufacturers (OEMSs) and their suppliers when discussing the auto industry, auto dealers also represent a significant source of employment and business activity in nearly every community. This industry has been the source of R&D investment and countless innovations that have helped make our economy a technological leader, as well as created millions of well-paying jobs that help build our middle class.

While the recession has had a profound impact on the auto industry and the communities where it resides, it is important to recognize that contraction in the American auto industry did not begin in 2008. In February 2000, the BLS reported that 1.3 million workers were employed in motor vehicle and parts manufacturing. With one exception, in every year since 2000 total employment has declined so that today only a little more than half of that workforce remains. What happened in this recession is that a slow but steady decline has turned into a flood, with employment dropping nearly 28 percent in the past 12 months.[2] While multiple factors, including rising productivity, no doubt account for some of this longer-term trend, 18 months of steadily declining auto sales to the current near 30-year lows have played a major role in the current strains facing the industry, workers and the communities in which they reside and work.

The President has recognized that we cannot stand by and watch the auto industry disappear. But at the same time the President has been clear that we cannot just kick the can down the road and must insist that these companies demonstrate a credible path to financial viability. By providing additional funding within this tough but fair framework, Chrysler is poised to successfully emerge from bankruptcy this week and we are confident that GM will also successfully restructure over the coming months.

The steps the President has taken have not only avoided a liquidation of these companies – and the hundreds of thousands of jobs that would have been lost in that scenario – but have also helped stabilize the auto industry. He has committed to provide government

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[1] McAlinden, Sean P. and George A. Fulton. Contribution of the Automotive Industry to the U.S. Economy in 1998: The Nation and Its Fifty States. A Study Prepared for the Alliance of Automobile Manufacturers, Inc. and the Association of International Automobile Manufacturers, Inc. by the Center for Automotive Research, Environmental Research Institute of Michigan and the Institute of Labor and Industrial Relations, The University of Michigan, Ann Arbor, March 2001.

[2] BLS data for motor vehicle and parts has employment at 1,330,300 in February 2000, declining to 676,600 in April 2009. In April 2008 it stood at 898,000.

backing for warrantees of new GM and Chrysler cars. And, under the American Recovery and Reinvestment Act (Recovery Act), the Administration has implemented a tax credit that could lead to 100,000 new car sales and save families hundreds of dollars off their purchase of a vehicle.

President Obama also appointed me as the new Director of Recovery for Auto Communities and Workers to cut through red tape and ensure that the full resources of our federal government are leveraged to assist the workers, communities, and regions that rely on our auto industry. Working with Labor Secretary Solis and National Economic Council Director Summers, we have been developing a comprehensive effort that will help lift up the hardest hit areas by using the unprecedented levels of funding available in the Recovery Act and resources available throughout our government to provide immediate support to workers and create new manufacturing jobs and new businesses where they are needed most. We have also been engaged in an effort, in partnership with the business, civil and government leaders in auto communities, to create new initiatives to help support auto communities going forward.

My first order of business upon appointment was to get out into auto communities to directly hear from workers and communities about the challenges they were facing and the economic development plans they were attempting to put in place. We have worked to establish an inter-agency team, including representatives from DOL, DOE, DOC, SBA, DOT, DoJ, HHS, EPA, and Treasury, that has accompanied me to town halls and meetings to ensure that federal agencies are hearing firsthand about what works and what doesn't for successfully deploying services to these communities.

To date, we have held town halls and meetings in Michigan, Ohio and Indiana with hundreds of workers, employers, state and local officials, and members of affected auto communities to identify ways in which the federal government can help and start building strong ties between local communities and federal agencies. Cabinet members and representatives from their agencies have actively engaged in partnering to these communities and have been figuring out how to cut red tape and support these hard hit areas. We plan to continue these sessions in a broader range of communities in the months ahead.

