HEARING ON STABILIZING THE FINANCIAL
CONDITION OF THE AMERICAN AUTOMOBILE
INDUSTRY
Wednesday, November 19, 2008
House of Representatives,
Committee on Financial Services,
Washington, D.C.

The committee met, pursuant to call, at 10:00 a.m., in
Room 2128, Rayburn House Office Building, Hon. Barney Frank
[chairman of the committee] Presiding.

Present: Representatives Frank, Kanjorski, Waters,
Maloney, Gutierrez, Velazquez, Watt, Ackerman, Sherman,
Meeks, Moore of Kansas, Capuano, Clay, Baca, Lynch, Miller of
North Carolina, Scott, Green, Cleaver, Moore of Wisconsin,
Davis of Tennessee, Hodes, Ellison, Klein, Wilson,
Perlmutter, Murphy, Donnelly, Foster, Speier, Bachus, Castle,
Royce, Manzullo, Jones, Biggert, Capito, Hensarling,
Brown-Waite, Neugebauer, McHenry, Campbell, Bachmann, Roskam,
The CHAIRMAN. Professor Sachs?

STATEMENT OF JEFFREY D. SACHS

Mr. SACHS. Thank you, Chairman. This is the fourth financial crisis that I have dealt with with this committee over the last 25 years, starting in Latin America, Eastern Europe, East Asia, and now it is our turn.

The CHAIRMAN. One of us may be a jinx.

Mr. SACHS. No doubt we are--right. Bad luck.

But we are facing something that we have not faced since the Great Depression, as this committee knows better than any other committee of this Congress. And so, the normal business of this committee is not to be a bank. No one here wants to be a bank. No one here wants to think like a bank or grill the Big Three CEOs like a bank. But we have no functioning banks right now. That is why we are here.

This is the most intense financial crisis we have had since the Great Depression. If there were capital markets, they would much prefer to go to the capital markets than to go to you, I am sure of it. It was no fun doing a loan request this morning for them. The only reason they are here is that we have no financial markets for the moment.

All of the rhetoric we heard about "let the markets
"work" would be fine if we had markets right now. We have no financial markets; this is the essence of the moment.

In a year, we are going to have financial markets working again. TARP will be working. We will have a President; they will have a strategy. The markets will be working again. When they need more money, which they will, they will go to the markets, they won't come to you, because there will be financing available. So this, I think, is the essence of it.

Believe me, this is not the only Congress or parliament that the auto industry is going to. It is all over the world right now. This is a global contraction the likes of which we have not seen since the Great Depression, and you are going to see bailouts necessary everywhere.

The industry is a long-term viable industry. They would not have been here but for September 15. Had Lehman Brothers been handled differently, not by the textbook of Chapter 11 but differently, we would not be with the $700 billion TARP and they would not be here today asking for 3.7 percent of that from the TARP. But Lehman was Lehman; panic worldwide ensued. Now the idea of using 3.7 percent of what you voted is absolutely the right thing to do. In fact, it is, to me, unthinkable not to do it. I can't even imagine it not being done.

Let me say that Chapter 11 is completely unworkable in
this context. The New York Times had one of those "duh"
stories today where it says "Advantage of Corporate
Bankruptcy Shrinks." You can’t do Chapter 11 when there are
no financial markets and survive. Section 364, debtor in
possession financing, is a fantasy of my free-market
ideologue colleagues in the economics profession. There is
no financing even for non-Section 364, much less for bankrupt
companies.

It is a fantasy, this idea, put it through bankruptcy,
let them do that. And when you probe just a little bit, they
say, oh, no, no, no, under bankruptcy the government is going
to have to do it anyway. So try explaining to your
constituents you are not going to do it now, only when they
go bankrupt, then you are going to give them $25 billion. I
like that explanation. That is absurd, in my view, frankly.

The only thing I would add is whether you want to have,
in the board that you are setting up, some more public
representation in addition to the Cabinet. That would be my
only question. For the Congress to represent you, to
represent the broader interests, to bring the National
Academy of Engineering in, somehow to have a couple more
voices than only the executive branch when this gets
deliberated so that you just are able to get the rounded
issues.

Other than that, I think you are on exactly the right
track. I can’t imagine, frankly, a little bit why we are here, because you already voted the money. It is only using it, 3.7 percent of it, for what happens to be the leading industry of the United States. Other than that, you know, it just is a little bit hard to figure out.

So, please, do this before we turn a recession into a depression. That is my request. You know, it is for all of us. There is nobody that will not be affected.
Mr. SACHS. [Continuing.] And this idea of letting markets work when there are no markets is the idea of how Lehman Brothers triggered the biggest worldwide crisis in generations. Don't do it again with this industry. Two in a row, we are really into depression.

Thank you very much.

The CHAIRMAN. Professor Slaughter.
The CHAIRMAN. Thank you. Professor, one side point, on putting other members on the board, we run into the problem of the appointments clause. You cannot give a board that has any power any membership other than a presidential appointee. We could add a presidential appointee that was not in the Cabinet but it couldn’t be a congressional appointee. That is why in the TARP we have two boards, one that is congressionally appointed that is oversight but no power and then one with power but it is all the administration. So it doesn’t do as much good.

But beyond that, part of your mandate at Columbia in which you have done such a good job on is the whole question of sustainability. And one of the criticisms we have got in the auto industries has come understandably from people concerned about the environment because of their past record. One proposal we got--in fact it is the Bush administration’s approach, which is to take away from the $25 billion that was already voted the conditions on that that were--that said it had to be used to promote energy efficiency; that is, their view is all right. We gave them $25 billion for the specific purpose of retooling credit deficiency. Let’s just take those conditions off. What would your response be to that?

