

Thomas A. Kochan  
Testimony before the Committee on Oversight and Government Reform  
on  
“Lasting Implications of the General Motors Bailout”

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Mr. Chairman and members of the Committee, thank you for the opportunity to testify today. I wish to make three points in this testimony:

1. Government actions to restructure General Motors (GM) and Chrysler through controlled bankruptcy processes were essential to and successful in saving between 1 and 3 million jobs, avoiding a potential second Great Depression, and providing the pressure and the opportunity for U.S. firms to reemerge as world class competitors in the global auto industry.
2. Support of the UAW and other unions with on-going relationships with GM during this restructuring process was critical to the survival of these companies and the entire U.S. auto industry. Further support and cooperation between the company and the union are essential for GM (and other auto industry companies) for building sustainable jobs and enterprises in the future.
3. The specific “top-up” provisions governing Delphi hourly employees were negotiated as part of a complex-multi-issue, multi-party agreement governing the creation of Delphi in 1999 and again in the restructuring negotiations during the Delphi bankruptcy proceedings in 2006. To retrospectively single out and renege on this provision during the 2008-09 restructuring and bankruptcy processes would have materially harmed the on-going union management relationship and jeopardized the industry’s restructuring and rebuilding process.

### **Government Actions in the Restructuring Process**

The combined actions of the Bush and Obama Administrations to support the restructuring of the U.S. auto industry in 2008 and 2009 will likely be assessed by historians as

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one of the most important and effective steps taken during that perilous time to avoid the Great Recession from descending into a second Great Depression. These actions saved somewhere between 1 and 3 million jobs in 2009 and perhaps more in subsequent years.<sup>2</sup> They also avoided setting off a cascading set of costs and revenue losses to state, federal, and local government budgets that would have resulted from the increased unemployment insurance costs of between \$8 billion and \$25 billion, losses in GDP that would in turn reduce revenues to state governments between \$15 and \$48 billion, and reduced federal revenues between \$59 and \$177 billion.<sup>3</sup> The combined effects of the loans of \$12.5 Billion to Chrysler and approximately \$50 billion to GM, structural adjustments and additional concessions from workers and creditors, leadership changes, and in the case of Chrysler, the joint venture with Fiat, have positioned the U.S. auto industry to reemerge as a world class competitor. For the first time in over a decade General Motors, Chrysler, and Ford each reported profitable quarters in 2011, each is expanding capacity and hiring workers, and collectively these U.S. firms are gaining market share in the domestic and global industry.

I emphasize the effects of these actions on the entire U.S. auto *industry* because of the high degree of interdependence that exists across auto assemblers, suppliers, and dealers. The effects of the largest firm (GM) entering a bankruptcy without a “debtor-in-possession” financing option would have produced at best a long and uncertain restructuring process and at worst potential liquidation of the company. Either outcome would have set off a chain reaction that would likely have brought down a significant portion of auto industry suppliers, and significantly harmed other assembly firms and multiple dealers in communities across the country.

Indeed, the interdependence across the major assemblers and suppliers has grown over the years as more components have been outsourced, in some cases to single source suppliers. In 1980, for example, the ratio of jobs in independent parts’ suppliers to the major assembly firms was 1.2 to 1; in 2008 it had grown to 3.5 to 1.<sup>4</sup> Moreover, most supplier firms provide components to multiple assemblers. Delphi, for example, is the sole source supplier of

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<sup>2</sup> These estimates are for jobs likely to be lost in 2009 under different scenarios, depending on the extent of direct and indirect job loss that would cascade throughout the industry. They are consensus estimates from three independent sources: The Employment Policy Institute, the Center for Automotive Research, and the White House. For the specific sources see Robert E. Scott, “Huge Return on Taxpayer Investment,” Employment Policy Institute Issue Brief 209, November 18, 2010, p. 2, Table 1.

<sup>3</sup>See Table 2 and Table 3 of the above report for these estimates from the same three sources.

<sup>4</sup> Susan Helper, “The U.S. Auto Supply Chain: After the Crisis,” Presentation to the Global Economics Roundtable, April 8, 2011. Available from the author at Case Western Reserve University.