In conjunction with our effort to get out into communities to hear from your constituents, we have also been working on initial steps to get assistance out to auto communities as workers. As part of this effort:

- The General Services Administration accelerated the purchase of some 17,205 new fuel efficient vehicles, adding $287 million in demand for new vehicles.
- The Department of Labor has also been working with the Department of Education to make sure unemployed workers know how to apply for Pell Grants and other federal financial aid, so they can develop new skills while the economy recovers. The Department is also undertaking an effort to encourage states to review their definitions of "approved training" for unemployment insurance

purposes so that workers can, if they want, use the time while unemployed to get the skills they need. The President announced these efforts last month.

- Last week, Secretary Duncan announced a $7 million special competitive grant to establish innovative and sustainable community college programs that prepare displaced workers for second careers. This first-of-its-kind grant program will be used to develop national models that can be replicated across the country, especially in communities where autoworkers have lost their jobs.
- Secretary Solis has announced a $50 million Green Jobs training initiative targeted on auto communities. This will be part of the Department of Labor's (DOL) $500 million competitive grant program to support job training projects that prepare workers for careers in energy efficiency and renewable energy industries.
- The Small Business Administration announced an extension of its 7(a) lending program to floor plan financing for auto, RV and boat dealers.

The President's Auto Task Force has also recognized that one of the most pressing challenges is to ensure that auto communities have access to existing federal programs and new funding under the Recovery Act. Where we have identified potential challenges to accessing these funds or programs, we have taken steps to ensure that auto communities have an equal chance at accessing federal funds. For example:

- Recognizing the emphasis Michigan has placed on green jobs in planning its recovery, the Department of Energy (DOE) held a workshop for county and local municipalities in Michigan to train local leaders on how to apply for Energy Efficiency and Conservation Block Grants, which are being given out both by formula and competitively.
- In order to make sure the new DOE grant program truly served the needs of communities in Michigan, DOE also held a roundtable discussion in Michigan to get input on how the program could best be structured.
- Recognizing the tremendous challenges auto communities face in converting shuttered plants, or brownfields, into redeveloped spaces, the Environmental Protection Agency (EPA) recently announced $10.3 million in brownfields grants for Michigan to help revitalize former industrial and commercial sites.
- The Department of Commerce's Manufacturing Extension Program (MEP) – which we have found to be one of the most highly-demanded programs by auto communities – is holding a workshop tomorrow (June 11) in Ohio with manufacturers to help companies diversify their customer base and pursue opportunities for growth. This is part of a series to be offered in numerous locations across Ohio. In addition, the MEP center in Michigan has worked with the Michigan Economic Development Corporation to offer market diversification services to dozens of companies, and this is proving to be a practical approach to helping companies envision and act on new opportunities.
- Likewise, the Department of Commerce's Economic Development Administration has supported regional workshops and provided technical assistance to communities impacted by auto related dislocations to help them to

develop and implement strategies to support more diversified, entrepreneurial, innovative, and hence, globally competitive regional economies.

While these efforts represent discrete new authorities or initiatives, the Recovery Act has provided a wide range of supports for auto and other communities that both combat the current economic developments and begin to build for our future economic success. In the near term, the Recovery Act provides families with an immediate refund in their paychecks and help for states and local areas to avoid cuts to their education spending and maintain their schools, reduce the burden of health care costs, and maintain their law enforcement personnel. Looking longer term, the Recovery Act is enabling the repair and improvement of the country's infrastructure; funding innovative research and development initiatives in advanced battery and electric vehicle manufacturing, smart grid development, advances in wind, solar and other alternative energy sources, and broadband and health information technologies; and creating job opportunities for Americans.

Together these programs represent an investment in transforming our very economy. Rather than try to review all of the ways in which this comprehensive effort will be affecting auto communities and their workers, let me focus on how the Department of Labor has been playing an active role in this effort.