Mr. SACHS. First, before getting to the specifics of section 136, we should not ease the conditions. We should see this as an opportunity to enforce the conditions. I
actually am more optimistic than the three CEOs that we heard
that they could be accelerated even more because when you
consider the Chevy Volt promises to be a leapfrog technology,
in fact because we will go from hybrid to plug-in hybrid, we
are on the verge in my opinion of getting back to U.S.
technological leadership. GM also has invested more than $1
billion in hydrogen fuel cells. And Chrysler I think very
impressively is looking at extended range electric vehicles.
Don’t ease the conditions, that is for sure.

My only question would be, you know, section 136 could
be a bridge. We could see the money as a bridge to the Chevy
Volt, to the EREV, and so forth. So it doesn’t seem to me to
be contradictory in that way. I think the approach this
committee has taken is the right one though. The TARP really
fits, in my opinion. This is a financial crisis. The money
is there, adjust it in a modest way and get a very pragmatic
result.

Section 136, if it had to be a fallback position, seems
to me to be a viable one but not by easing the conditions at
all. Indeed, by seeing the money is precisely to get us to
that Chevy Volt. It is to get us to the EREV. Please don’t
ease the conditions. That would send every wrong message for
the country.

The CHAIRMAN. Page 3 of the bill, we in fact have a
section that says, no provision of this title shall be
construed as altering, affecting or superseding the provisions of the environmental one. Professor Slaughter, I appreciated your testimony as I have admired much of your work. And I have to say, in your closing comments about the need for a safety net, you immediately qualified as my favorite witness that the Republicans ever suggested that we have. I wish you would send us more like that. But I do have one question, and I would like to do that.

There is no question. I think you make a good point. Had we in the past done that on the social sector, this would be an easy decision to make, if people weren't faced with the loss of their health care and if indeed health care had been built into the costs of the car. But I do want to say, there is one argument you made, with all due respect, it seemed to be a little bit of a make waste. That was, that if we do this, other countries will get indignant and be more protectionist. It is not my impression that they have a morally superior position to us today in the automobile industry on the whole with regard to openness to automobiles. That is, I think—no, I don't think anyone—we have about as open an automobile market as you can have. A number of other countries, Korea, China, we have already heard have less of one. I am skeptical that this would be any basis for them being any tougher on our automobile industry than they already are.
Mr. SLAUGHTER. It may not be a matter of morals. I think of it as a matter of first and foremost dollars and cents.

The CHAIRMAN. But you really think this would motivate—what country is now open without—is better than us in access in automobiles that would suddenly tighten up? It is also the case, by the way, we would hardly be unique in the world in subsidizing our automobile industry in some way.

Mr. SLAUGHTER. I fully agree. I think, Mr. Chairman, is that many other countries have become more closed and inward FDI policies—U.S. Companies to establish and expand operations there. And the likelihood that the response of our policies that we take will be to further make it more difficult for our U.S.—

The CHAIRMAN. There I disagree. You might argue that it won’t get them to change but they haven’t been changing anyway. But it seems to me that the argument that this would motivate them to get tighter, as I said—just to be honest with you, it smells like a make waste to me. There are better arguments to be made.

Mr. SLAUGHTER. If I could get a two-hander on that. When you look at U.S. headquarter multinationals overall, for every dollar in exports that the parent operations send abroad in terms of servicing foreign markets, they in 2000—

The CHAIRMAN. You are making a different point than
mine. I am not contesting the economic value of
multinationals. What I am suggesting is that there are very
few countries that I can think of that can say, oh, you
stopped your Big Three autos from failing. Therefore, we are
going to stop being so open to you. I just don’t think that
is a likely reaction.

Mr. SLAUGHTER. If I may, CEO Wagoner earlier commented
on the important role China plays for General Motors. They
have been the largest share of the Chinese market for several
years running. Last year they sold over 1 million units.

The CHAIRMAN. And he noted he has to do a joint venture
in China, which the Chinese do not have to do here. The only
point I am making is there is already a lack of reciprocity
to our disadvantage. So I am not prepared to be told that we
can’t do anything that is in our own legitimate economic
interest if you think it is. If you don’t think it is, it is
different because they will get mad at us.

The gentleman from Texas.

Mr. NEUGEBAUER. Thank you, Mr. Chairman. Annette, I
want to go back to your testimony about the financing piece
of it because there is so many pieces to this, and I think
what our committee has to look at is those pieces where we
probably have some jurisdiction. In the financing piece, how
many--do you have a handle on how many people are coming to
your dealership and would like to buy a car but you are not
able to arrange financing for them? I mean, is that 100 percent of the time, 90 percent of the time, 20 percent? I mean, can you give me a handle on what you are facing on a retail financing contract?

Ms. SYKORA. Well, Congressman, the first problem we have is getting the people to come to the showroom because there is a lack of consumer confidence and they begin with the feeling that there is no credit available. So even if they come to the showroom they are already feeling that credit might not be available.

Now, retail credit is available. You have got to have a stable job and you have got to have good credit. But because they are in many--and we heard that earlier today. There are many banks and credit unions that do have money to lend on the retail side. The problem is there is kind of three pieces here. You have working capital for the dealers, you have got the inventory financing, or what we call floor plan, and then there is retail. And we are working with Treasury because of the tightening and elimination of the securitization on the lines, and that is what is impacting the availability of retail credit.

So, you know, I think that is where we need immediate and urgent help, is access.

