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Written Testimony of Ron Bloom, Former Senior Advisor to the Secretary of the Treasury Before the House Subcommittee on Regulatory Affairs, Stimulus Oversight and Government Spending
"Lasting Implications of the General Motors Bailout"
June 22, 2011

Chairman Jordan, Ranking Member Kucinich, and members of the Subcommittee, thank you for the opportunity to testify before you today. I am here to report on the Obama Administration's investments in General Motors (GM) and Chrysler.

As you may know, since February 2011, I have served on the National Economic Council as Assistant to the President for Manufacturing Policy. While I am here in my capacity as a former Treasury official, I no longer work at Treasury and therefore no longer participate in the oversight of Treasury's automotive investments. Thus, I am not in a position to discuss events since February 2011 or anything concerning possible future actions. Further, I understand that the Committee has taken an interest in issues regarding the pensions of certain former employees of the Delphi Corporation. As I communicated in a letter to the Chairman yesterday, I am a party to a lawsuit–*Black et al. v. PBGC et al.*–that is currently pending in federal court in Michigan. I have been named as a defendant in that matter in both my official capacity as a former Treasury employee as well as in my individual capacity. I am therefore not in a position to speak to the Delphi pension issue in any way.

Background on Auto Industry Involvement

When President Obama took office, the American automobile industry was on the brink of collapse. Access to credit for car loans dried up and U.S. auto sales plunged by 40 percent. Auto manufacturers and suppliers dramatically curtailed production. In the year before President Obama took office, the industry shed over 400,000 jobs.[1] As 2008 came to a close, both GM and Chrysler were running out of cash and faced the prospect of uncontrolled liquidations. Amid the worst financial crisis since the Great Depression, credit markets were frozen and no alternative sources of financing were available to GM and Chrysler. In this context, the potential collapse of the U.S. auto industry posed a substantial risk to financial market stability and would have had a negative effect on the economy as a whole. Therefore, the previous Administration provided $24.8 billion to the auto industry.[2].

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[1] http://www.bls.gov/iag/tgs/iagauto.htm. Automotive Industry: Employment, Earnings, and Hours. Bureau of Labor Statistics.

[2] The previous Administration provided $13.4 billion to GM, $4.0 billion to Chrysler, $5.9 billion to Ally Financial (formerly GMAC), and $1.5 billion to Chrysler Financial.

When President Obama took office, we faced a full-fledged recession, our financial system was still exceedingly fragile, and GM and Chrysler were requesting additional assistance. After studying the restructuring plans submitted by GM and Chrysler, President Obama decided that he would not commit any additional taxpayer resources to these companies without fundamental change and accountability. He rejected their initial plans and demanded that they develop more ambitious strategies to reduce costs and increase efficiencies to become more sustainable.

However, President Obama also recognized that failing to stand behind these companies would have consequences that extended far beyond their factories and workers. GM and Chrysler were supported by a vast network of auto suppliers, which employed three times as many workers and depended on the automakers' business to survive. An uncontrolled liquidation of a major automaker would have had a cascading impact throughout the supply chain, causing failures and job loss on a much larger scale. Because Ford and other auto companies depended on those same suppliers, the failure of the suppliers could have caused those auto companies to fail as well.[3] Also at risk were the thousands of auto dealers across the country, as well as small businesses in communities with concentrations of auto workers.

It was the interdependence among the automakers, suppliers, dealers, and communities that led some experts at the time to estimate that at least 1 million jobs could have been lost if GM and Chrysler went under.[4] Other estimates suggested that job losses could have been even higher.[5]

These were grave risks at a time when our economy was losing 750,000 jobs per month and our financial system was still at risk. Credit markets were still not functioning properly and bank lending had contracted substantially, and therefore there was no chance of securing private lending on a scale sufficient to save GM and Chrysler. To avoid the liquidation of the companies, the President decided to give GM and Chrysler a chance to show that they could take tough and painful steps to become viable, profitable companies—and to stand behind them if they could. Working with their stakeholders and the President's Auto Task Force, both GM and Chrysler underwent fair and open bankruptcies that resulted in stronger global companies. This process required deep and painful sacrifices from all stakeholders—including workers, retirees, suppliers, dealers, creditors, and the countless communities that rely on a vibrant American auto

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[3] http://voices.washingtonpost.com/economy-watch/2008/12/fords_mulally_gm_would_drag_en.html. "Ford's Mulally: GM Would Drag Entire Industry Into Bankruptcy." *The Washington Post*. December 3, 2008.

[4] http://www.cargroup.org/documents/Detroit_Three_Contraction_Impact.pdf. "The Impact on the U.S. Economy of a Major Contraction of the Detroit Three Automakers." Center for Automotive Research. November 4, 2008.