“cockpits” (a module of parts that include most of what appears on the “dashboard” of a vehicle) to the Mercedes plant in Alabama. If Delphi had been forced into liquidation, Mercedes production would have been shut down. This is only one of many examples of how the cascading effects an uncontrolled or extended bankruptcy of GM would have affected Delphi and other supplier and assembly firms.

Ford, in particular, would have been put at risk by an extended and uncertain outcome of a GM bankruptcy since it outsources an even higher proportion (over half) of its components to outside suppliers than does GM or Chrysler.<sup>5</sup> Instead, Ford not only avoided bankruptcy, it used the time gained in the past several years to build a strong partnership with the UAW that will serve as a model for others in the industry in the years ahead.

### **Importance of UAW Support**

The survival of GM and Chrysler through these processes required the support of the UAW and other key unions with on-going relationships with these companies. Moreover, for these companies to continue to prosper and build sustainable jobs and enterprises, labor management relations will need to continue the transformation process that began prior to the crisis. The transformation process involved both deep economic concessions by the workforce and joint union-management effort to improve the quality of their relationships on the shop floor, in negotiations, and in consultative and information sharing processes at the highest levels of the companies and unions. In 2007 negotiations Ford, GM, and Chrysler and the UAW agreed to restructure and lower the costs of health care and pensions for current and retired employees and cut wages and starting salaries to levels that matched or approached those of their major competitors. Each of the companies had also been working to build knowledge based work systems that engage workers and unions in fostering innovation, productivity and quality improvements. Years of research evidence and experience had demonstrated to the companies and the union that they needed to work together as partners in leading and sustaining this transformation process.<sup>6</sup>

### **Top-up Provision History and Context**

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<sup>5</sup> See comments of Ford CEO Alan Mulally, “The Daily Beast Talks with Ford’s CEO,” *The Daily Beast*, October 16, 2010.

<sup>6</sup> For a summary of this research and the varying degrees of progress made in this transformation process see Susan Helper, John Paul MacDuffie, Joel Cutcher-Gershenfeld, Teresa Ghilarducci, and Thomas Kochan, “Best Options for the Auto Industry Crisis,” November 20, 2008. Available from this author on request.

The UAW negotiated the provisions to protect its members' pensions in 1999 when Delphi was initially severed off as a separate company from GM. At that point the union recognized there was a significant risk that Delphi might not survive and, therefore, as a responsible union, it negotiated a number of contingency provisions to protect its members' and retirees' benefits. These negotiations, and subsequent negotiations that took place when Delphi was indeed forced to declare bankruptcy in 2006, involved multiple issues and resulted in tradeoffs and economic concessions/sacrifices by all of the stakeholders—current workers, future workers, retirees, creditors, GM, and Delphi. To single out one provision, the so called pension “top-up” clause, for scrutiny at this late date without considering the overall package of tradeoffs and concessions negotiated prior to or during the restructuring processes would be highly inappropriate and counterproductive. Moreover, there is a well-established principle (the contract assumption provision in Section 365 of the Bankruptcy Code) of honoring prior contracts of suppliers or other stakeholders with critical on-going relationships with a company. This is exactly the case here.

### **Looking to the Future**

Several decades of research has shown that world class performance in the auto industry (and others) requires employment relationships characterized by high trust, teamwork, and worker engagement; negotiations that focus on critical interests and problems, and; on-going information sharing, consultation, and partnership among union and management leaders.<sup>7</sup> This has been a struggle to achieve in the U.S. auto industry. GM, Chrysler, and Ford were making varying degrees of progress on these fronts in the years prior to the collapse of the financial system and the freezing of credit markets that resulted in the dramatic drop in auto sales. The government actions to provide loans and debt financing and to help orchestrate orderly and swift bankruptcy restructuring processes for GM and Chrysler saved the industry from entering an interdependent free fall and has given the industry the opportunity to get back on the task of transforming their labor and employee relations in ways needed to meet world class standards. This could not have been accomplished without the active and on-going engagement of the unions representing U.S. autoworkers. These same parties now need to focus on their future challenges and opportunities. I believe they are well positioned and prepared to do so.

I would be pleased to answer any questions you might have.

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<sup>7</sup> See Helper et.al. For a broader review of this evidence see Eileen Appelbaum, Jody Hoffer Gittel, and Carrie Leona, “High Performance Work Practices and Sustainable Economic Recovery,” available at [www.employmentpolicy.org](http://www.employmentpolicy.org).