Mr. NEUGEBAUER. See, my concern is, is that when you look at the burn rate of these three companies that were
testifying here today, I mean they are losing billions per
quarter. And they are asking for $25 billion. At the
current rate they are losing money, that is basically maybe a
quarter or two. I don’t know that that fixes your problem.
That may somehow prop them up. But the question—the concern
I have is, if we are going into, as some economists say, into
an economic slowdown where consumer spending is going to be
down, that this request that the auto industry is making is
really not a fix. It is a postponement. I think from a
congressional standpoint, I am interested in, you know,
fixing things and not necessarily, you know, postponing
things. So I think we have to—and I think certainly I know
that the financing arms of the three captive finance
companies are trying to—and we had Chairman Bernanke and
Secretary Paulson here yesterday. I think they have been
working with the industry to be able to allow them to come to
the Fed window, which would hopefully work on the retail
side, maybe also help some on the floor plan side as well.
Ms. SYKORA. Can I address that? I think you are asking
me, are we delaying the inevitable? And I wouldn’t be here.
I wouldn’t be sitting here today if that is what I believed.
And I kind of like to make my point that dealers are
independent businesses. Because you can see I am sitting
here by myself. The manufacturers, they are not here. So I
am representing the dealers. And I am giving you the opinion
that, you know, I do think it is viable and we need this help.

Mr. NEUGEBAUER. Mr. Sachs.

Mr. SACHS. Congressman, we are in a downturn for sure, and it is going to be a very bad one. And even with all the emergencies, this will be the steepest recession that we have had in decades. And the fight is to keep it from turning into a depression right now. So your question is a very good one. But as I have heard all three of the CEOs testifying, what they are doing is assuming a burn rate based on sales at about 11 million units all through 2009. That is a collapse. We have gone from 17 million units down to 11 like that because this is a free fall. We have not seen this, Congressman, for decades. What they are assuming in their assumptions is not a further collapse but what is a collapse. And so I don’t think that it is a wildly optimistic assumption.

But the main point that I would stress is the following: We will have a deep recession, and then the question is, are we coming out of something or was this just an industry in decline? Now first I don’t believe it was an industry in decline. And I don’t think the evidence suggests that it was an industry in decline.

Second, I think they have a bridge to actually a whole new set of technologies and a post-SUV era. Everybody loved
their SUVs, but now everyone is reconsidering. And it takes
a lot of retooling and that is what is happening right now.
So I think we are—in terms of make and model and technology,
we are actually going somewhere.
But there is a third point for Congress that I think is
very important. They are going to come back to banks, not to
you because we are going to have a banking system working
again in this country and that is going to be very important.
They do not want to come back to you for the next round.
They will go back to the bond markets. They will go back to
the banks. And they will have a viable business.
Mr. NEUGEBAUER. My time is up.
Mr. WATT. [presiding.] The gentleman’s time has
expired. I recognize myself for 5 minutes.
Ms. Sykora, are there any banks out there that are still
providing the floor planning financing or is all of that now
being done by the industry?
Ms. SYKORA. Only a handful of banks were providing this
type of inventory financing in the beginning.

Mr. WATT. I got a call from one of the dealers actually
from Florida. I am not even from Florida. And I got a call
earlier this week saying the Bank of America had pulled out
of that market, pulled out of loaning anything to any
automobile dealer, not customers to buy cars. They want out
of that too, he said. But they just wanted out of the
automobile industry altogether. Is that what you are
experiencing? Or is it different than that?

Ms. SYKORA. No, we have heard from dealers across the
country that have experienced the same thing. Where one
dealer who had been with the same bank for 40 years, they had
never had a problem, weren't having a problem. Their balance
sheet is fine. No more. No more floor plan inventory
financing with that bank. And yet this is a GM dealer. So
he didn't have the alternative to go to GM.

Mr. WATT. Okay. Professor Sachs, I notice you nodding
your head and I want you to weigh in on that. What I am
really more interested in having your assessment of is a
world without a domestic U.S. automobile manufacturer where
all of our product comes from other—from manufacturers in
other countries or based in other countries, even though some
of them may be making their automobile. I am just trying to
imagine the implications of that. And I think you are
probably—maybe Dr. Slaughter would want to comment on that,
too, as the two economists on this panel. Talk about that
world for me. It just seems like it would be so alien to
everything we have experienced and have so many dramatic
consequences on not only the existing manufacturing base, but
our whole concept of who we are in the world.

Mr. SACHS. Let me just talk first about the transition
if we went there. If there is a major failure, if GM goes
down and it is busted apart, the cascade effects, as Mr. McAelya said, are absolutely real. Cascading failures will run through thousands of enterprises because this is a big business, many percent of GNP. And what is interesting about it also is because of the machining in this industry, you lose a supplier, you could actually interrupt production not even of the failing companies but of all the companies. There are real risks of cascading bankruptcy and then supply-side seizures. If one says, well, that is a worst-case scenario, you are just frightening us, that is what they said about Lehman Brothers on September 15. We will show how markets work. Let’s close them down. Then you add cascading failures that have shocked the world like we have not seen for 75 years.

Now with our economy absolutely on its back, if we tried that, that is one of those things that I would not try at home. I have spent a career watching financial crises. We do not want to let a major company go bankrupt right now like this. This would be a disaster. Just a disaster. So we would end up with certainly double digit unemployment rates in this country. We would end up with 15 to 20 percent unemployment rates throughout the Midwest. I never thought I would live to see us approaching a depression. I was trained for and I have taught for 30 years at Harvard and Columbia that we have learned all the tricks. You know, that doesn’t
have to happen. We are flirting with that right now.
I thank you for voting the legislation as painful, as it was politically, the TARP, because we are going to need that, and it is going to get designed better and done better over the next few months, that is for sure. It had to be done in a panic because of the way that the panic was set off on September 15. But don't do this one on top of that mistake of Lehman because we will trigger things we don't even know right now.

So I know your question, Congressman, is about the long-term sense of the United States. But I am worried about the next year, 2 years, 3 years, 4 years. I don't want to have a depression in this country. And I want us to take minimum responsibility to use 3.7 percent of what you voted to avoid a depression. It is a no-brainer, in my view. This is not a hard one. It is hard for you to be a bank, but you already voted $700 billion. Get the Treasury to be the bank.