[5] http://banking.senate.gov/public/_files/ZandiSenateBankingCommittee120408.pdf. Mark Zandi, "The State of the Domestic Auto Industry: Part II." Testimony before the U.S. Senate Banking Committee. December 4, 2008.

http://www.epi.org/page/-/pdf/bp227.pdf?nocdn=1. Robert E. Scott, "When giants fall: Shutdown of one or more U.S. carmakers could eliminate up to 3.3 million U.S. jobs." Economic Policy Institute. December 3, 2008.

industry. However, the steps that the President took not only avoided a catastrophic collapse and brought needed stability to the entire auto industry, they also kept hundreds of thousands of Americans working and gave GM and Chrysler a chance to once again become viable, competitive American businesses. And they avoided further shocks to our financial system and economy at a time when we could least afford it.

Auto Industry Recovery

Today, the American auto industry is mounting a comeback. In the first quarter of 2011, the industry reached an important milestone when all three Detroit automakers returned to profitability for the first time since 2004. Chrysler achieved its first quarter of positive net income since emerging from bankruptcy. GM's first quarter 2011 profit was nearly triple its profit from the same quarter last year and was the company's fifth consecutive quarterly profit. Ford's first quarter 2011 net income marked its best first-quarter performance since 1998 and the company's eighth consecutive quarterly profit.

This positive financial performance is the result of expanded production and sales. In 2010, GM, Chrysler, and Ford increased their market share from 41.0 percent to 44.4 percent. The last time the Detroit three gained market share against their foreign competitors was in 1995. In addition, exports of vehicles and parts in 2010 increased by 37 percent over 2009. Sales to China are doing particularly well. Exports of vehicles and parts to China were up 137 percent in 2010, totaling $4.5 billion.[6]

This increase in market share and exports translates into more American jobs. Since June 2009, the auto industry has added 113,000 jobs—the fastest pace of job growth in the auto industry since 1998.[7] In addition, since June 2009, GM and Chrysler have announced investments totaling over $8 billion in their U.S. facilities, creating or saving nearly 20,000 jobs. GM recently announced that it would invest an additional $2 billion in U.S. factories in the coming months, creating or preserving more than 4,000 jobs at 17 facilities in eight states.

Investments and Repayments

The U.S. Government provided a total of $80 billion to stabilize the U.S. automotive industry through investments in GM, Chrysler, Chrysler Financial, Ally Financial (formerly GMAC), and programs to support auto suppliers and guarantee warranties. As of today, $40 billion has been returned to taxpayers. While the Government does not anticipate recovering all of the funds that it invested in the industry, loss estimates from Treasury and the Congressional Budget Office

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[6] http://tse.export.gov/TSE/. TradeStats Express. Department of Commerce.

[7] http://www.bls.gov/iag/tgs/iagauto.htm. Automotive Industry: Employment, Earnings, and Hours. Bureau of Labor Statistics.

have consistently improved. Independent analysts estimate that the Administration's intervention saved the federal government tens of billions of dollars in direct and indirect costs, including transfer payments like unemployment insurance, foregone tax receipts, and costs to state and local governments.[8]

Treasury committed $12.5 billion to Chrysler ($4.0 billion under the Bush Administration and $8.5 billion under the Obama Administration, including undrawn commitments of $2.1 billion). In May 2011, Chrysler repaid $5.1 billion in loans six years before their maturity date and terminated its ability to draw on the remaining $2.1 billion commitment. In June 2011, Fiat agreed to pay Treasury $500 million for its equity in Chrysler.[9] Following the closing of this sale to Fiat and all previous repayments, Treasury will have recouped $11.2 billion.

Treasury provided $49.5 billion to GM ($13.4 billion under the Bush Administration and $36.1 billion under the Obama Administration), of which $23.2 billion has been returned to taxpayers. In April 2010, GM repaid its $6.7 billion loan to Treasury five years before its maturity date. In November 2010, Treasury sold 45 percent of its GM common equity for $13.5 billion in net proceeds from a highly successful initial public offering (IPO). In December 2010, GM repurchased all $2.1 billion of Treasury's preferred stock. Treasury currently holds 500.1 million shares or 32 percent of GM's common equity. Following GM's IPO, Treasury has a clear path to exit its remaining investment. The government remains a reluctant shareholder and intends to dispose of its investment as soon as practicable, with the dual goals of achieving financial stability and maximizing returns to taxpayers.

Conclusion

In a better world, the choice to intervene in GM and Chrysler would not have had to be made. But amid the worst economic crisis in a generation, the Administration's decisions avoided devastating liquidations and provided the American auto industry a new lease on life and a real chance to succeed.

Thank you again for the opportunity to testify. I look forward to your questions.

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[8] http://www.cargroup.org/pdfs/prnov2010.pdf and http://www.cargroup.org/pdfs/bankruptcy.pdf. "The Impact on the U.S. Economy of the Successful Automaker Bankruptcies." Center for Automotive Research. November 17, 2010.

[9] Fiat also agreed to pay Treasury $60 million for its right to proceeds above a certain threshold received by the United Auto Workers retiree healthcare trust (or VEBA). http://www.treasury.gov/press-center/press-releases/Pages/tg1199.aspx