For its part, the Department of Labor's Employment and Training Administration (ETA) has already made available to the states additional funding to extend the duration of unemployment insurance benefits, to increase benefit checks by $25, to provide administrative support to state employment services and to make funds available to states that modernize their systems. In addition, the Department has made $3.47 billion in Recovery Act funds available to support workforce investment activities. Such activities include retraining dislocated workers, summer employment for youth and community service employment for seniors. For states hardest hit by auto industry layoffs, Michigan has received $197,117,236 in Recovery Act formula funds for workforce investment and employment activities, while Ohio has received $153,073,770, and Indiana $67,142,603. These amounts are in addition to the regular funding from the Fiscal Year 2009 appropriations that will be available to these states on July 1, 2009 for these activities.

ETA is specifically addressing auto industry layoffs through its programs. The Workforce Investment Act (WIA) authorizes National Emergency Grants (NEGs) to target additional resources to expand service capacity at the state and local levels in response to significant worker dislocations. Since January 2009, ETA has awarded NEGs, or added additional resources to existing grants, in four automotive states -- Missouri, Ohio, Minnesota, and Michigan.

- On February 26, 2009, Secretary Solis awarded $2,199,132 to the State of Missouri (of which $1,099,566 has been released so far) to provide training and reemployment services to approximately 574 workers dislocated from 11 auto industry suppliers at 13 different locations.

- On March 27, 2009, an $8,342,245 NEG (of which $5,074,749 has been released thus far) was awarded to Ohio to address statewide layoffs in the automotive industry. The grant was later amended to $10,000,000
- On May 18, 2009, Minnesota was awarded $1,320,100 (of which $660,052 was released immediately) to provide services to approximately 307 workers affected statewide by layoffs from 27 companies in the retail, service and manufacturing sectors of the automotive industry.

Additional resources have also been provided to existing automotive-related NEGs.

- On May 5, 2009, an additional $771,713 was provided to the state of Missouri to serve 1,200 dislocated workers affected by the closure of the Chrysler assembly plant in Fenton, Missouri, as well as layoffs from Integram St. Louis Seating and Yushin USA.
- On May 7, 2009, $4,125,000 in additional resources was added to Michigan's NEG to serve 1,500 eligible dislocated workers separated from automotive-related companies throughout the State.

Indiana is the only one of the three largest automotive states that has not requested an automotive-related NEG to date.

In addition to the NEGs, ETA administers the Trade Adjustment Assistance (TAA) program, which assists workers who have lost their jobs as a result of foreign trade. The TAA program offers a variety of benefits and services to eligible workers, including job training, income support, job search and relocation allowances, a tax credit to help pay the costs of health insurance, and a wage supplement to certain reemployed trade-affected workers 50 years of age and older.

Since June of 2008, ETA has issued over 200 TAA certifications for companies linked to the auto industry involving an estimated 34,000 workers. Companies include the General Motors Corporation, the Ford Motor Company, Chrysler LLC., Daimler Trucks North America, and numerous part-suppliers. The top three states with auto-related certifications since June of 2008 are:

- Michigan, which had 59 certifications and received $51,482,594 in TAA program training funds for 2009;
- Indiana, which had 23 certifications with 2009 TAA program training funds totaling $24,104,904; and
- Ohio which had 20 certifications and $21,976,331 in 2009 TAA program training funds.

The Recovery Act reauthorized and substantially changed the TAA program. One of the most significant changes was to more than double the maximum annual amount of TAA funds which may be used for training nationwide, from $220 million to $575 million. This increase will ensure that states have funds available to serve an increasing number of trade-affected workers under the reauthorized program. Since the effective date of the reauthorized and expanded TAA program (May 18, 2009), ETA has experienced a sharp increase in petitions under the program and expects the demand for the program to remain high. To meet this demand, the Department's FY 2010 budget requests $1.8 billion for TAA, nearly double the $959 million provided for assistance to trade-displaced workers in FY 2009.