And get on to avoid a disaster.

This is not an industry, by the way, that is in collapse. We are not saving the buggy whip industry. This is an industry where world production rose from 60 to 70 million units per year in the last 8 years, 62 to 70 million units. This is an expanding global industry.

Mr. WATT. Dr. Slaughter, briefly because I am way out of my time. So--
Mr. SLAUGHTER. Very briefly, Congressman. Just to echo what Professor Sachs said, this industry is already becoming very global. It was the Big Two for a while in the sense that—if you recall, Daimler owned Chrysler for some number of years. The other thing I would emphasize comes back to what Congressman Green talked about, the importance of jobs. The industry is continuing to grow in part because of the stunning productivity growth that is realized in large part because of the global engagement, meaning the Big Three today in the U.S., they directly employ a little over 200,000 workers. That number is likely to continue to go down in terms of the number of the people that work for them. One of the big public policy challenges we all face again is thinking about where the good jobs and good wages are going to come from in the future, because one of the things productivity growth does in those companies is it takes it away from those firms itself.

Mr. WATT. That is another discussion for another day of where they are coming from.

The gentleman from California.

Mr. CAMPBELL. Thank you, Mr. Chairman. I wanted to make first just a comment, a little bit on something you mentioned Mr. Sachs about the CAFE regulations and so forth. Let’s remember the Chevy Volt may be a great car but they are not going to make any money with it, at least not right away.
Toyota has not made any money off of Prius. In fact, they have lost money on every single copy in spite of its enormous success in the marketplace. Toyota is having a profitability problem now because the Sequoia and the Tundra, the big trucks and the big SUVs where they make all their money, too, aren't selling. Now eventually maybe these higher technology mileage cars will become profitable. But they are not now. And maybe the model of the Mini Cooper which is a small but expensive car, which is very profitable for BMW, can be adopted by other automakers. But that also is not going to happen in the next 2 months or 3 months 6 months or a year because of the lead times in the auto industry.

So I just hope that as we all are looking at this thing that we don't give with one hand to the auto industry and take from the other. And let's remember, we can't get out of this thing unless car companies make money, and right now they can't make money on hybrid vehicles. They may be able to eventually but right now they can't do it. Let's not--I hope we don't make them sell something that they can't make money on and not sell something that they can and have some transition involved in this as this whole thing goes forward.

That is just a comment I wanted to make. But then I wanted to ask, Ms. Sykora, I remember after 9/11, remember the after effects here. Nobody bought cars, nobody bought houses, nobody went on airplanes, nobody went to restaurants.
Everything was shut down. I still think that we don’t give
enough credit to, but that General Motors actually pulled us
out of that when in December of 2001 they came out with their
0 percent financing on every car and truck they offered for
60 months and everything. That people were afraid at that
time. They had fear. It was security fear. Different than
the fear now. Now it is financial fear. It was a security
fear. And people said, well, I am scared but that is a heck
of a deal. I had better go check that out. Ford matched it,
Chrysler matched it. And we went from there. And in my 25
years in the car business, nobody had ever offered a deal
like that, anywhere close to that, and it got people up.

Obviously we wouldn’t be here today if it weren’t for
the fact that General Motors is not strong enough to do that
anymore. But the Federal Government may be. I think in your
testimony that you didn’t get to, you talked about a
refundable tax credit or some other things. What can we do
or what should we be doing because eventually for anything to
work, we do have to have consumers back in showrooms at least
looking at cars? And then hopefully we can get them financed
and they can buy them.

Ms. SYKORA. I think the point you make about an
economic stimulus to get consumers in the showroom is very
important. And the legislation that was introduced today,
H.R. 7273, that is making the interest payments on car loans
and sales tax deductible, is a great way to start that. Senators Mikulski and Bond have that same measure in the Senate.

The other thing that Congress could do would be to fund State programs, cash for clunker type programs like the ones in Texas and California that encourage vehicles to trade their older vehicles in for more fuel efficient models. And I think there was a Representative earlier here today that said his 1999 Jeep might qualify for something like that. But these types of programs, that is what stimulates the economy, and they yet still provide that environmental benefit as well.

Mr. CAMPBELL. You talked about the sales tax. My concern is that that is not immediate enough, that it is not—as you well know, people, you know, cash in their pocket. When you are selling a car, you need to put all the numbers together, the down payment and the payment and make sure it works for the customer or they don’t buy the car. And to say that—and tax deductibility, that is great. But to say that you might get some money back on your tax return 12 months from now doesn’t help somebody buy a car today.

Ms. SYKORA. You are right. We are seeing consumer confidence at a record low. And failure to act to restore confidence, failure to do anything is going to have severe consequences. I don’t think we can take the chance of
further eroding consumer confidence.

Mr. CAMPBELL. Okay. Thank you very much. I yield back my time.

Mr. WATT. The gentleman from Texas, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman. Mr. Slaughter and everyone, welcome. I would like to visit with you for just a moment if I may. I have a summary of the draft of the rescue bill before me, and I am interested in knowing what part of it do you find deficient.

Mr. SLAUGHTER. Congressman, I don't have any particular comments on the bill per se. I guess it is the idea of whatever Federal taxpayer dollars we are going to allocate to supporting the automobile industry broadly defined, thinking about whether we want to use it to support the companies themselves or use it to support their workers in their communities in whatever eventuality is going to play out in the product market in terms of mergers--

Mr. GREEN. Let me ask you this if I may because time is of the essence. This is a loan. So it is not a bailout. It may be considered a means of helping them out. But it is a loan. The bill specifically indicates this, and it indicates that there are terms, 7 years, 5 percent the first 5 years, 9 percent thereafter, no prepayment penalty. We have a superior position with the obligations that are accorded us. What part of this loan creates a problem? We
did lend to Chrysler before. They did repay. We did make
money. What part of the loan is a problem?

Mr. SLAUGHTER. I would point out, Congressman, that the
operating losses of the companies this would be extended to
have been large and accelerating in the past--recent times.

So if you would looked at calendar year 2007 and the first 9
months of 2008, for Ford and General Motors, between the two
of them their total operating losses were $76.1 billion over
that 21-month period.

Mr. GREEN. Did you support the loans to AIG?

Mr. SLAUGHTER. I am sorry. Could you repeat the
question?

Mr. GREEN. AIG has received loans from the government.

Mr. SLAUGHTER. I do support the extension of loans
made--

Mr. GREEN. You support $85 billion, September 16, to
AIG. Do you support $37.8 billion, October 9, to AIG?

Mr. SLAUGHTER. I do.

Mr. GREEN. Do you support an additional $40 billion on
November 10, 2008, all of this in 2008, to AIG?

Mr. SLAUGHTER. I do.

Mr. GREEN. Why would we assume that AIG is more
deserving than the Big Three? AIG, Big Three, all in need.

Why AIG and not the Big Three? Why an entire industry? Why
would we neglect that entire industry? AIG is a privately
held company. This was the largest bailout of a privately
held company in U.S. history. Why would we bail out AIG and
not the Big Three?

Mr. SLAUGHTER. In principle, Congressman, it is because
of the systemic risk that firms and capital markets face and
present to the whole economy when they--

Mr. GREEN. I think that is a fair comment. What about
the systemic risk that people who are working for the Big
Three face if they lose their jobs to a Chapter 11 that
becomes Chapter 7 by virtue of a lack of credit?

Mr. SLAUGHTER. I agree that the Big Three have linkages
to the other firms in the economy, the suppliers and the
dealers that we have talked about. However, it is my belief
that the degree of systemic risk and the magnitude of that to
the overall economy is less than what is presented by the
trouble we have seen in our capital market companies in
recent times.

Mr. GREEN. And one final comment. We have allowed AIG
to go to the coffer, the public trough, if you will, one,
two, three times. If the auto industry does not succeed with
this first offer of help as opposed to a bailout because it
is a loan, and we are talking about saving an industry, is it
abhorrent to think that there may be some additional help
needed to save an industry?

It was indicated earlier--and some things bear
repeating. The Japanese are not going to allow their industry to fail. The Germans are not going to allow their industry to fail. And by the way, I salute them. This is not saying it in a demeaning fashion. This is just a matter of fact. We don't know the consequences of allowing this industry to fail. It may take historians looking through the vista of time to properly comprehend what happened and what will happen to us as a result. If we must err, maybe it is on the side of trying to save an American industry that has an impact on every life in the United States of America.

Thank you, Mr. Chairman. I yield back.

Mr. WATT. Mr. Manzullo is recognized.

Mr. MANZULLO. Thank you, Mr. Chairman. I appreciate you folks coming today. As I go down the list of people who want money, we start with the banks. And I find it interesting that the Bank of America would get $25 billion and then cut off somebody's credit.

Mr. WATT. Just 15.

Mr. MANZULLO. Just 15. And Mr. Chairman, I would like to see us have another hearing to bring in the Chairman of the Bank of America and ask him what he is doing with that $15 billion. But that is the problem. Your problem is lack of sales. If you had sales, you wouldn't be here. You would be back home selling cars and taking care of the manufacturers. But if you think that the Federal Government
could be successful in helping you out, you can start first with the Bank of America on getting $15 billion and then, Ms. Sykora, cutting out one of your own on a line of credit. That is how government programs work. They stink. They don’t work. And then what you are proposing is that the dealers be included in that. So then some big guru in charge of dealers will make a decision on which ones get the money, and the ones that have worked all their lives and paid off most of their debt will probably be the least likely to get some type of a loan. And then if you go down the line to the folks at MEMA, you have got 700 suppliers but tens of thousands of subcontractors. Where do you draw the line?

And who determines who gets the money there?

And sitting in the audience here, we have people from cities, States, counties, the universities are here. California wants $5 billion a year for the next 3 years. The money is not there. It is not there. If it were there—I mean, after a while, we are going to be like the old German republic and to buy a car, you are going to go with a wheelbarrow full of currency and the people who work at the dealership would get paid every hour because of inflation. That is why I voted against the bailout because of the fact that people like yourselves would look to Washington to say, we want part of this, but it is really not going to help. If you want to get something to help, the easiest thing to do is
for Congress to pass a law--we could do it today. The
President would sign it--which would to say if you buy a new
or a used car, because if you have a tax credit that applies
to used cars, what is going to happen to your used car
inventory? And that is where you guys make your money, is on
the cars that are traded in. But if you have a tax credit
that applies just to--that applies if you buy a new or used
automobile, then the intended source is immediate. In other
words, if you buy a $20,000 automobile but you know you are
going to get a $5,000 tax credit, that is quite a discount on
the car. That infuses the money into it directly.

But I have a question. Is it Sykora?

Ms. SYKORA. Yes.

Mr. MANZULLO. Who does your floor financing?

Ms. SYKORA. I finance mine with Ford Motor Credit.

Mr. MANZULLO. Did they cut you off?

Ms. SYKORA. No. But they have taken a look at what
they call rate of travel, how quickly you are moving their
vehicles and giving us a--you know, boundaries that we must
stay within.

Mr. MANZULLO. Could you pull the mic a little bit
closer because you are very soft spoken. Thank you.

Ms. SYKORA. They have restricted what we are allowed to
finance, how much money we can have on that floor plan line
by our rate of travel, how often we are selling those
vehicles. So they have taken us from unused from a 60-day to a 45-day, trying to get us to a 30-day rate of travel. So that restricts my abilities.