And under the Workforce Investment Act, with funding from DOL, every state workforce agency is required to create and maintain a Rapid Response team. Upon notification of mass layoffs or plant closures, the Rapid Response team works with the company to provide immediate assistance and reemployment services for affected workers. In order to ensure that state Rapid Response programs, which are funded by formula resources provided to the states under the Workforce Investment Act, are ready to respond to layoffs, on April 29, 2009, the Department of Labor convened all of the Rapid Response Coordinators from the industrial Midwest at a day-long conference. At the conference we assisted the states in conducting readiness assessments of their capabilities and shared best practices so that states could provide a high quality level of service to impacted workers. Each state developed a plan for how to improve its program, with a commitment to work towards specific benchmarks.

Finally, under new funding from the Recovery Act, the Department of Labor (DOL) will soon award $500 million in competitive grants to support job training projects that prepare workers for careers in energy efficiency and renewable energy industries. Secretary Solis has already announced that $50 million of these funds will be set aside to ensure auto communities have access to these green job training opportunities. An additional nearly $250 million in Recovery Act funds will be used for construction and repair of Job Corps facilities to also incorporate green technologies. Job Corps will also develop and implement green jobs training into the curricula of all appropriate occupations.

Green jobs will play an important role in both our economic recovery and ensuring U.S. competitiveness for decades to come. Through the Recovery Act, the Departments of Energy and Housing and Urban Development, the Environmental Protection Agency and other federal agencies will be making large investments in programs and projects that will create green jobs. As states receive Recovery Act funding and implement training and reemployment strategies, the DOL encourages states to recognize opportunities to prepare workers for green jobs related to these other sources of federal funding. The Department and other federal agencies have already begun to coordinate the work to strategically implement programs that ensure cooperative interactions between investments in infrastructure and research and development on one side and job training and worker placement on the other.

While I have focused on the DOL's role, I want to emphasize that the Administration's approach realizes that there is no magic bullet to transform economies and that the help for auto communities and workers is not uni-dimensional. The challenges that they face did not appear overnight and they will not be solved overnight. We recognize that credit is needed for businesses to operate, to finance new product development and to explore new markets, as well as for new businesses to form. We know that towns confronted with abandoned facilities or housing need help with clean-up so that these assets can be put back into productive use. That high speed rail and other transportation projects provide the infrastructure for growth. That without high quality schools or access to higher education our children will not have the skills they need to compete for the good jobs of the future. And finally those communities that grow provide safe streets, invest in the development of our children and give us environments where we want to live. States and local government have and must play a central role in these efforts. Local communities are best positioned to chart their own course that reflects their individual assets and desires. What is the best course for Dayton OH may not be the way forward for Kokomo IN or Huntsville AL.

Our comprehensive recovery strategy will not only recognize but support these heterogeneous efforts. Whether it is through economic development planning grants to cities or towns or support to individual manufacturers for diversification, our efforts will support a rich array of ways auto communities want to grow. Some may look to build new industry clusters while others will build on regional strategies. Some communities may want to exploit the strengths of their anchor institutions such as their colleges and universities, while still others may want to foster an incubator environment in which a broad array of economic activities are fostered. Clearly, state and local governments must take the lead in developing these strategies, but local and national foundations have already proven that they can play a critical role in helping communities bring the necessary parties to the table and chart a course forward. They can provide needed seed money and support and an array of growth strategies. At the end of the day, however, job creation ultimately comes from the private sector. There can be no successful strategy in which they are not at the center and want to invest their capital in creating new markets and with them new jobs.

While I have presented facts and figures here today we must remember that behind the 'numbers' of the economic downturn and the auto crisis are human faces; people facing challenges unlike what many of us have faced in our lifetimes. I share the President's commitment to helping these workers and communities both in the near term as we emerge from the recession, but also over the longer term to build a base for future growth and to ensure that they share fully in our economic prosperity. I thank you for your time and look forward to our dialogue on this matter.