Mr. MANZULLO. Has that restricted your ability to sell automobiles to prospective buyers?

Ms. SYKORA. What is restricting our ability to sell vehicles right now is the consumer confidence.

Mr. MANZULLO. Right. Right. So even if you qualified for the bailout and somehow this money found its way to--how many dealerships are there across the country? Is it 5,000?

Ms. SYKORA. 20,000.

Mr. MANZULLO. Even if funds made it to 20,000, you have the problem of who among them gets the money, how much, who determines that, who metes it out. Then you go down the line to MEMA, the subs, the subs' subs, and then the cities and the villages. I don't think that is going to work.

Ms. SYKORA. Well, point of clarification, we aren't asking for any of the money. Now some of the Representatives have proposed that as questions to the automakers if they would be opposed to having some of that for the dealers. But as dealers, we are not here asking for that.

Mr. MANZULLO. Okay. MEMA is?

Ms. SYKORA. MEMA.

Mr. MANZULLO. All right, thank you. I think--I guess, Chairman, if you want to let him answer the question, but
that is up to you.

Mr. MCELYA. First of all, we have heard a lot from the supply--or from the car companies over the last 2 days. One of the big concerns that the supplier industry had was if one of these car companies go bankrupt and all the receivables that the suppliers have, it would be just a huge collapse in the supplier industry. We are on thin edge as far as our financing and liquidity. What we heard--I think I heard--hopefully it is in the record--was that the car company said that if they get the bailout, the one thing they will do is pay their suppliers. That is how they are going to use the money. That is the main concern for the supply base. This is a huge, huge problem. Once one of these companies go, statistically, of the top 100 suppliers to Chrysler, 96 of those 100 are common to Ford and General Motors.

Mr. MANZULLO. I understand that. But Bank of America was supposed to take the money and infuse it into the line of credit and help people out and they took the money and they went through the line of credit and you have no guarantee--

The CHAIRMAN. [presiding.] Time is expired.

Mr. MANZULLO. Thank you, Chairman.

The CHAIRMAN. The gentleman from Colorado.

Mr. PERLMUTTER. Thanks, Mr. Chair. And Ms. Sykora, listening to you and then also talking to some of my friends
from Colorado, it is sort of a twofold problem that you see at your dealership. One, your demand is down and, two, people who come into the stores, many who may have qualified at some point in the past don’t really qualify now. So it is a credit and a demand, is that what you are seeing?

Ms. SYKORA. Yes, especially in some certain regions where credit is already constrained because of other problems. In some regions that is not the case. So that is why we are wanting customers to, you know, go to their local dealership because if they have a good job, good credit, we are probably going to find credit available. It is one of the reasons that dealers have multiple sources of financing available for customers. It is obviously a good thing we do.

Mr. PERLMUTTER. Well, and this maybe goes more to the economists on the panel. But it is almost as if demand for just about everything has fallen off the table in the course of the last 45, 60, maybe 90 days. I mean, I was trying to ask a question. I don’t think I asked it right of the prior panel. How much are they going to need? What is it per month? Is $25 billion going to get us there? Is there some other way to approach this?

So gentlemen, look into your crystal ball and tell me, you know, you heard their numbers as to what they lost last quarter. This quarter is probably going to be about the same I would imagine, or worse. I don’t know. What do you think?
Mr. SACHS. I think there are two endpoints to this process, successful endpoints. One is that there is a recovery. 2010. Next year is not going to be a good year. It is going to be a very tough year. 2010 we should, if things are not in calamitous shape, of which a GM bankruptcy, for example, would make a calamity, have a recovery. The second thing that should happen, and not just normatively but I expect to happen, is that the banks start working again. And that means that when they go for more, they will go back to banks and they will go back to the bond markets. We are having risk spreads that have never been seen in history right now. So they can’t borrow in—the they can’t even borrow 7-day or 30-day much less for 5-year or 10-year notes, which would be a normal way for them to fund through a recession.

Recessions are not extraordinary. What is extraordinary is no banking sector. We are a $15 trillion cash and carry economy right now. And TARP has not yet worked to really—it has done for overnights and it has brought LIBOR down a little bit and it has got things starting to unstick. And it will work, especially with a new government, with coherent vision and so forth. But we don’t have that yet. And there is no bond market for them to turn to either.

So the two ways out of this are economic recovery and financial market functioning again, because they will go back to financial markets. And I would say to the Congressman’s
question, it is not only the consumer demand. It is actually financing the new models. It is financing their several programs that they have in place, which is quite expensive, a tremendous amount of tooling that needs to be done. And that is billions of dollars of spending.

Mr. PERLMUTTER. Okay. So my question and then—what do you think in terms of how long is the $25 billion going to last?

Mr. SACHS. I think you will get through 2009, and I think that you will start to use section 136 for some of this also. And I expect that they won’t come back to you. I expect that they will go back to the financial markets. At least that is what I would hope.

Mr. PERLMUTTER. Dr. Slaughter?

Mr. SLAUGHTER. If you think of the $25 billion being applied to cover the operating losses the companies seem to be realizing in realtime and across the three companies, given what information they have put in the public domain and what information they have provided about the future, I would think something in the neighborhood of 3 to 6 months. As Dr. Sachs said, there is a number of other intangibles that feed into what is going to be the performance of these companies. I will come back to, for a lot of these companies, it is their foreign sales and profits in certain foreign markets that have really been balancing out the sharp decline in the
U.S. market that they have seen in recent times.

So part of the answer to that question depends on what happens with economic growth all over the planet literally.

Mr. PERLMUTTER. Are you optimistic on the dethawing of the financial markets so that there will be a place for them to borrow money if necessary?

Mr. SLAUGHTER. I am optimistic in the sense that it is thawing. I mean some of the spreads that Dr. Sachs referred to have been coming down in the past several days and a few weeks relative to the levels they hit in mid-September. I, like many other people, don’t have great visibility about when we might get back to the type of lending activity we had 12 to 18 months ago.

The CHAIRMAN. I would ask indulgence from the two economists who just said what they said. Would it be fair for us to say that the passage of the $700 billion bill is some part of the reason why we are seeing the credit markets improve?

Mr. SACHS. Absolutely. Without that we would be in disaster.

The CHAIRMAN. Professor Slaughter?

Mr. SLAUGHTER. Yes. Yes. I fully agree.

The CHAIRMAN. Thank you. You have justified for me a very long day.

The gentleman from Illinois.
Mr. FOSTER. Thank you. First, I was wondering if you could give us some estimate of what you consider the aggregate overcapacity of the automobile industry and just in normal economic times right now in terms of the -- the aggregate overcapacity. I think there is a general consensus that even if things are maintained, you know, relatively normal economic conditions, there was an overcapacity both in terms of the number of vehicles built per year, the number of dealerships, the number of brands supported by the manufacturers and so on. And so you could talk about those in optimistic scenarios in which things return to normal or pessimistic ones in which they continue. And I was wondering if you have any numbers on that.

Mr. SACHS. Let me say, first of all, at a global scale, this is an expanding industry and a pretty rapidly expanding industry, actually. Because the car penetration in places like China and India remain very low. But that is not inconsequential for American built automobiles because if we have open markets we can also export from here. So I would not discount that possibility. Of course we have to break through trade barriers. But in terms of capacity, as you ask, Congressman, it is a growing global industry.

Domestically I think it is quite interesting. We have 240 million vehicles more or less on the road right now in the U.S. And if you just look at the replacement rates at a
15-year cycle for those vehicles, you are already up to 15, 6015
16 million units a year, at least, not even taking into 6016
account further growth.
6017
    So I don’t view this as an industry in significant 6018
decline where we are trying to break the decline. I don’t 6019
view it that way. I view it as an industry in significant 6020
technological change because we can’t go on with the kinds of 6021
cars that we had before. The physical environment and our 6022
energy security won’t permit it anymore. So we are in a 6023
transformation. But I don’t think we are in a terrible 6024
downward consolidation. That is my own assessment.
6025
    Mr. FOSTER. Are any of the Big Three net exporters or 6026
importers? Are they all net importers?
6027
    Mr. SACHS. Well, some models they are exporting, other 6028
models they are importing. Net, I don’t know the most recent 6029
data.
6030
    Mr. SLAUGHTER. Two things, just to build on what 6031
Professor Sachs said. One, it is very hard to answer that 6032
question, particularly in the North American region. We have 6033
had integration between the automobile markets in Canada, 6034
United States and Mexico dating back to the auto pact in 6035
1965, and it was extended further with the North American 6036
Free Trade Agreement. That speaks to one of the fine points 6037
Dr. Sachs made, which is it is hard--another factor in trying 6038
to answer your question is the productivity gains that the
Big Three, like the foreign auto producers in the U.S., have made that the CEOs discussed earlier, part of what that means is how much overcapacity there is is really a moving target in the productivity gains that they are making and what seems to be happening with demand not just in the U.S. but in a lot of these foreign markets as well.

Mr. FOSTER. And then the issue of dealerships, which you can see mentioned in the press, the disparity and then dealerships per car sold for the Detroit Three versus the imports. I was wondering if there were any numbers worth talking about on that.

Ms. SYKORA. Because I talk a little slow, Texas, and I didn’t get to some of that point in my oral testimony, but in the 1950s we had 50,000 dealerships and there has been an orderly decline in the number of dealerships through market conditions. But it has always come at a cost. It comes at a cost of convenience to the consumer and competition that keeps prices low for consumers. But I think what is really important to realize here is that dealers aren’t a cost problem to the manufacturer. We bear the external costs of providing the distribution network, something that they don’t have the resources to do, and that our dealer network actually does increase convenience and competition.

Mr. FOSTER. I guess Professor Slaughter, there is the sort of floor workouts that people talk about. There is the
direct loan to avoid a bankruptcy, which I take it you are
not a fan of. And then there are workouts that are
comparable to Chapter 11 but actually have no bankruptcy
filings. It is sort of similar, I guess, to what happened to
Chrysler. Then there is a Chapter 11 but with the
government-backed debtor in possession financing to ensure
that no liquidation takes place and then finally a full
Chapter 11 with no guarantee of not liquidating. I was
wondering if you see that the medium--the middle two things,
the government, sort of a government supervised and guarantee
of the--to make sure no liquidation takes place but a
bankruptcy filing or some government organized--something
that is a virtual Chapter 11 where you get everyone in the
room and say, okay, everyone, all the concerned parties do
the same sort of negotiation as a Chapter 11 but not actually
having that for all the market reasons that people are
talking about.

Mr. SLAUGHTER. I would briefly respond by saying I
think all those scenarios you lay out are possible. I can
imagine another scenario, which is a firm being in Chapter 11
and the government guaranteeing some of the debt that someone
might step up to provide in the same way that Treasury and to
some extent the Federal Reserve have been putting guarantees
on certain debt instruments in recent times.

Mr. SACHS. Congressman, we are quite overwhelmed right
now in our economy and management to be able to manage a very
delicate operation with thousands of firms and suppliers and
a catastrophic headline of a bankruptcy of one of these
companies. My view is it would be an unbelievable gamble
under normal times and unthinkable right now. So I just
wouldn’t go that way at all for this under the conditions of
recession verging on collapse. We don’t have the bandwidth
right now to handle another crisis of that magnitude and to
negotiate that. If in 6 months or 9 months the situation is
spiraling downward and the $25 billion was not enough, you
are going to come to one of those. But this is not the time
to come to it right now.

The CHAIRMAN. The gentleman from Missouri. And I
apologize for overlooking him.

Mr. CLEAVER. Thank you, Mr. Chairman. I have three
questions and I will do it quickly. I know you have been
here all day.

First, Ms. Sykora, I raised this question earlier with
the CEO from General Motors. But I am very concerned that
even with an injection of cash GMAC has not increased the
number of loans to potential auto buyers. I mean, it is
making me nervous because, I mean, how much money do we have
to put in to see that the credit is unfreezing? And I mean,
will your association have some indication of when a thawing
is taking place? And are you seeing anything right now? I
am going to support this rescue package because I think God
gave us a neck for a purpose and that is to stick it out. So
I am going to do that. But I have got concerns.

Ms. SYKORA. Well, you bring up a good point. And no,
we are not seeing that thaw for working capital financing for
dealerships or the inventory financing for dealerships. But
I think what you heard also the GM execs say is that the
Treasury funds haven't been used. The TARP funds haven't
been used for the finance companies yet or they are not
experiencing that yet. And we are working with Treasury on
proposals to help free that up so that it makes retail credit
more available, which is I think what your intent was.

Mr. CLEAVER. Yes. But they are not doing it.

Mr. SACHS. Not yet.

Ms. SYKORA. Not yet. We feel very encouraged.

Mr. CLEAVER. I mean you can't answer the question about
when, but--

The CHAIRMAN. If the gentleman would yield, as the
Secretary sort of indicated to us yesterday, he doesn't plan
to use any of the additional money except if we were able to
push him into mortgages. He is talking about doing
something, the credit facility he has been talking about.
That would ultimately be helpful there. But that is
apparently not until the next administration. So there does
not appear to be anything that would be responsive to this
need on the horizon until late January at the earliest.

Mr. CLEAVER. Professor Sachs, this may be more philosophical than scientific. But you had mentioned the hydrogen car earlier, which was what Chevy had been experimenting with, and which also troubles me a little because hydrogen is the most gregarious animal on the planet. It likes to have a lot of other things around it. And so therefore, a great amount of electricity is needed if we are going to produce these hydrogen automobiles. And the amount of electricity may exceed the cost of using fossil fuel. So is this a worthwhile venture for Chevy? Since we are going to probably end up giving some money, we need to have some comfort with the first $25 billion.

Mr. SACHS. Yeah. Let me be clear. What GM is going to bring out in 2010 is a plug-in hybrid, not a hydrogen. So the Chevy Volt is a hybrid technology plus a lithium ion battery. And its specs are to get 100 miles per gallon for a daily 80-mile drive. It is quite exciting. Now, what they are also doing is investing on a time horizon that they think is a decade to look into so-called fuel cell technology, which is hydrogen fuel cells. That is for something maybe in 2020. That is not the current but they are investing a lot of money, and I am glad they are.

I wish our government--well, in fact, President-elect Obama talked a lot about $150 billion research and
development program for technology over the next 10 years. One of things of that will be fuel cells to look into it. Your concern is a lot of engineers' concerns. Is this the right way to go or not? Now how would you produce the hydrogen in that scenario? It would be produced in the Mojave Desert with solar power. It would be produced in North Dakota with wind power. It would not make sense to burn coal to produce hydrogen to put it into a fuel cell. So the model of it is an effective fuel cell combined with a renewable energy source to hydrolyze water or to get hydrogen some other way.

Mr. CLEAVER. Thank you for spending the day with us.

Thank you.

The CHAIRMAN. Since all Members have completed questions, we do have our colleague from New Jersey who is the author of the bill. And I will recognize him for 2 minutes. If there is no objection.

Mr. PASCRELL. Thank you, Mr. Chairman. It is refreshing to have a panel talking about Main Street issues. And I must say, although the two professors are coming down different paths, they have been absolutely nonideological. That is very refreshing. And I am sure it is a salute to both you and the ranking member.

Mr. Chairman, I know that this committee does not have the authority to amend the Internal Revenue Code of 1986, but
I think Ms. Sykora has made a very, very compelling argument that she feels—and I am not putting words in your mouth so you correct me if I am—to allow an above-the-line deduction against individual income tax for interest on indebtedness and for State and local taxes, sales and excise with respect to the purchase of certain automobiles.
Mr. PASCRELL. Myself, and Senator Mikulski, have calculated that, on a $25,000 car, that would be a savings of around $2,300, $2,400. Do you personally feel, with all the data that is surrounding us, that that would be an incentive enough for people—and that, by the way, the bill only calls for 1 year for this to happen—will that be incentive to get traffic back at the places that you are interested in so that people can stay in business and people can buy cars?

Ms. SYKORA. First of all, let me thank you for introducing that legislation, because we do feel like that is very beneficial. Since I don’t have a crystal ball, I will just kind of take a look back in history and tell you that, you know, when that was phased out in 1986, it was over a 5-year period of time. And in those final months of 1991, we did experience, you know, a significant increase in traffic in consumers that wanted to take final advantage of that deductibility.

So it was something they were aware of. Many of the consumers that I have talked to remember it, and so I think it could be an important stimulus.

Mr. PASCRELL. Mr. Chairman, in conclusion, I hope that you will communicate this. I think this is good data.

The CHAIRMAN. Excuse me, but are you no longer on the
Ways and Means Committee?

Mr. PASCRELL. Yes, sir.

The CHAIRMAN. So who am I supposed to call, you?

Mr. PASCRELL. Being here today, they might throw me off. I don't know.

The CHAIRMAN. Members will have the appropriate time to submit any further material for the record.

The hearing is now adjourned.

[Whereupon, at 4:03 p.m., the committee was adjourned.]